TRANSACTION 5

Jamaica Grande Limited

OVERVIEW

In March of 1991 Century National Merchant Bank and Trust Company Limited ("CNMB") invested $88.9 million (US$9.6 million) of depositor funds for a 49.44% interest in Jamaica Grande Limited ("JGL"). JGL was a company incorporated around two hotels in Ocho Rios collectively called the Jamaica Grande Hotel.

In June 1994 and February 1996 the management of the Century Group of Companies caused the investment to be sold, firstly to CNB Holdings for $528 million and then a portion of the investment to CNBS for $1.13 billion. These two transactions are summarized below:

- In June 1994 Donovan Crawford ("Crawford"), Valton Caple Williams ("Williams") and others caused CNB depositor funds of $528 million to be made available to CNB Holdings for its purchase of JGL from CNMB. CNB Holdings did not repay the $528 million to CNB.
- In February 1996 Crawford, Williams and others caused CNBS to purchase two thirds of CNB Holdings' 49.44% interest in JGL for $1.13 billion in exchange for CNBS issuing new share capital to CNB Holdings and forgiving debt of approximately $485 million owed by CNB Holdings.

Between the period March, 1991 to June, 1994 CNMB revalued its investment in JGL and recorded gains of approximately J$250 million. The gains were capitalized in the Capital Reserve Account. In June of 1992 CNMB increased share capital from J$10 million to J$100 million by converting J$90 million of Capital Reserves to Share Capital.

MOTIVE AND BENEFITS TO THE CENTURY GROUP

The related party transactions relating to JGL were driven by a requirement or need by the CFEs to generate profits and capital and to comply with regulatory statutes. Each of these matters are discussed below.

Compliance with Regulatory Statutes

Prior to December 31, 1992 CNMB was regulated under the Protection of Depositors Act ("PDA"). The Act did not provide for minimum capital requirements by merchant banks. The PDA was repealed and effective January 1, 1993 all merchant banks, including CNMB, were regulated under the Financial Institutions Act ("FIA"). The FIA provided for a minimum capital requirement of $25 million, a deposit to capital ratio of 20 times, and restrictions on certain investments.

Minimum Capital Requirements

Prior to June 30, 1992 CNMB had share capital of $10 million, an amount less than the $25 million required under the FIA. However, the June 30, 1992 year end financial statements for CNMB recorded a $90 million increase in share capital for a total of $100 million. The $90 million increase was derived from "bonus shares" issued by CNMB to CNB Holdings, the parent company. For the years ended June 30, 1991 and 1992 CNMB recorded exchange gains totaling approximately $154 million on its investment in JGL. The $154 million of exchange gains was transferred to a "Capital Reserve Account". Of this amount, $90 million was transferred to share capital on June 30, 1992.

Deposit to Capital Ratio

The FIA addressed maximum deposit liabilities in Section 9 which states, in part *"...a licensee shall not incur deposit liabilities of an amount exceeding twenty times the amount of its capital base"*. The attached schedule shows that absent the revaluation of the investment in JGL by CNMB in 1992 and 1993, it would have been in violation of Section 9 and would have taken in deposits of $1.9 billion in excess of its borrowing limit.

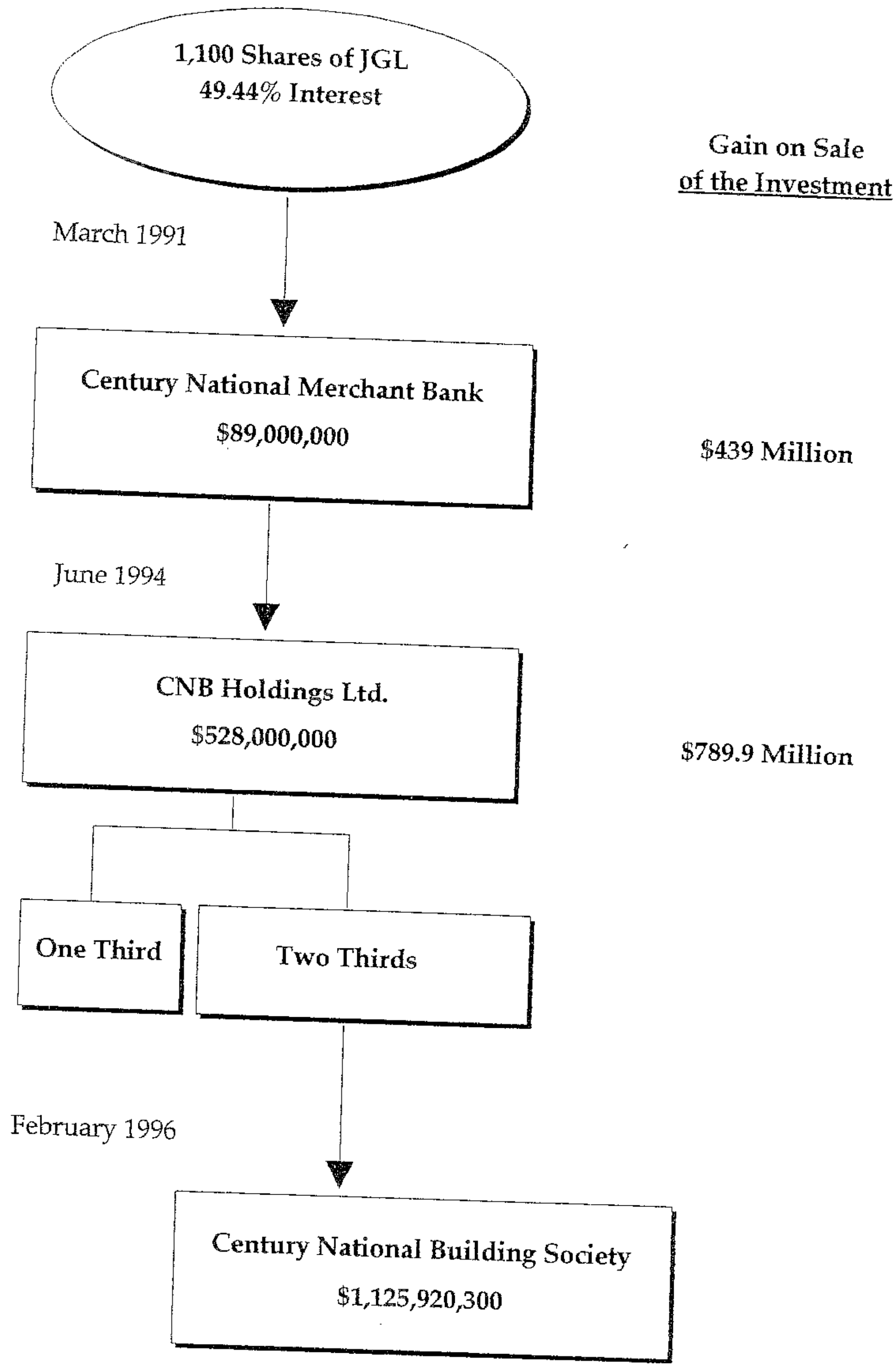
Generate Profits

In June of 1994 CNMB sold, for $528 million, its investment in JGL which cost $88.9 million thus realizing a gain on sale of approximately $439 million. Between the period March 1991 to June 1994 CNMB accrued revaluation gains and recorded the gains in the "Capital Reserve Account". Of this amount, $90 million was transferred to share capital on June 30, 1992 which addressed compliance issues with the new FIA.

ELEMENTS OF FRAUD IN THE TRANSACTION

The depositors of CNB were defrauded by Crawford and his management team who caused CNB depositor funds of $528 million to be made available to CNB Holdings for its purchase of JGL from CNMB. CNB Holdings did not repay the $528 million to CNB. CNB Holdings was able to subsequently use the JGL investment to satisfy accrued interest liabilities of $484.9 million owed to CNBS.

JAMAICA GRANDE LIMITED
Investment in 1,100 Shares of JGL (49.44% Interest)



Jamaica Grande Limited - Sale to CNB Holdings for US$16 Million

CONTENTS

Jamaica Grande Limited - Sale to CNB Holdings for US$16 Million

BACKGROUND

CNB Holdings Limited ("CNB Holdings") is a holding company which owns, among other things, 100% of Century National Merchant Bank and Trust Company Limited ("CNMB") and Century National Building Society ("CNBS") as well as approximately 70% of Century National Bank Limited ("CNB"). Donovan Crawford ("Crawford") and other members of his family own approximately 56% of the shares of CNB Holdings. In March of 1991 CNMB purchased a 49.44% interest in Jamaica Grande Limited ("JGL") for approximately J$88.9 million. Between March 1991 and February 1996 the investment in JGL was revalued and sold among the Century Financial Entities ("CFE's") to create profits, capital and satisfy inter-company debt. The activities surrounding the purchase and sale of JGL resulted in losses to depositors in excess of J$1 billion (US$16 million plus interest @ $33 and $484,920,300 of accrued interest on the $520 million debenture loans from CNBS).

SUMMARY OF FINDINGS

Based on our review of the available documentation it appears that:

1. Between March 27, 1991 and May 29, 1991 CNMB paid $88.9 million for a 49.44% investment interest in JGL, a company which owned two hotels in Ocho Rios, Jamaica. The share register for JGL indicates that the shares were issued in the name of CNB.
2. Between May 1991 and June 30, 1993 CNMB revalued the investment in JGL from $88.9 million to $253.8 million.
3. On or about June 30, 1992 CNBS issued $90 million of bonus shares to CNB Holdings arising from the revaluation increase. Absent the increased capital of $90 million CNBS would have been in violation of various sections of the Financial Institutions Act including minimum capital requirements and maximum levels of deposits.
4. On June 30, 1994 CNBS transferred its investment in JGL to CNB Holdings for US$16 million, or J$528 million. CNB Holdings obtained the US$16 million from loan proceeds secured by CNB depositor funds. This loan is the subject of our report on Transaction 3. Additionally, CNBS depositor funds were loaned to CNB Holdings to fund a payment of $90.75 million to CNB for a "finders fee".
5. CNBS earned a net income of $56.7 million for the year ended June 30, 1994. Absent the transfer of JGL to CNB

Holdings for US$16 million, CNBS would have realized a loss of $382.3 million.

6. On June 30, 1994, the same day it acquired the investment in JGL for $528 million, CNB Holdings revalued its investment in JGL by $963.3 million to $1.582 billion based on an appraisal of the hotel dated April 6, 1994.
7. On February 26, 1996 CNB Holdings sold 2/3 rds of its 49.44 interest in JGL to CNBS for 1.126 billion. No cash consideration was paid in this transaction. Instead, CNBS increased its capital base by issuing $641 million of share capital to CNB Holdings and offset $485 million of debt owed by CNB Holdings to CNBS relating to accrued debenture loan interest.

SCOPE OF REVIEW

During the course of our investigation we reviewed and relied upon the following documents:

- Century Group operational files currently in the possession of the Temporary Manager, Price Waterhouse;
- Investigative files of the Temporary Manager of the Century Financial Entities ("CFEs");
- Correspondence files of the Bank of Jamaica relating to the CFEs; and
- Corporate filings.

