

Ms Carina Cockburn
Finsac Limited
76 Knutsford Boulevard
Kingston 5
Jamaica

12 June 2000

FSO/JC/PJS

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Dear Carina

STATUS REPORT

In accordance with your request, I set out below the present status of the various streams of work which we are presently undertaking.

Following our previous practice this letter is not meant to be a complete appraisal of progress to date but is intended to be, and therefore should be read in conjunction with previous reports issued to both the Minister of Finance and Planning and to Finsac Limited in order to have a complete understanding of the issues involved. When reading this report it should be borne in mind that the previous report was dated 10 April and that no one from the Ernst & Young team was on the Island during the period 15 April and 1 June.

WORKERS SAVINGS AND LOAN BANK

Bankers acceptances

\$US transactions

Demand letters have been issued and one response has been received that being from Lindsay in connection with Linpat. It would appear that Mr Eatmon, at long last, is beginning to take a real interest in this matter and I am pleased to note that you had a constructive meeting with him on the subject.

At our meeting with Mrs Mary Powell on 6 June we obtained useful information from her and as a result we were able to locate and you were able to provide to the 'Non Performing Loans Unit' (NPL) a list of those BAs which existed at the date of transfer and which NPL should now be pursuing. We await from Mrs Powell the relevant records to demonstrate the

- A list of partners' names is available for inspection at the above address, and at Becket House, 1 Lambeth Palace Road, London SE1 7EU, the partnership's principal place of business.

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accuracy of the entries in the books of account of WSLB. It is important that we receive this information as it is necessary to complete this link in the chain.

Corporate Resorts Limited share issue

Civil actions

Discussions have taken place as to the timing which is likely to occur in the Discovery process in the case of WSLB v. Lindsay and others for the recovery of the subscription monies (Suit 95/99). It is thought likely that the Plaintiff will need to be ready by the end of October. With this in mind it has been agreed that Dunn Cox will spend time during the summer law vacation period reviewing the Plaintiff's records in order to be ready for the expected requirement. In turn, it has been agreed that E&Y will ensure that, by the 31 July, the records are in the order necessary to ensure that Dunn Cox may carry out their work as expeditiously as possible.

The Writ and Statement of Claim relating to the 'Trevia Limited and Victronic Limited' have been finalised and filed. Service has been effected on only one of the defendants. The remaining defendants will be served as soon as their present whereabouts are known.

As agreed we completed a draft 'Statement of Claim' for the 'CABS' section of the series of transactions and forwarded a copy to Dunn Cox in order that they could commence the production of a final document. We were very disappointed to note that on returning to the Island little substantive work had been carried by Dunn Cox with the result that no work was possible during our recent visit. As you are aware time is running short on this matter in terms of a possible claim becoming statute barred and we can ill afford to suffer delays of this magnitude. To have one part of the team not fulfilling their requirement can adversely reflect on others and I do not wish see Ernst & Young criticised unfairly as a result. This matter needs constant pressure by Finsac if the claim is to be filed by the due date.

We have interviewed a further number of witnesses namely Mr Byron McDonald former General Manager CABS, Mr Ronald Edwards former Financial Controller CABS and Mrs Mary Powell former Chief Financial Officer Workers Bank and also a director of CABS. We also have further interviewed Mrs Angela Maxwell. The information gleaned was extremely useful and whilst relatively few new facts emerged the confirmation of key facts by further individuals was most beneficial. It is important that the statements prepared subsequent to the interviews are signed by the interviewees and returned in order that they may be used for evidential purposes.

Criminal actions

We have heard nothing further from either the BoJ or the DPP.

CIBONEY GROUP LIMITED

Civil Proceedings

We are pleased to note that the proposed settlement has been considered by the Board of Finsac and Cabinet and that approval has been given to proceed on the principles outlined. We urge that, whilst not giving that Defendants the impression that the Plaintiff is anxious, the matter is pursued with speed lest the opportunity be overtaken by other events.

We understand that those giving authority to the settlement have asked that the appropriate due diligence is carried into the affairs of CVC prior to those shares being transferred to Ciboney Group Limited. We have agreed with Finsac that a draft work programme will be completed and sent to us for review. However we it is necessary to point out at this stage that the scope for providing real comfort may well be limited due to the particular circumstances surrounding this company.

Criminal Proceedings

Revenue Protection Division and Fraud Squad

We have heard nothing further from these agencies.

