
TRANSACTION OVERVIEW

CNBS Debenture Loans to CNB Holdings - \$520 Million (August 1993- December 1994)

1.0 OVERVIEW

Century National Building Society ("CNBS") is a wholly owned subsidiary of CNB Holdings. Donovan Crawford and other members of his family own 54% of the shares of CNB Holdings. Between the period August 25, 1993 and December 30, 1994 Century National Building Society ("CNBS") advanced debenture loans of \$520,231,250 directly and indirectly to CNB Holdings.

The debenture loans to CNB Holdings were made by CNBS on the dates and in the amounts set out below:

Directly to CNB Holdings

Aug 25, 1993	\$260,000,000
Sept 9, 1993	30,000,000
June 30, 1994	100,000,000
Dec 30, 1994	50,231,250
	\$440,231,250

Indirectly to CNB Holdings Through CNDL

June 29, 1994	<u>\$80,000,000</u>
Total	<u><u>\$520,231,250</u></u>

CNB Holdings used the proceeds of the debenture loans to meet its investment and cash flow needs. CNB Holdings did not repay or redeem any of the debenture loans to CNBS nor did it pay any cash consideration for the interest accrued on the debenture liability.

In February of 1996 CNB Holdings assigned the beneficial interest of a portion of its investment in JGL to CNBS as a partial

payment of the accrued interest owed on the \$440,231,250 debenture liability.

The depositors of CNBS were defrauded by the management of the Century Group by causing CNBS to advance \$520,231,250 million to CNB Holdings which used the proceeds to benefit CNB Holdings and its shareholders including Donovan Crawford.

2.0 MOTIVE AND BENEFITS TO CNB HOLDINGS

CNB Holdings used the debenture loan proceeds to meet its cash flow and investment needs including the following:

2.1 Repayment of the balance of a \$288 million CNB loan	\$177,000,000
2.2 Payment of "finders fee" to CNB relating to the transfer of the JGL shares from CNMB to CNB	90,750,000
2.3 Reduction of overdraft balances at CNB	122,250,000
2.4 Increase share capital of CNBS	80,000,000
2.5 Payment of US \$1.5 million to GH&MSI on behalf of HEDFL	<u>50,231,250</u>
Total	<u><u>\$520,231,250</u></u>

The specific events relating to each of the above use of funds are discussed in further detail below.

2.1 Repayment of CNB Loan - \$177 Million

On June 26, 1992 CNB Holdings was incorporated and on June 29, 1992 the shareholders of CNB exchanged their shares, on a pro rata basis, for shares in CNB Holdings resulting in CNB being a wholly owned subsidiary of CNB Holdings. On or about June 29, 1992 CNB Holdings purchased all the outstanding shares of CNMB from CNB for \$280 million. CNB Holdings issued \$280 million in debentures to CNB as consideration for the purchase of CNMB.

In January and February, 1993 CNB Holdings obtained \$250 million in loans from Life of Jamaica and Jamaica Money Market

Brokers ("JMMB"). The loans were secured by pledging CNB held government securities. CNB Holdings used the loan proceeds to pay CNB to redeem \$250 million of the \$280 million debenture liability.

On February 19, 1993 Governor Rainford of the Bank of Jamaica ("BOJ") recommended that the Minister of Finance assume Temporary Management of CNB pursuant to Section 25 of the Banking Act. This recommendation was based on various concerns identified by the BOJ during the course of its inspection review of the operations of CNB. On February 21, 1993 the Minister of Finance, Hugh Small, directed both CNB and JMMB that, until an inspection was completed to establish the viability of the two CFEs, both shall not:

- grant credit in excess of \$500,000 to any one person or entity and only grant credit in the aggregate of \$5 million.
- make any investments other than in government securities;
- enter into any transactions with a connected person; and
- solicit deposits.

On March 3, 1993 CNB provided CNB Holdings with a credit facility of \$288 million which was used by CNB Holdings to repay the Life of Jamaica and JMMB loans of \$250 million plus interest. In a letter dated March 4, 1993, copied to Hugh Small, Crawford advised Governor Rainford that the \$280 million debenture liability to CNB had been paid by CNB Holdings, to the extent of \$250 million, from the proceeds of a loan from Life of Jamaica and JMMB. The letter did not disclose that the previous day CNB provided CNB Holdings with a \$288 million credit facility to fund the repayment of the Life of Jamaica and JMMB loans.

On May 6, 1993 the CNB credit facility of \$288 million to CNB Holdings was repaid, to the extent of \$111 million, from the proceeds of \$111 million payment by the UGI Group (Neville Blythe) relating to its purchase of a 20% interest in CNB from

CNB Holdings. Thus the remaining credit facility of \$177 million (\$288 million - \$111 million) remained outstanding.