PURCHASE OF JGL BY CNMB

The minutes for the CNMB Board of Directors meeting of July 18, 1989 record that Crawford sought the support of the Board to invest in the Americana Hotel. The minutes state, in part:

> *"...the Americana Hotel is a customer of the Bank to which loans had been granted periodically, and current overdraft figure stood at $1.9 M...As is known, the Hotel Divestment Programme is now well underway, and Dr. Laufer has offered the Bank participation in a proposed purchase of the hotel...We have stipulated that we desire 51% of the company, which would give us control, including Managers expenses. The Chairman pointed out that if we participate on this basis the Bank would benefit significantly through capital gain...as well as trading profits...".*

Articles of Association filed with the Registrar of Companies indicates JGL was incorporated on January 31, 1991 with Crawford as one of the three Directors. The Shareholders of the company are set out below:

	Shares	
Fred Kassner/Louis Pohoryles	625,002	28.09%
Ramada Overseas Inc.	499,958	22.47%
Century National Bank Ltd.	1,100,040	49.44%
	2,225,000	100.00%

The minutes for the CNB Board of Directors meeting of February 19, 1991 refers to the "Americana/Mallards Beach Hotels" and states, in part:

> *"The Chairman said he thought that the final signing of the agreement would take place that day, with conclusion date before March 31. He reported that OPIC had insisted that Century accept a percentage of 49% instead of 50%...".*

The three shareholders entered into a Shareholders Agreement dated March 16, 1991 which provided, in part, for the refurbishment of the hotel at a cost not to exceed US$22.5 million and that Ramada would be awarded the management contract for the hotel.

[Get copy of the agreement from PW]

An Accountants Report prepared by Aulous F. Madden & Co. ("AFM") relating to JGL and dated May 29, 1991 indicates that JGL was to purchase two hotels for US$31 million financed, in part, by a US$27 million mortgage and partly financed by *"...debt/equity swap of US$11.1 million approved by the Bank of Jamaica under Tranche 'B' "*.

CNMB Investment in JGL - $88.9 Million

Between March 27, 1991 and May 29, 1991 CNMB advanced $88,911,529 to or to the benefit of JGL representing its equity investment in JGL as follows:

J$49,200,000 @ $8.20	=	US$6,000,000
J$39,711,529 @ $11.00	=	US$3,610,139
J$88,911,529		US$9,610,139

The amounts advanced by CNMB were paid as follows:

• To JGL bank account # 1305861 at CNB	J$65,496,320.50
• "...in reimbursement of upgrading facilities undertaken by vendors of the property".	18,000,000.00
• CNB re: exchange differential	5,415,208.50
	J$88,911,529.00

Share Certificates for Jamaica Grande Limited were not issued in the name of CNMB. They were issued in the name of Century National Bank Limited on May 30, 1991 which certified that the bank held 1,100,040 shares in JGL.

CNMB Capital Reserve Increases

Between May 1991 and June 30, 1993 CNMB revalued the investment in JGL on an ongoing basis to reflect the increased value of the US dollar. Our review of the audited financial statements for CNMB indicates that the investment in JGL was revalued to $253,843,700 as at June 30, 1993 as follows:

- exchange gains of $164,932,171 were recorded with the gain allocated to a Capital Reserve account and the value of the investment increased to $253,843,700; and
- In 1992, $90 million of the exchange gain was transferred from the Capital Reserve account to the Share Capital account.

A letter dated November 13, 1991 from Aulous F. Madden & Co. ("AFM") to CNMB sets out the entries to be made in the books of CNMB to record the foreign exchange gain. The letter indicates that the exchange rate was to be applied to US$11 million (not US$9.6 million) and states, in part:

> *"This gain represents both the gain on the debt swop* [sic] *and the gain on the Foreign Exchange since date of purchase".*

It appears that although CNMB paid approximately US$9.6 million for the 49.44% interest in JGL, management appeared to have recognized that the value was US$11 million due to apparent benefits associated to the referenced debt swap.

Revaluation Benefits to CNMB

Prior to December 31, 1992 CNMB was regulated under the Protection of Depositors Act ("PDA"). The Act did not provide for minimum capital requirements by merchant banks. The PDA was repealed and effective January 1, 1993 CNMB was regulated under the Financial Institutions Act ("FIA"). The FIA provided for a minimum capital requirement of $25 million, a deposit to capital ratio of 20 times, and restrictions on certain investments.

Minimum Capital Requirements

Prior to June 30, 1992 CNMB had share capital of $10 million, an amount less than the $25 million required under the FIA. The June 30, 1992 year end audited financial statements for CNMB recorded a $90 million increase in share capital during the year for total share capital of $100 million. The $90 million increase was derived from "bonus shares" issued by CNMB to CNB Holdings, the parent company. The bonus shares were created from the capitalized exchange gains relating to the investment in JGL as discussed in Section 4.2 of this report. The Share Register for CNMB records that the shares were issued to CNB Holdings on June 29, 1992. However, Section 2 of the FIA defines the Capital Base of a licensee and states, in part:

"'capital base' in relation to a licensee means a total of - (a) the paid-up capital of a licensee excluding bonus shares issued on or after 1st June, 1992 out of any surplus arising from a revaluation of the licensee's assets other than foreign currency..."

It appears from the above definition of capital base that the bonus shares issued by CNMB on June 29, 1992 would not qualify as capital under the FIA.

Deposit to Capital Ratio

The FIA addressed maximum deposit liabilities in Section 9 which states, in part *"...a licensee shall not incur deposit liabilities of an amount exceeding twenty times the amount of its capital base"*. The attached schedule shows that absent the revaluation of the investment in JGL by CNMB in 1992 and 1993, it would have been in violation of Section 9. The schedule shows that at June 30, 1993 CNMB would have had deposit liabilities of $1.9 billion in excess of its borrowing limit absent the revaluation gains associated to JGL.

Gain on Sale of JGL to CNB Holdings on June 30, 1994

In June of 1994 CNMB transferred its investment in JGL to CNB Holdings in exchange for a cash payment of US$16 million, or J$528 million using a rate of exchange of $33.00. This transaction was pursuant to a Trust Deed, discussed further in Section 5.0 of this report, which purported that CNMB held the investment in JGL in trust for CNB Holdings. The US$16 million payment apparently represented a reimbursement of the US$11 million cost of the investment plus US$5 million representing a fee for holding the investment. CNMB realized a gain on sale of approximately $439 million as follows:

Sale Proceeds (US$16 million)	$528,000,000
Less: Cost of Investment	(88,911,529)
Gain on Sale of Investment in JGL	$439,088,471

The audited financial statements for CNMB indicate that CNMB earned a net income of $56.7 million for the year ended June 30, 1994. Absent the sale of the investment in JGL to CNB Holdings, CNMB would have earned a loss of $382.3 million.

SALE OF JGL TO CNB HOLDINGS - $528 MILLION

As discussed in Section 4.0, CNMB acquired a 49.44% interest in JGL in May, 1991 for $88.9 million. However, a Trust Deed dated March 28, 1994 by CNMB, as trustee, indicates that CNMB had acquired and held JGL in trust for the beneficial owner, CNB Holdings. The Trust Deed also indicates that CNB Holdings intended to reimburse the trustee for US$11 million in three payments as follows:

April 29, 1994	US$ 4,000,000
May 29, 1994	US$ 3,500,000
June 29, 1994	US$ 3,500,000
	US$11,000,000

In a letter dated March 30, 1994 from CNMB to CNB Holdings, Neville Roche requested US$5 million from CNB Holdings as *"...a return in compensation for the loss of revenue which could have otherwise accrued to us...We look forward to receiving these funds prior to the end of the fiscal year"*. Neville Roche responded to his own letter on April 25, 1994, together with V. C. Williams, on CNB letterhead. The letter acknowledged receipt of the March 30, 1994 letter and agreed to compensate CNMB with US$5 million prior to June 30, 1994.

[Interview Roche on why and when he wrote the letter. The rate of return was excellent. Why did he want another $5 million USD. (sold for $363 million less cost of $88.9 million = $274 million gain on sale)]

On June 23 and June 29, 1994 CNB Holdings paid US$11 million and US$5 million respectively to CNMB for a total of US$16 million. The payments were funded from the proceeds of a US$16 million loan from First Trade International Bank & Trust Limited ("FTI"). This loan transaction, discussed in detail in our report on Transaction 3, is summarized below:

- On June 23 and June 29, 1994 CNB invested depositor funds to purchase time deposits totaling US$16 million from a Bahamian registered bank, FTI. CNB executed a covenant agreement that provided for the time deposits to be maintained with FTI in reciprocity for loans made to CNB Holdings. CNMB held an 11% ownership interest in FTI with Crawford as a director.
- On the same day, FTI used the proceeds from the time deposits to fund loans totaling US$16 million to CNB Holdings.
- In May of 1995 FTI used the time deposits to off-set CNB Holdings' US$16 million loan liability resulting in a loss of the CNB time deposits.

Finders Fee to CNB - $90.75 Million

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 advanced on June 30, 1994 and is discussed in further detail in our report on Transaction 2.

The available documentation does not indicate what role CNB had in the acquisition of the JGL investment and why CNB Holdings paid a finders fee of 25%. A CNB letter dated November 17, 1995 from Norris Williams, Senior Vice President - Finance and Investment, and V. C. Williams, Executive Vice President, to the Commissioner of General Consumption Tax objects to a tax assessment by the Commissioner on the $90.75 million recorded by CNB as "Miscellaneous Income". The letter states, in part:

> *"We intend to verify that this amount represents reimbursement of accumulated expenses paid by the bank on behalf of an associated company. There is no element of profit in this reimbursement".*

We have not been able to determine what expenses, if any, were paid by the bank relating to JGL.

However, absent 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.

Appraisal Increase of JGL

Although the documentation indicates that CNB Holdings purchased the investment in JGL from CNMB for $528 million on June 29, 1994, the audited financial statements for CNB Holdings indicates that as at June 30, 1994 the carrying value was $1.582 billion; three times the cost. The audited financial statements record a Revaluation Reserve in the amount of $963.33 million representing the difference between the appraised value and the cost of the investment.

The audited financial statements disclose that the revaluation *"...results from a valuation done during the year by professional valuators, Allison Pitter & Company (Chartered Surveyors) of the net assets of the Associate - Jamaica Grande Limited".*

An appraisal of the Jamaica Grande Hotel prepared by Allison Pitter & Company dated April 6, 1994 estimates the value of the hotel at J$3.2 billion. The value attributed to the interest held by CNB Holdings represents $3.2 billion times 49.44%, or $1.582 billion. The carrying value appears to be inaccurate as it does not reflect equity net of the mortgage and loan debt associated to JGL.

[Get a copy of the appraisal and asses the approach to value]

The June 30, 1995 draft audited financial statements for CNB Holdings records a value of $1.321 billion for the investment in JGL; a decrease of approximately $260.4 million. A note to the financial statements discloses *"The valuation in investment in associate - Jamaica Grande has now been stated as a fixed asset valuation".*

SALE OF JGL TO CNBS

A series of CNB inter-office memoranda dated February 26, 1996 indicate that, on instructions from Caple Williams, CNB Holdings sold the beneficial interest of a portion of its investment in JGL to CNBS for $1,125,920,300. No cash consideration was paid by CNBS to CNB Holdings. Instead, CNBS increased its capital base by issuing additional proprietary shares to CNB Holdings and reduced all the interest accrued and outstanding on $420,231,250 of debenture loans made to CNB Holdings. The specific amounts are set out below:

CNBS Share Capital to CNB Holdings	$641,000,000
Reduction of all interest owed by CNB Holdings to CNBS on debenture loans	484,920,300
Total	$1,125,920,300

The debenture loans to CNB Holdings and the related interest owed is discussed in detail on our report on Transaction 2.