RECEIVERSHIPS

Friends Group Limited

Mr Ken Tomlinson has continued to complete the final matters outstanding within the hotel operating companies. The settlement of the completion accounts with Sandals has not been completed despite Dr Pyne informing us some weeks ago that he was ready to meet to discuss the matter.

Corporate Group Limited

There are no matters to report at this time.

Corporate Life Insurance Company Limited

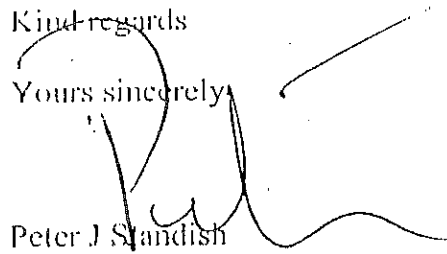
We are pleased to report that there now is only one policyholder who is yet to agree to a surrender of their policy. This person is being pursued in order that payment can be made thus leaving the company with the capacity to close the policyholder records and obtain formal confirmation that the company no longer carries on insurance business.

Despite that fact that the property matters have been resolved in that Workers Bank has agreed that the transactions should be cancelled *ab initio* it has not been possible to obtain a release of the hypothecated funds. This money is being pursued vigorously as there can be no logical reason for the continued non payment.

I trust that the above provides you with that which you require at the present time. If you require further details, please let me know.

Kind regards

Yours sincerely


Peter J Standish
cc Ms Marilyn Hill

PRIVATE AND CONFIDENTIAL

Ms Carina Cockburn
Finsac Limited
76 Knutsford Boulevard
Kingston 5
Jamaica

10 April 2000

FSO/JC/PJS

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Dear Carina

STATUS REPORT

In accordance with your request, I set out below the present status of the various streams of work which we are presently undertaking.

Following our previous practice this letter is not meant to be a complete appraisal of progress to date but is intended to and therefore should be read in conjunction with previous reports issued to both the Minister of Finance and Planning and to Finsac Limited in order to have a complete understanding of the issues involved.

WORKERS SAVINGS AND LOAN BANK

Bankers acceptances

US transactions

Despite numerous discussions on the matter, frustratingly the demand letters have yet to be issued. I today telephoned Mr Eatmon and was told that the letters are to be issued this week.

Corporate Resorts Limited share issue

Civil actions

We met with Dunn Cox again on 29 February in order to determine a way forward on the potential claims and I am pleased to report that we were able to make meaningful progress at that meeting. From a tactical point of view Dunn Cox now have agreed that it is preferable to

A list of partners' names is available for inspection at the above address, and at Becket House, 1 Lambeth Palace Road, London SE1 7EU, the partnership's principal place of business. Authorised by The Institute of Chartered Accountants in England and Wales to carry on investment business.

CIBONEY GROUP LIMITED**Civil Proceedings**

We understand that the proposed settlement has been considered by the Board of Finsac and that more detail was requested in order that a decision could be made. We are very pleased to note that there is a distinct possibility that there could be settlement of the civil issues notwithstanding that the criminal actions arising from those papers currently with the DPP are outside the control of the Board of Finsac.

However we would add of note of caution in that there is a need to closely monitor the elapse time during the settlement discussions. Whilst we well understand the natural inclination to refrain from further work on the case until the outcome of the discussions is known we urge you ensure that the preparation of the case is not prejudiced by the temporary cessation of work. If not we could well find a situation where Ciboney is out manoeuvred due to the plaintiffs having been working during this period with little progress on our side.

Criminal Proceedings*Revenue Protection Division and Fraud Squad*

We have heard nothing further from these agencies. At your request we are preparing a list of the further potential criminal offences for your review.

RECEIVERSHIPS**Friends Group Limited**

We have completed our discussions with Mr Ken Tomlinson over the transfer of the hotel operating companies to him and he has now assumed formal responsibility for their administration through his appointment as 'Interim Manager'. The only outstanding hotel matter is the settlement of the completion accounts with Sandals. Despite Dr Pyne informing us some weeks ago that he was ready to meet to discuss the completion accounts he has yet to respond to our request for a definitive time and date.

One matter which will require thought as to how to proceed is the land at Llandovery. This land which is adjacent to Drax Hall was purchased by Friends Group with the stated intention of being used for the development of a hotel together with a number of villas. The concept of the villas was marketed and indeed a small number of persons paid a deposit to secure the right to

future purchase. The whereabouts of those deposit monies is uncertain. As far as we are aware no plans were submitted for the site development. The site suffers from a major disadvantage in that it has no water supply. Currently the site should be vacant although we understand that it may illegally being used for grazing. The present market value is probably very low. We suggest that we discuss the options available to us at our meeting scheduled for the 12th.