An internal memo dated August 9, 1993 from Onex Evans, Group Internal Auditor, to Caple Williams states, in part " *...the rules of the building society allows investments in debentures or debenture stock in any incorporated body carrying on business and secured by a charge on its assets. I therefore, wondered whether CNBS...could invest in debentures in CNB Holdings which currently has a high level of overdraft in CNB*". On August 25, 1993 CNBS advanced a \$260 million debenture loan to CNB Holdings, the proceeds of which were used to repay CNB the remaining balance of \$177 million relating to the \$288 credit facility.

The remaining \$83 million proceeds of the debenture loan (\$260 million less \$177 applied to reduce outstanding credit facility) was used to reduce the overdraft balance in CNB Holdings bank account at CNB. The reduction of the overdraft is discussed in further detail in Section 2.3 of this Transaction Overview.

2.2 Finders Fee to
CNB - \$90.75
Million

Between March and May, 1991 CNMB acquired a 49.44% share investment in Jamaica Grande Limited ("JGL") at a purported cost of US \$11 million. However, a Trust Deed dated March 28, 1994 indicates that CNMB held the investment in JGL as a trustee for the beneficial owner, CNB Holdings. On or about June 30, 1994 CNMB transferred its 49.44% share investment in Jamaica Grande Limited ("JGL") to CNB Holdings, pursuant to the Trust Deed, for a cash consideration of US \$11 million representing a repayment to the trustee for the purchase of the investment in 1991 on behalf of the beneficial owner.

The June 30, 1994 year end audited financial statements for CNB Holdings record that an additional "cost" of \$90,750,000 was paid relating to the acquisition of the investment in JGL. A debit memo to the bank account of CNB Holdings dated June 29, 1994 records the payment of \$90,750,000 paid to CNB and contains the reference "Finders fee being paid to CNB Ltd. -

(25% X US \$11M @ 33) re Ja. Grande". This \$90.75 million payment was funded from the proceeds of a \$100 debenture loan from CNBS funded on June 30, 1994.

The remaining \$9.25 million proceeds of the debenture loan (\$100 million less \$90.75 applied to fund the finders fee payment to CNB) was used to reduce the overdraft balance in CNB Holdings bank account at CNB. The reduction of the overdraft is discussed in further detail in Section 2.3 of this Transaction Overview.

The available documentation does not indicate what role CNB had in the acquisition of the JGL investment or why it would be paid a finders fee of 25%. However, without this \$90.75 million fee income, CNB would have incurred a net loss for the year ended June 30, 1994 of approximately \$78 million. Instead, CNB reported a net profit of \$12.8 million.

**2.3 Reduction of
Overdraft -
\$122.25 Million**

The bank statements for the current account of CNB Holdings at CNB record that the account was in overdraft throughout the 1993 calendar year and fluctuated in a range between \$958,000 overdraft and \$277.5 million overdraft.

On September 9, 1993 CNBS advanced a \$30 million debenture loan to CNB Holdings. This amount was used to reduce the overdraft balance in the bank account from \$30.958 million to an overdraft balance of \$958,666. Thus, this amount, plus the amounts applied to the reduction of the bank overdraft as discussed in Sections 2.1 and 2.2 above, totalling \$122.250 million (\$30 million + \$83 million + \$9.25 million) were collectively used to reduce overdraft balances in the bank account of CNB Holdings.

2.4 Increase Share
Capital of CNBS

A series Debit and Credit advices all dated June 29, 1994 were transacted on August 4, 1994 in the respective bank accounts of CNBS, Century National Development Limited ("CNDL") and CNB Holdings which caused \$80 million of CNBS depositor funds to be "laundered" through two companies and return to CNBS in the form of share capital. This circular flow of funds was transacted through the above bank accounts as follows:

- On August 4, 1994 CNBS made a \$80 million debenture loan to CNDL;
- On the same day, CNDL advanced the \$80 million to CNB Holdings; and
- On the same day, CNB Holdings paid \$80 million to CNBS to purchase an additional \$80 million of share capital.

The bank account balances for CNDL and CNB Holdings were \$27 million overdraft and \$20 million overdraft respectively immediately prior to the receipt of the \$80 million. CNB Holdings represented to the BOJ that it had injected new capital of \$80 million into CNBS when in fact it had used CNBS depositor funds.

2.5 Payment of US
\$1.5 Million
kjdcjdcjdsdn

3.0 PAYMENT OF
INTEREST