A CNBS memorandum dated April 9, 1996 from the General Manager of CNBS, Marlene Ross Khouri, to V. C. Williams indicated that a copy of the Sale Agreement to purchase the shares of JGL was attached and requests a duly stamped and witnessed copy for the building society's files. The available documentation includes two versions of the sale agreement as follows:

- an undated copy apparently signed by Crawford and Williams on behalf of CNB Holdings and CNBS, respectively. The signatures are not witnessed.
- a copy of the agreement dated January 31, 1996 and signed by Williams and Balmain Brown on behalf of CNB Holdings and CNBS, respectively. The signatures are witnessed by Imelda Chin.

The sale agreement provided for CNB Holdings to sell 700,000 of the 1,100,040 shares of JGL it held, to CNBS. The available documentation does not indicate why CNBS would pay $1,125,922,000 for the 700,000 shares of JGL when the June 30, 1995 draft audited financial statements for CNB Holdings apparently valued the shares at $841,033,944 ($1,321,672,829 X [700,000 ÷ 1,100,040]).

TRANSACTION 6

Shelltox Loan/Share purchase CNB and CNBHL

OVERVIEW

The Century National Bank Limited ("CNB") and related entities were subject to regulatory oversight by the Bank of Jamaica. Concerns were consistently raised by BOJ to CNB senior management regarding liquidity, non-performing loans, inter-group buying and selling of assets and capitalization matters. In response to capitalization deficiencies, CNB sought investors to purchase redeemable preference shares in CNB and CNB Holdings Limited ("CNBHL").

The following outlines an investment of US$3.5 million in CNB and CNBHL preference shares, the effect on depositors and the inappropriateness of the transaction.

During 1993 and 1994, CNB placed time deposits with First Trade International Bank & Trust Limited, Nassau, Bahamas ("FTI"). Century National Merchant Bank & Trust Company Limited ("CNMB") had share holdings in FTI through Transnational Group Limited. Seven other financial institutions including Towerbank of Panama also held an interest.

During the period from December 1993 to June 1994 CNB placed US$22 million time deposits with FTI. The source and use of these deposits are dealt with in Transaction 3.

During 1995 an International Business Corporation in Bahamas was registered apparently on the instruction of CNB management. The company is identified in correspondence as Shelltox Company Investments Limited ("Shelltox"). Business address for Shelltox was recorded as Icaza, Gongalez-Ruiz, Aleman (Bahamas) Trust Limited, P.O. Box 3720, Nassau, Bahamas.

In a letter to Mr. Pierre Loubeau, Executive Vice-President, American Alliance Trade Finance Services Corporation an affiliate of FTI, dated March 30, 1995, Caple Williams, President, CNB Group, authorized Miss Yvonne B. Rowe as Shelltox representative. The letter was forwarded on CNBHL letterhead. The letter appears to bear the notation "agree" with the signature of Donovan Crawford.

A second letter bearing the same date to Mr. Loubeau refers to a facsimile message between the two concerning the purchase of 22 million redeemable Preference shares in CNB valued at US$2.2 million and 13 million shares of CNBHL valued at

US$1.3 million. The funds required were to be wired to the CNB account held at Nationsbank International, Miami, Florida.

Covenants dated March 30, 1995, signed by Neyda Rodriquez, Senior Executive Vice President, FTI, and Caple Williams, CNB, provided an unconditional agreement that CNB would maintain time deposits indefinitely with FTI "in reciprocity" for extending credit to Shelltox.

The FTI bank statements for Shelltox records deposits of US$2.0 million, US$1.0 million and US$0.5 million on March 31, 1995. The bank statements record three fiduciary loans:-

(1)	Amount	$2,000,000	Interest rate	8.25%
(2)	Amount	1,000,000	Interest rate	8.75%
(3)	Amount	500,000	Interest rate	7.75%

All were effective March 31, 1995, and matured March 29, 1996. Telex confirmations to CNB indicate amounts of US$2.5 million and US$1.0 million were received on March 31, 1995 by Nationsbank for the benefit of CNB. The telex messages recorded the following notation:-

> *"Cov purchase of 22 million shares in CNB Ltd. and 13 million shares in CNB Holdings Ltd. by order of Shelltox Investments."*

On May 24, 1995 FTI set off the CNB time deposits held against the Shelltox loans totaling US$3.5 million which resulted in the complete loss of the CNB time deposits. Correspondence was forwarded protesting the set off, and litigation was filed by Crawford in the State of Florida concerning the actions of FTI.

The transaction resulted in:

- CNB purchasing its own shares by granting credit facilities of US$2.2 million to a related party which is in contravention of the Bank Act.
- CNB purchasing shares of its parent company, CNBHL, by granting credit facilities of US$1.3 million to a related party which is in contravention of the Bank Act.

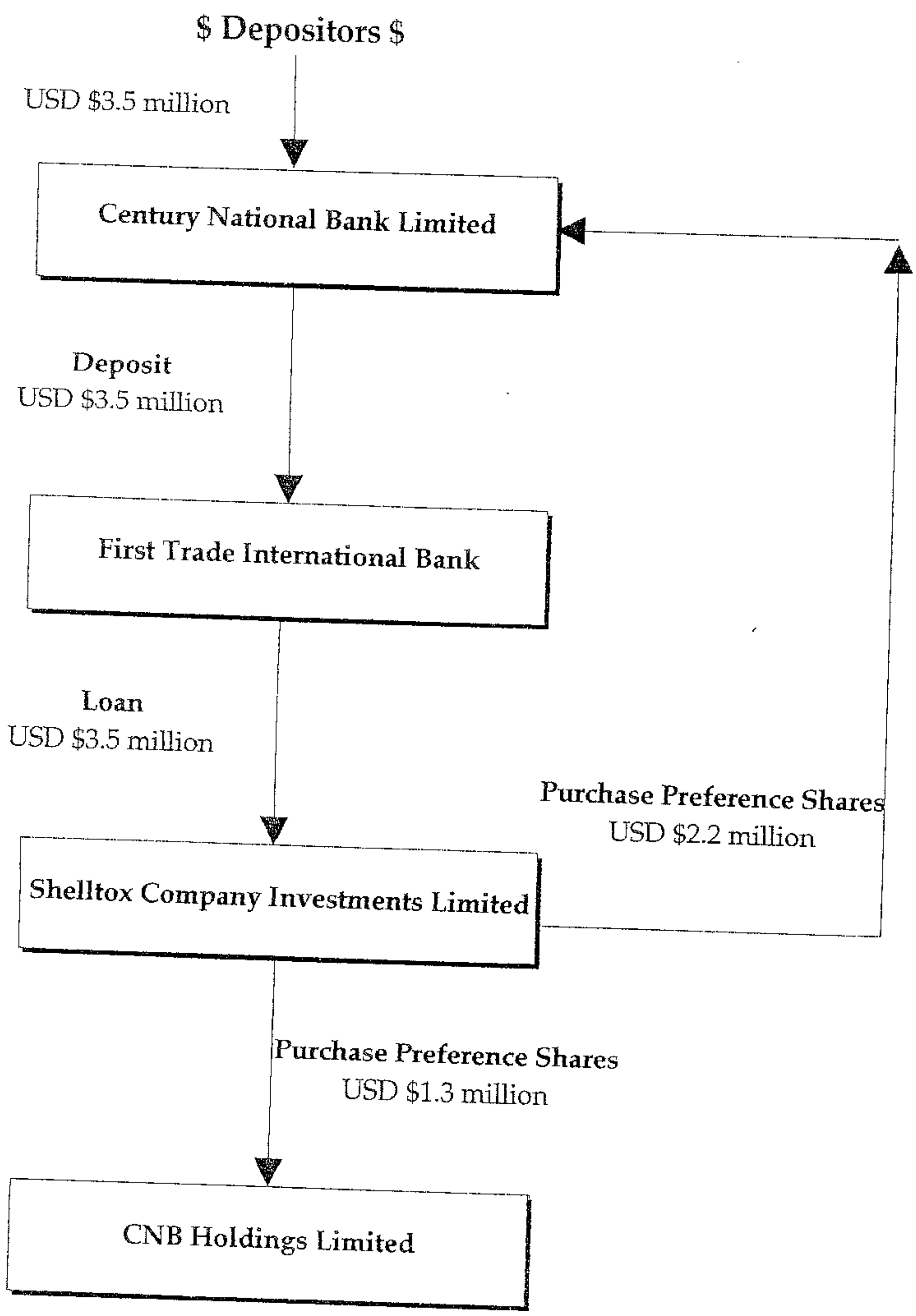
The circular flow of funds is shown in the attachment. The transaction was structured to give the appearance that independent sources invested in CNB and CNBHL preference shares when in fact depositor funds secured, and were subsequently utilized, for the purchase.

The benefits to CNBHL in this transaction are listed below:

- interest earned by CNB on the time deposits were used to satisfy loan interest owed by Shelltox;
- CNBHL received benefits from deposit interest satisfying loan costs and being used to satisfy its loan liability;
- CNB preference shares were purchased with depositor funds by misrepresentations of a third party investor; and
- the CNB preference share purchase misrepresented the financial position of CNB to BOJ regulators.

SHELLTOX TRANSACTION

March 30, 1995



TRANSACTION 7

Sale of property

One Paddington Terrace

February 13, 1997

TRANSACTION 7

Sale of property

One Paddington Terrace

OVERVIEW

Century National Bank Ltd. ("CNB") was the beneficial owner of a residential property located at One Paddington Terrace. The property was transacted to Regardless Limited, a company owned by Donald Crawford. The sale results in:

- the CNB and depositors not receiving appropriate consideration;
- the CNB and depositors being deprived of an asset which had been improved at CNB expense;
- Mr. Crawford personally benefiting when the property was purchased by Regardless Limited (a Crawford related company) at less than market value;
- the CNB and its depositors were deprived of income from a lease agreement on the property with the Italian Embassy: and
- the CNB taking a $895,449.56 write-off on the asset.

On October 14, 1988, the property located at One Paddington Terrace, Kingston 6, and registered at Volume 492, Folio 32 and Volume 492, Folio 33, was sold to CNB. The property had been primarily used as the residence of the President of CNB. Value of the premises recorded in the CNB Fixed Asset Register on July 12, 1989, as Land-$306,810 and Building-$1,508,933.

The property was recorded on the asset register as being the Head Office of CNB. However this designation maybe to indicate compliance with the provisions of the Bank Act regarding property ownership.

The CNB Board meeting held on March 27, 1990, in New Kingston records the following concerning the property:

> *"The Chairman then brought up the other outstanding issue and advised that, prior to the resignation of Mr. Blades, at a private meeting between Mr. Hadeed, Mr. Blades and himself, agreement had been reached to his purchase of No. 1 Paddington Terrace at Book Value plus 10%. The Chairman was now asking the Board to formally approve this decision. The Secretary then moved the following Resolution which was seconded by Mr. Brown and unanimously carried:-*

BE IT RESOLVED THAT THE CHAIRMAN/ MANAGING DIRECTOR IS HEREBY GIVEN FORMAL APPROVAL BY THE BOARD TO PURCHASE NO. 1 PADDINGTON TERRACE AT BOOK VALUE PLUS 10% WITH THE OPTION TO PAY FOR SAME WITHIN 12 MONTHS AND, AS SUGGESTED BY MR. HADEED, A DEPOSIT OF TEN THOUSAND DOLLARS ($10,000) BE PAID AND A LEGAL AGREEMENT DRAFTED TO REFLECT THIS ARRANGEMENT."

The above meeting was attended by Board members, Crawford, Hadeed, Brown and Roche. Mr. A. F. Madden, Auditor, was also present.

A Board meeting held November 20, 1990, records the following:-

> "*(h)* *Paddington Terrace:*
>
> *The Chairman reported that there was an old generator for which he had been offered $75,000. He recommended that it be sold a smaller unit purchased. This was unanimously agreed."*

Recorded in the asset register is an expenditure on October 22, 1990 for a standby generator at a cost of $170,000.00. The register does not record any adjustment for the sale of the old unit.