Corporate Group Limited

The hoped for sale of Corporate Insurance Brokers Limited did not materialise with the result that the company will go into liquidation. It is intended that Mr Ken Tomlinson be appointed liquidator.

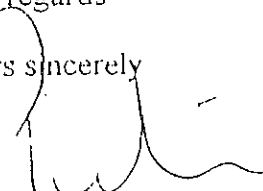
Corporate Life Insurance Company Limited

We understand that the property matters have been resolved in that Workers Bank has agreed that the transactions should be cancelled *ab initio*. It will now be possible to release the hypothecated funds and bring the company to a reasonably clean state.

I trust that the above provides you with that which you require at the present time. If you require further details, please let me know. I look forward to discussing these matters with you on Friday.

Kind regards

Yours sincerely



Peter J Standish
cc Ms Marilyn Hill



**Lindquist
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The Forensic & Investigative Accountants

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PRIVATE AND CONFIDENTIAL

November 5, 1997

Mr. Patrick Hylton
Managing Director
Financial Institution Services Limited
9 Trinidad Terrace
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Roddy Allan CA, CFE
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Ross Hamilton CA, CFE
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Linda Robinson CA, CFE
Todd Shoalts CA, CFE
Jim Szarka MHA, CFE

John Beer BA
Wayne Blackburn BA, CFE
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Glenn Stadtegger LLB, CA
Peter Steger CA, CBV, CFE
Alan Stewart CA
Susan Tremayne CA
Teresa Wanus CA, CFE
Howard Williams CFE

Dear Mr. Hylton:

EAGLE FINANCIAL ENTITIES

Further to our interim status report dated October 2, 1997, I am writing to outline certain significant points which we feel that FINSAC should be aware of in order to assist in the thorough investigation of matters which have arisen to date, as follows:

- We are still awaiting access to the inspection files of the Superintendent of Insurance related to Crown Eagle Life ("CEL"). We are continuing to seek explanations for transactions entered into by CEL with the other Eagle financial entities and these files will assist in this regard;
- We understand that Paul Chen-Young ("PCY") has requested the return of monies which he may have paid as a deposit related to the purchase of penthouse apartment No. 802 at Forte Belle. We are continuing to follow-up on this transaction. We would strongly recommend that no monies be refunded to PCY until our investigation is complete;
- We are carrying out a review of the construction recently conducted at 24 - 26 Grenada Crescent in Kingston, specifically determining what monies, if any, may be owing by Eagle Merchant Bank to various contractors and furniture suppliers. We understand that this building is owned by Ajax Investments (a company owned by PCY) and that renovations totalling approximately

\$61 million were completed during the period 1995 to March 1997. We would recommend that no monies be paid to the contractors until our review is complete. As a result of our review, there may be a claim arising against PCY or Ajax in that significant renovations were carried out so close to the expiry of the lease on November 30, 1997 and there is no apparent benefit to Eagle Merchant Bank for these renovations upon expiry of the lease;

- Regarding Forte Belle, we recommend that no more monies be paid to CFC given the insufficient retention monies which are currently held by CEL to correct deficiencies and in light of CFC's outstanding claim of \$40 to \$50 million against CEL;
- Regarding the construction management issues related to Forte Belle, we have issued recommendations in this area for your consideration, as reflected in the interim status report dated October 2, 1997. We encourage FINSAC to consider these recommendations, specifically related to the hiring of a construction manager to guide completion of floors 8 to 10 and to ensure that the claim submitted by CFC is reviewed and handled appropriately. We believe that Mr. Stoppi may have an inherent conflict in negotiating directly with CFC on this issue;
- In order to fully review and analyze the monies which have been spent by CEL on Forte Belle and to determine why the project went so far over budget, we will require access to the books and records of CFC. Specifically, we would like to complete a detailed review and analysis of CFC's usage of \$800 million paid to them by CEL. We would ask FINSAC and their Counsel to consider how access to CFC's books and records could be obtained. It may be possible to access the books and records as a means of reviewing the claim submitted by CFC, as access to CFC's books and records is required to fully review and assess their claim;
- We are awaiting access to the documentation related to the Eagle Merchant Bank US dollar bank account #0106904863 at Espirito Santo Bank of Florida. We are unable to review the transactions in this account until such access is granted. We understand that there are confidentiality concerns related to our access to this information;
- Regarding the artwork, we understand that no discussions have been held with PCY and/or Ms. Hutson related to the artwork which was removed from the Eagle Merchant Bank and Spanish Court premises in September 1997. Our preliminary review and analysis of the artwork apparently owned by Eagle