On February 19, 1991, the CNB Board comprising of Crawford, Hadeed, Brown, Williams, Roche passed the following item:-

> *(e)* *Paddington Terrace*
>
> *The Chairman asked the Board to extend the option period for the purchase of Paddington Terrace for six months. This was agreed.*

The Certificate of Title records the registration of the transfer to Regardless Limited on August 14, 1991, for the purported consideration of $1,813,612.00. The Titles indicates a mortgage in favor of Life of Jamaica in the amount of J$1,500,000 was granted on August 22, 1991.

A document titled Instrument of Transfer under the Registration of Titles Act records the transfer of the property as occurring on May 31, 1991. The document is signed by Crawford and Denise Wilmot on behalf of Regardless, Cable Williams and Neville Roche on behalf of CNB.

Correspondence to the Hon. Alfred A. Rattray, O.J. from Caple Williams dated May 10, 1991 is covering correspondence for

Certificates of Title for the property. A further letter dated May 29, 1991 enclosed a Manager's Cheque in the amount of $272,041.80 being the purchaser's deposit inconcert with the Agreement for Sale. In reviewing Regardless bank accounts no withdrawal of this or any similar amount were evident. A receipt from Rattray, Patterson, Rattray for the funds is dated May 30, 1991.

The transfer of title document records payment of $99,760.00 in conveyance duty on May 27, 1991 and $136,050.00 in transfer tax on May 31, 1991. These amounts are not reflected in the bank statements of Regardless.

On September 30, 1991 CNB received a cheque in the amount of $1,600,716.00 from Rattray, Patterson, Rattray.

A CNB debit accounting ticket #31452 dated October 29, 1991 records

"NCB cheque #13665 d/d 30/9/91 drawn by Rattray, Patterson, Rattray.

Entry passed early Oct.

Padd Terrace

Amount $1,600,716.89"

A CNB debit voucher #31456 dated October 29, 1991 records a loss on Paddington Terrace to be written off over the rest of the year as follows:

Value in bank and books	$2,655,731.94
Price paid (1,600,716.89 +10,000)	(1,610,716.89)
Dep. to date	(149,565.49)
	$895,449.56

The actual book value of the building less depreciation as of February 21, 1991 the last entry prior to the Board resolution was $1,570,532.00. With the additional 10%, the purchase price should have been approximately $1,727,585.00. The purchase price does not appear to include the value of the land which is recorded at a book value of $306,810.00. The purchase price reflects the approximate book value less depreciation, however CNB did not receive appropriate consideration given the value and improvements to the property.

It does not appear that a property appraisal was obtained prior to the sale.

Monthly mortgage payments to Life of Jamaica were paid from the CNB account of Regardless Limited. Payments commenced at the rate of $31,090.12 in November 1991 and increased to $49,087.59 by December 8, 1994. The final payment found in available records was on June 10, 1996 in the amount of $46,914.74. The account of Regardless was in an overdraft position throughout this period. The following are the year end balances of Account #1302537 for the years in question:

- December 31, 1990 — $ 1,319,627.61-
- December 31, 1991 — 10,066,923.15-
- December 31, 1992 — 20,093,465.03-
- December 31, 1993 — 14,635,446.59-
- December 31, 1994 — 10,385,345.93-
- December 31, 1995 — 6,247,454.42-
- July 31, 1996 (last available) — 4,777,298.02-

On December 19, 1990 the property was leased by CNB to the Italian Embassy for a four year term. Monthly lease payments for the property were US$5,500.00. The lease was in effect at the time of the Board passed the resolution to sell the property. Lease payments commenced December 19, 1990 with the monthly payment in advance plus two months held as Bond. Payments increased to $6,050.00 effective January 1996.

As lease payments were paid in US$ the amount deposited would vary according to the exchange rate. In reviewing bank statements of Regardless no deposits were recorded which approximate the lease amount, and no regular monthly deposits were found. We have not determined where these payments were deposited, however they do not appear to have been applied to the Regardless overdraft position.

Expenditures by CNB on the property recorded in the building asset register commencing April 11, 1990 to the recorded date of the sale October 29, 1991 after depreciation totaled $1,000,303.00.

* need to follow lease funds and where funds for stamp duty etc. came from.

The transaction was arranged by Crawford in such a manner that he or his company to benefited by purchasing the property. The purchase price appears less than market price and therefore depositors did not receive appropriate consideration. Benefits from lease revenues were assured and CNB incurred expenditures on the property even though the property was sold.

ADDITIONAL ITEMS

- lease payments from Italian Embassy (trace funds).
- was additional (CNB) guarantee/security given to mortgagor on sale to Regardless.

Transaction 12

$400 Million loan transfer to CNBS

TRANSACTION 12

CNB sale of $404 Million Non-Performing Loans to CNBS
March, 1994

BACKGROUND:

The following points are provided as background to CNB's sale of $404 million of non-performing loans backed by real estate security to CNBS at full value in March, 1994:

- Bank Inspection of the Bank of Jamaica continued to express concerns relating to CNB that impacted the safety of depositors investments, including the following:

  - the high level of non-performing loans
  - the inadequacy of the loan-loss provision
  - the profitability of the bank

- A. F. Madden, external auditor of CNB, reported in May, 1993 that the high level of non-performing loans requiring provision would render the bank insolvent.

- Under new regulations, non-performing loans were defined to include all loans for which no payment had been received in the past 180 days and a provision for loss was to be recorded for all non-performing loans. Additionally, all non-performing loans were to be zero-rated and recording of interest income was to be stopped.

- In March, 1993, Directors of CNB gave a Joint and Several Undertaking covering various matters including the following:

  - prohibited the buying and selling of assets between the bank and any connected person without the consent of the regulator (CNB and CNBS were connected persons under the Banking Act)
  - interest unpaid for 6 months or more but recorded in CNB's income accounts would be identified and reversed.

- CNB's accounts included interest income relating to non-performing loans which income had been accrued for periods prior to the new regulations for non-performing loans. The auditor and regulators could be expected to require such income to be reversed from CNB's account as at June 30, 1994.

- CNBS commenced operations in May 22, 1992. The primary business of the building society was to invest the funds of deposit shareholders in residential mortgages. At March, 1994, CNBS' mortgage holdings were relative small.

- CNBS regularly passed funds received from depositors to CNB for investment. As a result, at March, 1994, CNB had a large liability due to CNBS.

- As required by regulations, CNB placed funds on deposit at Bank of Jamaica to earn income at less than market rates. The level of such deposits was related to the level of total assets????

- For matured deposit share investments, CNBS was not required to withhold income amounts for remittance to the tax authority earned on funds invested by depositors. CNB was required to withhold such amounts from amounts earned by its depositor investments. As a result, CNBS was able to obtain funds from the public at a lesser cost than CNB, and accordingly, could loan same at correspondingly lower rates.

However, minutes of CNBS Directors' meetings of March 21 and April 18, 1994 suggest that rules of the Building Society Act were about to be changed to introduce a 25% withholding tax on income earned by deposit shareholders for deposit amounts greater than $20,000.

- Generally, a policy whereby CNB acted on the security held for non-performing loans would result in the recording of a loss in CNB's accounts. Additionally, CNB's sale of a portfolio of non-performing loans to an independent financial institution would be done at a price discounted to reflect the risk involved. The shortfall would be recorded as a loss in CNB's accounts.

- Because of the Bank Inspection and Madden concern, CNB could expect to face pressure to record a large loan-loss provision as at June 30, 1994 relating to the non-performing loans.

- Mr. Ken Brown a Director of CNB expressed concern at a Board meeting held June 21, 1994 that the board should have approved the transfer of the loans to the Building Society. In a letter dated March 31, 1994 to the Governor of BOJ from Balmain Brown, President of CNB he indicates that the Board had approved the transfer of the loans. We are unable to find reference to the transfer in any prior Board meeting minute.

CONCLUSIONS

The scheme was outlined in a business plan prepared by Mr. Lloyd Prince, Financial Consultant, CNB. The action was in response to pressure from the regulators as evidenced by Mr. Prince's objectives for the bank and the building society which are set out in the plan as follows:

CNB

- clear balance sheet
- relieve BOJ pressure re non-performing loans
- fee for portfolio management
- $114 million income in 1 year

CNBS

- help public with mortgage funds
- help creditors to restructure with lower interest rates and longer terms
- income safeguards
- loan turnback feature

The plan was accepted by senior management and a "Deed of Assignment" was prepared. The document was signed by Balmain Brown and V.C. Williams on behalf of CNB and Donovan Crawford and Neville Roche for CNBS.

The transfer of the loan portfolio to the Building Society appears to contravene the provisions of the Joint and Several Undertaking to the BOJ which was signed by the Directors of CNB on March 10, 1993.

The effects of the transaction are;

- that it temporarily relieves pressure from the regulators regarding the non-performing loan portfolio and the required loan provision
- that it improves the quality of the loan portfolio
- that the transaction is a non-arms length transaction

- that the security provided to the Building Society is suspect
- that the security provided to the Building Society is inadequate
- that the Building society and its depositors are put at risk by the transactions

TRANSACTION 11 OVERVIEW

Towerbank

February 21, 1997

TRANSACTION 11 OVERVIEW

Towerbank

SUMMARY

In May 1995 FTI set off US$25.5 million held in CNB depositor funds against collapsed loans to CNDL and CNBHL. CNB management was required to seek alternate means to allow it to continue reporting the depositor funds as an asset on its financial returns. A scheme was arranged with the concurrence of Towerbank which allowed CNB to continue to report the cash asset in financial returns.

Loan facilities of US$25.5 million were granted by Towerbank to CNBHL and CNDL however, the credits were directed to the bank account of CNB. The CNB credits fully secured the loans and could not be withdrawn. Consequently the funds were not available to CNB or its depositors.

The scheme permitted CNB to misrepresent a US$25.5 million cash asset in its financial records. In fact the moneys had been previously lost in the FTI transaction. CNDL and CNBHL did not provide any security and did not have the ability to repay the outstanding liability which would permit the release of the funds to the benefit of CNB and its depositors.

CNB initiated payment to Towerbank for the cost of interest differential and legal expense.

This transaction was a continuation of the FTI arrangement which allowed CNB's parent company and a connected entity both majority owned by Crawford to receive loans funded and secured by CNB depositors.

BACKGROUND

In the fall of 1993 Century National Merchant Bank and Trust Company Limited ("CNMB") and other Caribbean banks including Towerbank, incorporated Transnational Group Limited which was a holding company for First Trade International Bank & Trust, Limited (FTI). FTI obtained an offshore Bahamian banking license. Operations were run from offices in Coral Gables, Florida. Donovan Crawford was a Director of FTI and Caple Williams ("Williams") was an alternate Director.

Between December, 1993 and March 1995 Century National Bank ("CNB") placed deposits totaling US$25.5 million with FTI. Throughout the same time period FTI made loans

FTI. Throughout the same time period FTI made loans totaling US$25.5 million to various entities controlled by Crawford including CNB Holdings Limited ("CNBHL") (US$16 million), Century National Development Limited ("CNDL") (US$6 million) and Shelltox (US$3.5 million). The loan proceeds were used, to the extent of US$22 million, to purchase assets at an inflated price from two Century financial entities, and, to the extent of US$3.5 million, to purchase Redeemable preference shares of CNB and CNBHL.

Security for the FTI arrangement was provided by way of CNB Covenants which included a reciprocity clause that loan levels would be matched by CNB time deposits. This was contrary to the regulations under the Bank Act, and was not disclosed to the Bank of Jamaica Effectively the arrangement masked connected party loans to CNBHL and CNDL through a third party.

Through the period December 1994 to May 1995 FTI applied the US$25.5 million on deposit from CNB towards the repayment of the corresponding loans to CNBHL, CNDL and Shelltox. CNB lost its deposits. In a letter to the Governor Bank of Jamaica dated June 1, 1995, Donovan Crawford ("Crawford") describes the actions of FTI as "illegal and inappropriate". The letter also states that "alternative arrangements have been made for the restoration of the account in another Off-shore Financial Institution".

In June of 1995 Crawford and Williams, in their capacity as officers and directors of CNBHL and CNDL entered into an arrangement with Towerbank to replace the lost CNB deposits.

DETAIL

Several letters from Williams dated June 28, 1995 to Towerbank International Inc. ("Towerbank") and to Mr. Antonio De Wolf its Director General arranged for a US$25.5 million credit facility, CNDL in the amount of US$6 million and CNBHL in the amount of US$19.5 million. Williams on behalf of CNDL and CNBHL direct the loan proceeds be credited to a CNB deposit account at Towerbank.

The following is the correspondence detail:-

- letter to Mr. Antonio De Wolf signed by Crawford and Williams representing CNDL details a loan facility of US$6 million at 9.75% per annum. The letter indicates a promissory note has been duly executed;
- letter to Mr. Aquiles Martinez signed by Williams on behalf of CNDL authorizes loan proceeds of US$6 million be credited to the deposit account of CNB; and

- letter to Mr. Aquiles Martinez signed by Williams on behalf of CNBHL authorizes loan proceeds of US$19.5 million be credited to the deposit account of CNB.

At Williams request Towerbank confirms to Aulous F. Madden and Company CNB time deposits of US$25.5 million and CNDL/CNBHL loan liability of the same amount. Towerbank confirmed its right to set off time deposits against the loans. On July 14, 1995 the CNB time deposits were also confirmed by Towerbank to Price Waterhouse.

A bank verification document signed by Towerbank dated June 30, 1995 confirms a US$25.5 deposit in favor of CNB. The document also states;

> *"We are irrevocably authorized to set off against the time deposits of Century National Bank limited, any and all of the obligations of CNB Holdings Limited and Century National Development Limited with us, including but not limited to, principal, interest, expenses and attorneys fees"*

An internal memorandum from Williams to Natalie Samuels dated November 11, 1995 instructs her to open a new general ledger account in the name of "Towerbank" in the category "due from Banks Demand - Foreign". A postscript required her to provide the account number to Millicent Anderson to allow process transfer of US$5,000 for legal fees associated to the loan facility.

The arrangement with Towerbank is misleading and gives the false impression that CNB has a US$25.5 million cash asset with that financial institution when in fact the funds credited to CNB are fully encumbered to service CNDL and CNBHL loans.

Crawford in a letter to the Bank of Jamaica dated July 6, 1995 suggests that FTI would continue the original deposit arrangement, however circumstances existed which caused him to accept the Towerbank facility. Crawford also indicates that the Towerbank arrangement can be canceled if the Governor is not in agreement.

LOAN INTEREST

The arrangement required payment of the interest differential between loan costs and interest earned. A request dated March 26, 1996 to Williams from Towerbank requested a payment of US$47,812.50 which was remitted the same date.

Require debit memos to determine how the interest was charged.

The application of interest earned canceling interest owed by CNBHL and CNDL is contained in a memorandum to Towerbank dated March 26, 1996 from CNB, signed by Williams and Balmain Brown. The memorandum also requests an extension of deposits for a ninety day period.

A letter of guarantee was issued by CNB on behalf of CNBHL in respect of the Towerbank facility. This guarantee was renewable on a three monthly basis. Renewals were authorized by Caple Williams who was also the President of CNBHL.

A memorandum also dated March 26, 1996 to De Wolf signed by Crawford and Williams on behalf of CNBHL refers to loans totaling US$19.5 million and promissory notes due March 26, 1996. The letter requests the loans be extended for an additional period of ninety days.

A letter dated June 24, 1996 to De Wolf references four (4) time deposits in the amount of US$25.5 million. The CNB letter signed by Williams and Balmain Brown instructs Towerbank to apply earned interest on the deposits to interest owed by CNBHL and CNDL. The terms of the deposits were extended for a further ninety day period.

Correspondence dated June 24, 1996 on CNBHL letterhead signed by Crawford and Williams requests a ninety day extension on the $6 million loan from Towerbank.

On July 9, 1996 Towerbank canceled the aforementioned time deposits and applied the proceeds of US$25.5 million to the cancellation of loans and credit facilities granted CNDL and CNBHL.

Interest earned by the time deposits between June 24, 1995 and July 8, 1996 when the facility was terminated totaled US $2,295,000, his amount was applied to interest owed on the CNDL and CNBHL loans. In addition four payments of US $47,812.53 were paid to Towerbank as interest differential by CNB.

Require debit memos to determine how the interest was charged.

Although regulators were aware of attempts by Crawford to secure alternate funding for the FTI deposits outlined in Transaction 3, the arrangement with Towerbank was not officially sanctioned. The Towerbank transaction results in the following:-

- paper transaction to cover up/replace the loss of US$25.5 million in time deposits from FTI and therefore allowed CNB to avoid recording the loss of the time deposits;
- CNB depositors incurring the costs of servicing the loans from earned time deposit interest being offset and additional costs to cover the interest spread of borrowing; and
- the legal costs to CNB to arrange loans.

INVESTIGATIVE ISSUES

- interview De Wolf and others- Towerbank; and
- what knowledge did Madden have?
- the BOJ was aware of the scheme what effect does it have?
- Crawford had meetings with Governor etc. within days of loan being arranged with Towerbank.
- How interest payments to Towerbank were charged.

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Baskerville
Forensic Financial Investigations

TRANSACTION 1

CNB Sale of CNMB to CNB Holdings - $280 Million

CNB Sale of CNMB to CNB Holdings - $280 Million

CONTENTS

CNB Sale of CNMB to CNB Holdings - $280 Million

cf Jamaica

1.0 BACKGROUND

CNB Holdings Limited ("CNB Holdings") was incorporated on June 25, 1992 pursuant to the ~~Jamaican~~ Companies Act. On June 29, 1992 the Transfer Register for Century National Bank Limited ("CNB") recorded that 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. The Annual Return for CNB Holdings filed with the Registrar of Companies, ~~Jamaica~~ reports that as of December 31, 1995 Donovan Crawford ("Crawford") and his family held approximately 56.6% of the outstanding ordinary shares of CNB Holdings.

2.0 SUMMARY OF FINDINGS

Based on our review of the available documentation it appears that:

1. Between 1988 and June 1992 CNB had invested $10 million in the share capital of its wholly owned subsidiary, Century National Merchant Bank & Trust Company Limited ("CNMB"). The June 30, 1991 audited financial statements for CNMB indicated that the company had equity of $32.3 million comprising capital, reserves and retained earnings.
2. On or about June 30, 1992 CNB sold its wholly owned subsidiary, CNMB, to CNB Holdings for $280 million. CNB Holdings did not pay any cash consideration for the purchase price but rather issued CNB $280 million of debentures. The debentures issued to CNB were very restrictive and were potentially worthless as they contained the following provisions:
    - The debentures were unsecured;
    - The debentures did not provide for a rate of return;
    - There was no obligation by CNB Holdings to pay interest on the debentures until such time as CNB Holdings declared or paid dividends to its ordinary shareholders; and
    - CNB could not require the debentures to be redeemed. CNB Holdings had the right, but not the obligation, to redeem the debentures.
3. CNB Holdings did not pay any interest to CNB relating to the debentures over the period they were outstanding.
4. Although the $280 million debentures were unsecured, notes to the CNB Holdings June 30, 1992 audited financial statements, prepared by Aulous F. Madden & Company ("AFM"), state that the debentures were secured.

5. CNB Holdings redeemed the debentures in February 1993 ($250 million) and March 1996 ($30 million) by paying $280 million cash to CNB, however, approximately 60% of the repayment was funded by loans from CNB and Century National Building Society ("CNBS"). The source of funds for the repayment of the $280 million debentures is set out below:

Proceeds from sale of 20% of interest in CNB to Central Finance Corp.	$111,000,000	39.6%
Debenture Loans from CNBS	139,000,000	49.7%
Loan (overdraft) from CNB	30,000,000	10.7%
	$280,000,000	100.0%

6. The loans advanced by CNBS and CNB totaling $169 million were not repaid by CNB Holdings.

3.0 SCOPE OF REVIEW

During the course of our investigation we reviewed and relied upon the following documents:

1. Century Group operational files currently in the possession of the Temporary Manager, Price Waterhouse;
2. Investigative files of the Temporary Manager of the Century Financial Entities ("CFEs");
3. Correspondence files of the Bank of Jamaica relating to the CFEs; and
4. Corporate filings.

4.0 DETAILED FINDINGS

CNB was defrauded by the management of the Century Group who caused CNB to sell its investment in CNMB to CNB Holdings in exchange for debentures which were unsecured, provided for no interest and were redeemable only at the option of CNB Holdings.

The depositors of CNBS and CNB were defrauded by the management of the Century Group who caused CNBS and CNB depositor funds to be used to pay $169 million back to CNB in satisfaction of a debt owed by CNB Holdings.

Our detailed findings are discussed in further detail below.

4.1 Sale of CNMB

On June 25, 1992 CNB Holdings was incorporated under the Companies Act. The minutes of the July 28, 1992 Board of Directors meeting for CNB states, in part:

> *"...now that the CNB Group was in place, it was necessary to transfer the shares from the Bank to the Group on a one-to-one basis, so that the percentage holdings would be the same as in the Bank".*

The share Transfer Register for CNB recorded that the shareholders transferred approximately 99% of the shares to CNB Holdings resulting in CNB being a subsidiary of CNB Holdings. The Annual Return for CNB Holdings, filed with the Registrar of Companies Jamaica, reports that as of December 31, 1995 Donovan Crawford ("Crawford") and his family held approximately 56.6% of the outstanding ordinary shares of CNB Holdings.

Between 1988 and June 1992 CNB invested approximately $10 million in the share capital of its wholly owned subsidiary, CNMB. The June 30, 1991 audited financial statements for CNMB indicated that the company had equity of $32.3 million comprising capital, reserves and retained earnings.

A Transfer of Shares document dated June 29, 1992 indicates that CNB sold its subsidiary, CNMB, to CNB Holdings in exchange for $280 million of debentures in CNB Holdings. The CNB Holdings debentures contained certain provisions, including the following:

- The debentures were unsecured;
- The debentures did not provide for a rate of return;
- There was no obligation by CNB Holdings to pay interest on the debentures unless CNB Holdings declared or paid dividends to its ordinary shareholders; and
- CNB could not require the debentures to be redeemed. CNB Holdings had the right, but not the obligation, to redeem the debentures.

No reference in Board minutes

The Board of Directors minutes for both CNB and CNMB indicate that the respective Boards neither discussed nor approved the sale of CNMB to CNB Holdings.

[Interview Roche, Madden, Hadeed and Yvette Sibble to discuss what role, if any, the Board had in the sale]

It appears that certain documentation relating to the sale of CNMB to CNB Holdings was back-dated so that the transaction could be included in the June 30, 1992 year end period. Specific documents which suggest the transaction was back-dated include the following:

- An Opinion of Value by David De Lisser and Associates, Ltd. to Crawford regarding a valuation of the major asset of CNMB was dated July 8, 1992;
- A letter from Aulous Madden, the name partner in the audit firm Aulous F. Madden & Co. ("AFM") to Crawford recommending the value of CNMB, for purposes of the sale to CNB Holdings, be $280 million, was dated July 8, 1992;

- The CNB Holdings debenture was executed on August 31, 1992; and
- The minutes of the Board meetings for May, June and July 1992 do not reference the sale transaction.

[Interview Roche, Madden, Hadeed and Yvette Sibble to discuss the above listed documents]

The June 30 year end audited financial statements for CNB Holdings for each of the years 1992 through 1995 disclose that the $280 million (reduced to $30 million) debentures are secured notwithstanding the debenture instrument states the debentures were unsecured.

4.2 Valuation of CNMB

The $280 million sale price for CNMB was recommended by AFM in conjunction with an Opinion of Value on the Jamaica Grande Hotel prepared by David De Lisser and Associates Ltd. ("De Lisser"). CNMB held a 49% interest in Jamaica Grande Limited ("JGL") whose major asset was the Jamaica Grande Hotel. This investment in JGL represented the largest asset of CNMB and the value of the asset would impact the value of CNMB.

The Opinion of Value letter dated July 8, 1992 to Crawford from De Lisser refers to a telephone conversation with Crawford on July 7, 1992 and estimates the fair market value of the Jamaica Grande Hotel to be US $98 million. The letter infers that De Lisser did not physically view the property or review its operations as the letter states, in part: *"We reserve the right of inspection of the property"*. De Lisser did not appear to use any traditional valuation methods which include the cost approach, direct sales comparison approach or discounted cash flow approach. Instead, De Lisser cited the following basis for his opinion:

- *"... a previous Valuation done by a reputable firm of Valuators..."*
- *"...the subsequent purchase price of...US $27,000,000 plus...US $4,000,000 to purchase existing Lease, giving a total of Thirty One Million Dollars..."*
- *"...taking into consideration inflation, increase in market prices and the difference in the exchange rates..."*

[Interview David De Lisser and determine what factors he considered to assess market price increases. The difference in exchange rates between the US and Jamaican dollar would have no bearing on the US$ value and accordingly would not be a factor.]

Aulous Madden ("Madden"), in his July 8, 1992 letter to Crawford appended proforma balance sheets for both CNMB and JGL based on the results of the valuation of the Jamaica Grande Hotel property conducted by De Lisser. The proforma balance sheet for JGL, using the US $98 million opinion value for the hotel property, indicates JGL had a net book value of US $91.375 million. For purposes of the CNMB proforma balance sheet, AFM appear to have taken 49.44% of the JGL proforma book value and converted it to J$ using a $22.20 exchange rate to arrive at an investment in JGL of J$1,002,908,624. (US $91,375,534 x 49.44% = US $45,176,064 @ $22.20 = J$1,002,908,624).

The revised value of the investment increased the book value of CNMB to J$922.2 million. However, Aulous F. Madden & Co. discounted the value of the investment by 64% and performed a valuation of the book value of the shares of CNMB to arrive at a book value of J$280 million for purposes of the sale to CNB Holdings.

[Interview Madden regarding his valuation the CNMB shares]

CNB recorded a gain on the sale of its subsidiary of approximately $248 million as follows:

Sale Proceeds	$280,000,000
Less: Investment (June 30/91 equity)	(32,300,653)
Gain on Sale of Subsidiary	$247,699,347

CNB recorded the sale and related profit as at June 30, 1992. The June 30, 1992 audited financial statements disclose that $132.7 million of the profit was capitalized by the issuance of "bonus shares".

4.3 Interest on the Debentures

As discussed in Section 4.1 of this report the debentures did not provide for the payment of interest and accordingly CNB Holdings did not pay or accrue any interest owing to CNB for the fiscal years ended June 30, 1992 and 1993. However, a letter dated June 29, 1994 from Balmain Brown, President of CNB, to "*The President CNB Holdings Limited*" states, in part:

> *"This is to remind you that on June 29, 1992, the commercial bank issued debenture instruments totaling $280 million to CNB Holdings Limited...The commercial bank was not paid interest due on this investment from its inception, and in this regard, must request CNB Holdings Limited to make a payment of at least $49,887,000 towards the interest payable thereon. The Bank expects to receive a commitment for this amount as at June 30, 1994."*

An unidentified signature on behalf of CNB Holdings appears at the bottom of the letter as a confirmation of the commitment. The available documentation does not indicate how the accrued interest was calculated. CNB Holdings recorded the interest expense and CNB's revenues for the June 30, 1994 year end included debenture interest income of $49.887 million. Absent this debenture interest income, CNB would have realized a net loss of $37 million for the year ended June 30, 1994 instead of a net profit of $12.8 million.

The 1994 debenture interest of $49.887 million was reversed on June 30, 1995 by way of a prior period adjustment to the audited financial statements of CNB Holdings and CNB. Thus, CNB did realize a net loss of $37 million in 1994.

[Interview Madden on why he set up the accrued interest in 1994 and why he reversed the amount in 1995 as well as why interest was accrued in 1995.]

The June 30, 1995 audited financial statements for CNB Holdings records that interest expense of $19,636,088 was accrued on the debentures issued to CNB. The available documentation does not indicate how the accrued interest was calculated. - Note 12 to CNB F/S show no debenture interest income. - Ask Madden why?

Various schedules and memorandum prepared by CNB staff calculated interest on the $280 million debentures in amounts varying from $52.8 million to $376 million. However, these amounts were not reflected in the financial statements of CNB Holdings through to June 30, 1995.

4.4 Redemption of the $280 Million in Debentures

CNB Holdings paid $280 million to CNB to redeem the debentures on the dates and in the amounts set out below:

January 27, 1993	$50,000,000
January 28, 1993	40,000,000
January 29, 1993	40,000,000
February 12, 1993	120,000,000
March 29, 1996	30,000,000
Total	$2~~5~~90,000,000

However, approximately 60% of the repayment was ultimately funded by loans from CNB and Century National Building Society ("CNBS"). The source of funds for the repayment of the $280 million debentures is set out below:

Proceeds from sale of 20% of interest in CNB to Central Finance Corp.	$111,000,000	39.6%
Debenture Loans from CNBS	139,000,000	49.7%
Loan (overdraft) from CNB	30,000,000	10.7%
	$280,000,000	100.0%

The loans advanced by CNBS and CNB totaling $169 million were not repaid by CNB Holdings. The sequence of events surrounding the payment of the $280 million to CNB is set out below:

1. In January and February, 1993 CNB Holdings obtained a $250 million loan from Life of Jamaica and JMMB secured by government securities pledged by CNB and CNBS. The loan

proceeds were used to pay CNB $250 million towards the redemption of the $280 million debenture liability.

2. On February 19, 1993 Mr. Rainford, in his capacity as Governor of the BOJ, recommended to Mr. Hugh Small, Minister of Finance, that the Minister should assume Temporary Management of the CFE's based on the results of the 1992 examination by the BOJ.

3. On February 21, 1993 Mr. Small directed, under Section 25 of the Banking Act, that CNB could not:

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

4. On March 3, 1993 CNB provided CNB Holdings with a credit facility of $288 million which was used by Holdings to repay the Life of Jamaica and JMMB loans of $250 million plus interest.

5. A letter dated March 4, 1993 from Crawford to Governor Rainford (copied to Hugh Small) stated, in part, that the $280 million debenture had been redeemed by CNB Holdings, to the extent of $250 million from the proceeds of a loan from Life of Jamaica and Jamaica Money Market Brokers. The letter did not disclose that on March 3, 1993 CNB provided CNB Holdings with a $288 million credit facility to fund the repayment of the Life of Jamaica and Jamaica Money Market Brokers loans.

6. On March 10, 1993 the Board of Directors of CNB signed a Joint and Several Undertakings to the BOJ which included an undertaking that no transactions would be conducted with connected persons without prior approval from the BOJ.

7. On May 6, 1993 the CNB credit facility of $288 million was repaid, to the extent of $111 million, from the proceeds of $111 million payment by Central Finance Corporation Limited relating to its purchase of a 20% interest in CNB from CNB Holdings. CNB Holdings' interest in CNB was reduced from 100% to 80%.

8. An internal memo dated August 9, 1993 from Onex Evans, Group Internal Auditor, to Caple Williams reported that CNBS could not invest its funds in guarantees, however, *"...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".

9. The balance of the CNB credit facility of $288 million was repaid on August 25, 1993 from the proceeds of $260 million debenture loan from CNBS. This debenture did provide for the payment of interest, however, as discussed in our report on Transaction 2, CNB Holdings did not repay the debenture loan.

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Avey
Macdonald
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Forensic Financial Investigations

TRANSACTION 2

CNBS Debenture Loans to CNB Holdings - $520 Million

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1.0 BACKGROUND

Century National Building Society ("CNBS") is a wholly owned subsidiary of CNB Holdings Limited ("CNB Holdings"). Donovan Crawford ("Crawford") and other members of his family own approximately 56% 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 loans were not repaid to CNBS resulting in losses to the depositors.

2.0 SUMMARY OF FINDINGS

Based on our review of the available documentation it appears that:

1. Between August 25, 1993 and December 30, 1994 CNBS made debenture loans of $520,231,250 directly and indirectly to CNB Holdings.
2. CNB Holdings used the debenture loan proceeds to meet its cash flow and investment needs and to further invest in the capital of CNBS.
3. The debenture loan proceeds were used by CNB Holdings, to the extent of $177 million, towards the reduction of a debenture liability with CNB. This debenture liability is discussed in further detail on our report on Transaction 1.
4. The debenture loan proceeds were used by CNB Holdings, to the extent of $90.75 million, to fund the payment of a "finders fee" to CNB relating to the purchase of the Jamaica Grande Limited ("JGL") by CNB Holdings.
5. The debenture loan proceeds were used by CNB Holdings, to the extent of $122.25 million, towards the reduction of overdraft facilities provided by CNB.
6. The debenture loan proceeds were used by CNB Holdings, to the extent of $80 million, to increase the share capital of CNBS.
7. The debenture loan proceeds were used by CNB Holdings, to the extent of $50,231,250, to fund a payment of US $1.5 million made on behalf of its subsidiary, Health Education Development Foundation Limited ("HEDFL") to Group Hospital and Medical Services Inc. ("GHMSI") representing the purchase of Blue Cross of Jamaica.
8. CNB Holdings did not pay any cash consideration to CNBS for interest accrued on the debenture liability.

9. The debenture loans advanced by CNBS totaling $520,231,250 million were not repaid by CNB Holdings.

3.0 SCOPE OF REVIEW

During the course of our investigation we reviewed and relied upon the following documents:

- Century Group operational files currently in the possession of the Temporary Manager, Price Waterhouse;
- Investigative files of the Temporary Manager of the Century Financial Entities ("CFEs");
- Correspondence files of the Bank of Jamaica relating to the CFEs; and
- Corporate filings.

4.0 DETAILED FINDINGS

An internal memorandum dated August 9, 1993 from Onex Evans, Group Internal Auditor, to Caple Williams states, in part:

> *"In reviewing the rules of the Building Society, guarantees were not among one of the ways in which the funds of the society could be invested. However...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".*

The bank statements for CNB Holdings indicate that the account had been in overdraft throughout 1993 and had increased to an overdraft balance of $217 million by August of 1993. Subsequent to August 9, 1993 CNBS advanced debenture loans to CNB Holdings 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
Via Century National Development Limited		
Aug 4, 1994	$80,000,000	$80,000,000
Total		$520,231,250

The available documentation does not include the debenture instruments evidencing the terms and conditions of the debenture loans totaling $520,231,250. Memoranda dated March 27, 1995 and September 27, 1995 from CNBS to Mr. V. Caple Williams refers to the debenture loans to CNB Holdings and Century National Development Limited ("CNDL") totaling $520,231,250 and indicates that CNBS does not have stamped and registered copies of the debenture documents. A copy of a CNB Holdings debenture dated "1993" in the face amount of $5 million refers to a series of debentures totaling $290 million in favor of CNBS. The debenture provides for the following:

- interest to be paid at an annual rate in accord with the interest rate charged by the building society for mortgage financing (45% at the date of the debenture);
- the $290 million is secured by all of the share capital of Century National Merchant Bank and Trust Company Limited ("CNMB") registered in the name of CNB Holdings; and
- the debenture shall be redeemed within two years.

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.

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

4.1	Repayment of the balance of a $288 million CNB loan	$177,000,000
4.2	Payment of "finders fee" to CNB relating to the purchase of JGL	90,750,000
4.3	Reduction of bank overdraft balances	122,250,000
4.4	Increase share capital of CNBS	80,000,000
4.5	Payment of US $1.5 million to GHMSI on behalf of HEDFL	50,231,250
	Total	$520,231,250

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

4.1 Repayment of CNB Loan - $177 Million

As set out in our report on Transaction 1, 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.

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 causing CNB and CNBS to pledge government securities. CNB Holdings used the loan proceeds to pay CNB $250 million towards the partial redemption of the $280 million debenture liability.

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 Central Finance Corporation Limited 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.

On August 25, 1993, approximately two weeks after the August 9, 1993 memorandum from Onex Evans, 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. An inter-office memorandum dated July 7, 1993 to "The File" from Balmain Brown, President of CNB, and Patrick Tucker, General Manager of CNBS, states, in part:

> *"Our Building Society has negotiated for purchase a Debenture Offer of...J$290,000,000 from CNB Holdings Limited to be taken up by September 30, 1993".*

The available documentation does not include a "Debenture Offer" from CNB Holdings. It appears that the July 7, 1993 memo may have been back-dated given Onex Evans memo of August 9, 1993 which suggested that CNBS should consider making debenture loans to CNB Holdings.

[Interview Patrick Tucker regarding his memo and if it was back-dated. With whom did the negotiations take place for the debentures. How, when and who decided to have CNBS advance debenture loans to CNB Holdings when Tucker advised the Board on March 21, 1994 that CNBS must invest outside the Century Group in order to be profitable.]

The remaining $83 million proceeds of the debenture loan ($260 million less $177 million applied to reduce the outstanding credit facility) was used to reduce the overdraft balance in CNB Holdings' bank account with CNB. The reduction of the overdraft is discussed further in Section 4.3 of this report.

4.2 Finders Fee to CNB - $90.75 Million

As set out in our report on Transaction 5, CNMB paid approximately $88.9 million (US $9.6 million) to acquire a 49.44% interest in the outstanding shares of Jamaica Grande Limited ("JGL"), a company which owned and operated the Jamaica Grande Hotel in Ocho Rios. However, a Trust Deed dated March 28, 1994 indicates that CNMB held this investment as trustee for the beneficial owner, CNB Holdings. On or about June 30, 1994 CNMB transferred the investment in JGL to CNB Holdings for a cash payment of US $16 million.

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 advanced on June 30, 1994.

The remaining $9.25 million proceeds of the debenture loan ($100 million less $90.75 million paid to CNB) was used to reduce the overdraft balance in CNB Holdings' bank account with CNB. The reduction of the overdraft is discussed in further detail in Section 4.3 of this report.

The available documentation does not indicate what role CNB had in the acquisition of the JGL investment and why CNB Holdings paid a finders fee of 25%. A CNB letter dated November 17, 1995 from Norris Williams, Senior Vice President - Finance and Investment, and V. C. Williams, Executive Vice President, to the Commissioner of General Consumption Tax objects to a tax assessment by the Commissioner on the $90.75 million recorded by CNB as "Miscellaneous Income". The letter states, in part:

> *"We intend to verify that this amount represents reimbursement of accumulated expenses paid by the bank on behalf of an associated company. <u>There is no element of profit</u> in this reimbursement".*

We have not been able to determine what expenses, if any, were paid by the bank relating to JGL.

However, absent 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.

[Interview Tucker on the two May 12, 1994 memos which have different signatures above his name. Interview Madden and

Norris Williams on why a finders fee was paid by CNB Holdings to CNB.]

4.3 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 4.1 and 4.2, totaling $122.25 million ($30 million + $83 million + $9.25 million) were collectively used to reduce overdraft balances in the bank account of CNB Holdings.

4.4 Increased Share Capital of CNBS

A series Debit and Credit advice's, all dated **[back-dated?]** June 29, 1994, were transacted on August 4, 1994 in the respective bank accounts of CNBS, 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 various bank accounts in the following manner:

- 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. The Bank of Jamaica ("BOJ") examination of CNBS as at June 30, 1994 noted the increased capital of $80 million and a Summary Report prepared by the BOJ stated, in part:

> *"Capital injection of $80 mn coincides with a debenture loan, of a similar amount, to a sister company...This, combined with the fact that there is no evidence of a cash injection, creates the presumption that the source of the capital introduced is in fact the Society's own Savings Fund".*

While the $80 million was transacted through the various bank accounts on August 4, 1994, the debit and credit memos for the respective bank accounts appear to have been "back-dated" to June 29, 1994 so as to include the $80 million of increased capital in the June 30, 1994 year end financial statements. Without the $80 million capital increase to bring total capital to $90 million, CNBS would have had negative equity, as accumulated losses were approximately $74 million.

4.5 Payment of US $1.5 Million to GHMSI

An Agreement dated December 21, 1994 between Group Hospitalization and Medical Services Inc. ("GHMSI"), Blue Cross of Jamaica ("BCJ") and Health & Education Development Foundation Limited ("HEDFL") provided for the sale of the operations of BCJ from GHMSI to HEDFL for a total consideration of US $3 million. The US $3 million was to be paid by a series of three payments. HEDFL had been incorporated by Crawford and others on June 24, 1993 and is disclosed, in the June 30, 1995 draft audited financial statements of CNB Holdings, as a wholly owned subsidiary of CNB Holdings controlled by the directors of CNB Holdings.

On December 30, 1994 CNB Holdings made the first payment, pursuant to the purchase agreement, of US $1.5 million to GHMSI on behalf of HEDFL. CNB Holdings purchased the US $1.5 million for J$50,231,250. This payment was funded by the same day receipt of $50,231,250 from CNBS representing an additional debenture loan. A letter dated December 30, 1994 on CNB Holdings letterhead from Caple Williams to Richard Larmond, Manager of CNBS, states, in part:

> *"We write to confirm our discussions whereby Century National Building Society agrees to purchase a further Debenture from CNB Holdings Limited in the amount of...$50,231,250".*

[Interview Richard Larmond on what discussions, if any, he had regarding this debenture]

Payments totaling US $3 million, or J$107,236,250 million, were made by CNB Holdings to GHMSI on behalf of HEDFL as follows:

Date	US$	Rate	J$
Dec 30, 1994	$1,500,000	@ 33.4875	$50,231,250
Dec 29, 1995	1,000,000	@ 39.2800	39,280,000
June 26, 1996	500,000	@ 35.4500	17,725,000
	$2,500,000		$107,236,250

The payments made in December 1995 and June 1996 were funded by overdraft facilities provided by CNB. These payments are discussed in further detail in our report on Transaction 8.

5.0 INTEREST PAYMENTS ON DEBENTURE LOANS

As discussed in Section 1.0 of this report, the debenture loans made by CNBS directly to CNB Holdings ($440,231,250) and indirectly to CNB Holdings, through CNDL, ($80 million) were not repaid. A copy of the CNB Holdings debenture dated "1993" in the face amount of $5 million referring to a series of debentures totaling $290 million in favor of CNBS provided for interest to be paid at an annual rate in accord with the interest rate charged by the building society for mortgage financing (45% at the date of the debenture).

Interest accrued and the associated accounting adjustments are discussed below.

5.1 Accrued Interest at June 30, 1994

As at June 30, 1994 CNBS had made debenture loans totaling $470 million to CNB Holdings ($390 million) and CNDL ($80 million). Interest accrued on the debentures outstanding during the year ended June 30, 1994 was $122,468,493 as calculated in various schedules prepared by CNB group staff and in accordance with the interest provisions of the debentures. However, the June 30, 1994 audited financial statements for CNB Holdings and CNBS recorded $161,077,289 of accrued interest expense and accrued interest income, respectively, relating to the debentures. The available documentation does not indicate how the auditors calculated the interest on the debentures.

We note that the June 30, 1994 audited financial statements for CNB Holdings records the $80 million received from CNDL as a "Debenture Interest - C.N.B.S." liability as opposed to an amount owing to CNDL.

5.2 Accrued interest at June 30, 1995

As at June 30, 1995 CNBS had made debenture loans totaling $520,231,250 to CNB Holdings ($440,231,250) and CNDL ($80 million). Interest accrued on the debentures outstanding for the year ended June 30, 1995 was $266,700,919 as calculated in accordance with the interest provisions of the debentures.

Interest on $440,231,250	$190,021,467
Interest on $80 million	36,679,452
	$226,700,919

However, the June 30, 1995 audited financial statements for CNBS recorded $305,915,413 of accrued interest income (net of the outstanding 1994 interest) from CNB Holdings and CNDL relating to the debentures as follows:

Interest on $440,231,250	$269,915,413
Interest on $80 million	36,000,000
	$305,915,413

The available documentation does not indicate how the auditors calculated the 1995 interest on the debentures.

5.3 Reversal of 1994 Accrued Interest

In 1995 debenture interest of $121,005,480 was "*written back*" as disclosed in a note to the June 30, 1995 audited financial statements of CNBS and CNB Holdings. The $40,071,809 net interest expense ($161,077,289 - $121,0055,480) for the year ended June 30, 1994 relating to the CNB Holdings debentures represents a 16.34% interest rate, a rate far lower than the 45% rate provided in the debenture instrument. Accordingly CNB Holdings benefited by borrowing CNBS depositor funds at an interest rate lower than market rates while CNBS was apparently defrauded of potential interest income.

[Interview Madden on how the interest was calculated for 1994 ~~1884~~ and 1995 and why a portion of the 1994 interest was reversed]

5.4 Payment of Accrued Interest

On February 26, 1996 CNB Holdings sold the beneficial interest of a portion of its investment in JGL to CNBS for $1,125,920,300. No cash consideration was paid by CNBS to CNB Holdings. Instead, CNBS increased its capital base by issuing additional proprietary shares to CNB Holdings and reduced all the interest accrued and outstanding on the debentures through to January 31, 1996 owed by CNB Holdings relating to the debentures. The specific amounts are set out below:

CNBS Share Capital to CNB Holdings	$641,000,000
Reduction of all interest owed by CNB Holdings to CNBS on the debentures	484,920,300
Total	$1,125,920,300

CENTURY FINANCIAL ENTITIES

Executive Summary

Lindquist Avey's investigation into the affairs of Century National Bank Limited ("CNB"), Century National Merchant Bank and Trust Company Limited ("CNMB") and Century National Building Society ("CNBS") has identified twelve specific transactions which appear to contain sufficient facts and evidence to support criminal indictments. For ease of reference these three entities are collectively referred to as the Century Financial Entities ("CFEs").

Further investigative procedures remain outstanding including:

- Follow-up interviews with certain management, employees and consultants of the CFEs;
- Obtaining a Court Order for the production of documents from the external auditor as well as obtaining other documents and information from offshore sources pursuant to mutual assistance programs; and
- Ongoing investigative analysis of the financial records of the CFEs.

Findings

Lindquist Avey has identified a pattern of conduct and specific transactions which resulted in increased risk and losses of depositor funds. The pattern of conduct surrounding the specific transactions suggests that Crawford and his management team used deception and deceit to misrepresent the true state of affairs of the CFEs to the regulatory authorities, the public and depositors. The activities undertaken by Crawford and others resulted in benefits to Crawford and his associated companies while depositors were put at risk.

Many of the events identified and investigated by Lindquist Avey were either:

i) transacted at the CFE's June 30th fiscal year end in order to meet regulatory requirements and/or to create profits to disguise operational losses; or

ii) were structured to circumvent an undertaking given by the Board of Directors to the BOJ to cease related party transactions.

The preliminary reports prepared by Lindquist Avey evidencing the misrepresentations and deceptions employed by Crawford and others are summarized below.

1. CNB Holdings Purchase of CNMB - $280 Million

On June 30, 1992 CNB Holdings, a private company majority owned and controlled by Crawford, purchased CNMB from CNB for $280 million. CNB recorded a profit on the sale of its subsidiary of approximately $248 million. CNB Holdings did not pay cash to CNB but instead issued CNB $280 million in debentures. The debentures were potentially worthless as they contained the following provisions and restrictions:

- they were unsecured;
- they provided for no rate of return;
- there was no obligation to pay interest; and
- were redeemable only at the option of CNB Holdings.

CNB Holdings paid no interest to CNB on the debenture liability. CNB satisfied the debenture liability primarily from the proceeds of loans from the CFEs which, in turn, were not repaid and resulted in losses to depositors.

2. CNBS Debenture Loans to CNB Holdings - $520 Million

Between August 1993 and December, 1994 CNBS advanced a series of debenture loans to CNB Holdings totaling $520 million. CNB Holdings earned little or no revenues and had no source of funds other than borrowings. CNB Holdings used the loan proceeds from CNBS to:

- retire other debt with CNB;
- purchase share capital of CNBS;
- fund the payment of $90 million to CNB to inflate profits at year end; and
- fund cash flow needs and investment acquisitions by CNB Holdings.

CNB Holdings paid no interest to CNBS on the debenture loans and did not repay any principal resulting in losses to the depositors of CNBS.

3. CNB Time Deposits with FTI - US $25.5 Million

Between December, 1993 and March, 1995 CNB invested US $25.5 million of depositor funds in the purchase of Time Deposits with a Bahamian registered bank, First Trade International ("FTI"). Crawford was a director of FTI and was granted credit facilities from FTI equal to the amount of the deposits received from CNB, or US $25.5 million. The proceeds of the time deposits were used by FTI to loan and secure US $25.5 million to CNB Holdings and associated companies. CNB provided a covenant that the loans to CNB Holdings and its associated companies would be 100% cash secured by the CNB time deposits. The borrowing entities only provided promissory notes to evidence the loans but provided no security.

CNB Holdings and its associated companies used the loan proceeds to:

- purchase real estate assets from CNB for US $22 million (Transactions 4 and 5); and
- purchase preference shares from CNB and CNB Holdings totaling US $3.5 million (Transaction 6).

FTI applied CNB's time deposits of US $25.5 million against the loan balances in December 1994 and January and May 1995 resulting in losses to the depositors of CNB.

4. Sale of CFE properties to Century National Developments Limited (CNDL) - US $ 6 Million

In December, 1993 and January, 1994 CNDL, a wholly owned subsidiary of CNB Holdings, purchased three properties from the CFEs for US $6 million. Two of the properties were branch offices of the CFEs. The CFEs recorded profits of $115 million on the sale.

The purchase proceeds were funded by CNB depositor moneys which were firstly placed on deposit with FTI (as discussed in Transaction 3) and then used by FTI to loan US $6 million to CNDL. FTI subsequently applied the CNB time deposits it held as security for the loan to offset the US $6 million loan to CNDL.

The transaction was a violation of an undertaking given by the Board of Directors to the BOJ in March 1993 that no connected party transactions would be conducted. As a result, CNDL obtained title and ownership of three properties at no cost to itself with the losses being passed on to the CNB depositors.

5. CNB Holdings Purchase of Jamaica Grande - US $16 Million

On or about June 30, 1994 CNB Holdings purchased CNMB's 49% ownership interest in Jamaica Grande Limited ("JGL") for US $16 million. CNMB recorded a profit of $439 million on the sale.

The purchase proceeds were funded by CNB depositor moneys which were firstly placed on deposit with FTI (as discussed in Transaction 3) and then used by FTI to loan US $16 million to CNB Holdings. FTI subsequently applied the CNB time deposits it held as security for the loan to offset the US $16 million loan to CNB Holdings.

The transaction was a violation of an undertaking given by the Board of Directors to the BOJ in March 1993 that no connected party transactions would be conducted. As a result, CNB Holdings obtained an ownership interest in JGL at no cost to itself, CNMB recorded inflated profits of $439 million and CNB depositors were left with the loss.

6. Shelltox purchase of Preference Shares - US $3.5 Million

In March of 1995 CNB Holdings caused Shelltox to be incorporated and to subscribe for US $3.5 million of CNB and CNB Holdings preference shares pursuant to a private placement associated with US $10 million share offering. CNB informed the BOJ that the preference shares for both companies, totaling US $10 million were fully subscribed and paid. However, US $3.5 million, or 35% of the preference share capital, was sourced form CNB depositor funds which were firstly placed on deposit with FTI (as discussed in Transaction 3) and then used by FTI to loan US $3.5 million to Shelltox, a nominee for CNB Holdings. FTI subsequently applied the CNB time deposits it held as security for the loan to offset the US $3.5 million loan to Shelltox.

The transaction was a violation of an undertaking given by the Board of Directors to the BOJ in March 1993 that no connected party transactions would be conducted. As a result, the share capital of both CNB and CNB Holdings were increased by US $3.5 million and CNB depositors were left with the loss.

7. Sale of Paddington Place to Crawford

In March of 1990 Crawford requested, and the Board approved, CNB's sale of a residential property, One Paddington Place, to Crawford for a purchase price of 10% above book value. Between the approval date and the closing date CNB paid for improvements to the property in excess of $1 million and entered into a lease for the property to the Italian Embassy. CNB realized a loss on the sale of the property on closing as Crawford paid less than book value and paid no consideration for the lease. Monthly lease payments of US $5,500 were made by the Italian Embassy to the benefit of Crawford.

8. Blue Cross of Jamaica

On December 21, 1994 Crawford, as President of Health and Education Development Foundation Limited ("HEDFL"), and V. C. Williams as President of CNB Holdings, entered into an agreement for the purchase of certain rights associated with Blue Cross of Jamaica for a cash consideration of US $3 million. The 1995 financial statements for CNB Holdings disclose that it owns and controls HEDFL.

HEDFL had no independent source of funds and the payments of $3 million for the purchase of the rights associated with Blue Cross of Jamaica were advanced by CNB Holdings. However, CNB Holdings had no independent source of funds for the US $3 million purchase price. Instead, half of the purchase price was funded from a debenture loan by CNBS to CNB Holdings and the remaining US $1.5 million payment was funded by overdraft facilities provided by CNB.

CNB Holdings did not repay the debenture loan to CNBS and did not pay the overdraft facility with the result that CFE depositor funds were lost. Thus Crawford, through his companies, was able to acquire a controlling interest in Blue Cross of Jamaica at no cost to himself.

9. Personal Benefits to Crawford and Others

The investigation into the events surrounding the payment of benefits to Crawford and others is ongoing and will be further investigated subject to the execution of a court order for the production of additional records.

10. Use of Depositor Funds to Increase the CFEs Share Capital

As at June 30, 1995 the combined share capital of the CFEs was $659.5 million. Of this amount, approximately $412.5 million, or 62%, was from "non-cash" sources including:

- $259.9 million in bonus shares issued associated with the capitalization of unrealized profits on related party transactions; and

- $152.6 million sourced from CFE depositor funds and structured to disguise the true source of the funds.

While Crawford beneficially owned and controlled the CFEs through his 56% controlling interest in CNB Holdings, it appears that Crawford contributed only

2.6% of total capital of CNB with the balance of capital being derived from minority shareholders and "non-cash sources discussed above. The accompanying pie chart sets out the source of capital to CNB as at June 30, 1995.

The lack of quality equity of the CFEs resulted in significant losses to the depositors as there was insufficient equity to absorb the losses from operations and investments.

11. Towerbank

When FTI offset the US $25.5 million of CNB time deposits as discussed in Transaction 3 above, it entered into a scheme, with the concurrence of Towerbank which allowed CNB to record the time deposits on the balance sheet after they had been lost.

There was no cash available to the depositors of CNB. CNB paid additional interest payments and fees to support the book entries.

12. CNB Sale of Non-Performing Loans to CNBS - $404 Million

In March of 1994 CNB sold a $404 million portfolio of non-performing loans to CNBS at full value. This transaction allowed CNB to record profits on non-performing loans and to rid themselves of a number of loans which caused the BOJ concern. The transaction move the poor quality assets to a company which was not inspected by the BOJ.

The continued non-performance of the loan portfolio impacted the financial viability of CNBS and its depositors.

Frauds by director, etc.

27. Every person who—

(1) being a director, public officer, or manager, of any body corporate or public company—

(*a*) as such, receives or possesses himself of any property of such body corporate or public company and, with intent to defraud, omits to make, or cause to be made, a full and true entry thereof in the books and accounts of such body corporate or public company;

(*b*) makes, circulates, or publishes, or concurs in making, circulating, or publishing, any written statement or account which he knows to be false in any material particular—

(i) with intent to deceive or defraud any member, shareholder, or creditor of such body corporate or public company; or

(ii) with intent to induce any person to become a shareholder or partner therein or to entrust or advance any property to such body corporate or public company, or to enter into any security for the benefit thereof;

(2) being a director, public officer, manager, or member, of any body corporate or public company with intent to defraud—

(*a*) destroys, alters, mutilates, or falsifies, any book, paper, writing or valuable security, belonging to such body corporate or public company;

(*b*) makes or concurs in the making of any false entry, or omits or concurs in omitting any material particular, in any book of account or other document,

shall be guilty of a misdemeanour, and on conviction thereof liable to imprisonment with hard labour for any term not exceeding seven years.

Fraudulently inducing persons to invest money.

7/1965 14th Sch.

28.—(1) Every person who, by any statement, promise or forecast which he knows to be misleading, false or deceptive, or by any dishonest concealment of material facts, or by the reckless making of any statement, promise or forecast which is misleading, false or deceptive, induces or attempts to induce another person—

(*a*) to enter into or offer to enter into—

(i) any agreement for, or with a view to, acquiring, disposing of, subscribing for or underwriting securities or lending or depositing money to or with any industrial and provident society, co-operative society or building society; or

(ii) any agreement the purpose or pretended purpose of which is to secure a profit to any of the parties from the yield of securities or by reference to fluctuations in the value of securities; or

(*b*) to acquire or offer to acquire any right or interest under any arrangements the purpose or effect, or pretended purpose or effect, of which is to provide facilities for the participation by persons in profits or income alleged to arise or to be likely to arise from the acquisition, holding, management or disposal of any property other than securities; or

(*c*) to enter into or offer to enter into an agreement the purpose or pretended purpose of which is to secure a profit to any of the parties by reference to

Source of Century National Bank Share Capital