Merchant Bank has indicated that the majority of the artwork is not in the current possession of Eagle Merchant Bank. We would seek to obtain information from PCY as to the location of this artwork. We understand that FINSAC is appointing an art expert to assist in the identification and cataloguing of the Eagle Merchant Bank art. In addition, a suitable storage location needs to be located prior to the move from the Eagle Merchant Bank premises scheduled for the end of November 1997;

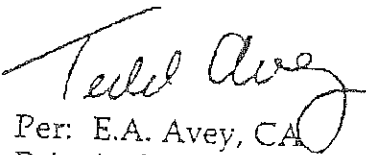
- We understand that Mr. Ken Tomlinson will be attending shortly in the Cayman Islands to carry out various enquiries related to Eagle Holdings (Cayman) Ltd. and Eagle Insurance (Cayman) Company. We would ask that the books and records of these companies be secured as we require access to them. If necessary, Mr. Tomlinson may have to arrange to copy these documents while he is in the Cayman Islands and return a copy to Jamaica for our review and analysis. We have identified many transactions that we would like to review between the Eagle Financial Entities and Eagle Holdings (Cayman) Ltd.

Peter McFarlane and I were unsuccessful in meeting with you during the week of October 27, 1997 to discuss the above-noted issues. We are continuing to review and assess those issues as identified in our status report dated October 2, 1997; however, we wanted to raise the above-noted issues in order to identify areas where we require the assistance and direction of FINSAC.

Once you have had an opportunity to review and consider the above-noted issues, we will be pleased to discuss them with you. Please contact me at my direct line in Toronto or Todd Shoalts at 968-0338 in Kingston.

Yours very truly,

LINDQUIST AVEY MACDONALD BASKERVILLE INC.


Per: E.A. Avey, CA
Principal

mc



Dr The Hon Omar Davies
Minister of Finance and Planning
Ministry of Finance and Planning
30 National Heroes Circle
Kingston 4
Jamaica

24 April 1998

Dear Minister Davies,

CORPORATE GROUP =

**WORKERS SAVINGS and LOAN BANK(WSLB)
CORPORATE MERCHANT BANK LIMITED (CMB)
CAPITAL ASSURANCE BUILDING SOCIETY(CABS)**

I refer to our earlier reports and am writing to provide you with an update of significant developments and the results to date of our investigations into certain areas.

Corporate Group

At 31 December 1997 management accounts show a total of \$2,379.5m due to WSLB, CMB and CABS from Corporate Group, an increase of more than \$1,000m over the balance at 1 January 1997.

In our capacity as Receiver to the Corporate Group we have commenced a detailed review of the receipts and payments within the Corporate Group bank accounts. Our initial findings are that there may be material irregularities including the following:

- amounts paid to third parties for no apparent reason
- US\$ drafts and currency purchased for undisclosed reasons
- Details of payees in the cash book not agreeing to the payee on the cheque
- Payments and receipts omitted from cash book
- Amounts being paid to GoJ in respect of the GCT liabilities of unknown third parties

PAYE Investigation

As previously reported, we discovered that senior executives were not being taxed on their salaries and benefits in accordance with the law. Substantial proportions of remuneration packages were being paid as benefits. With effect from 1 March 1998 we have ensured that salaries and benefits are being properly taxed. This will result in many of the senior executives paying significantly more tax during the 1998 tax year. We have not yet addressed the question of recovery of underpayments of tax in January or February 1998.

The wider problem is that the mis-calculation of the tax payable has existed for a number of years. In accordance with your instructions we have commenced an in depth review of the tax deducted from the salaries and benefits of senior executives during the course of the last 6 years. It is our understanding that the statute of limitations in Jamaica only allows recovery of amounts due from employees and former employees during the last 6 years.

In due course we shall need to consider whether the exercise should be repeated for all staff.

Microloans / USAID

We have now received permission from the Bank of Jamaica to resume the Microloan scheme, with a total limit of \$20m at any one time.

Finware Project

This project relates to the development and implementation of new systems for the branch banking operations. Finware will replace the existing banking, ATM and general ledger systems. \$26 million has already been spent and, at 23 February 1998, a further \$ 88,760,000 (US\$ 2,536,000) is required to be spent to complete the system. One pilot branch is due to commence in June 1998. This system has been conceived in order to keep up with competitor banks and to become Year 2000 compliant.

The successful implementation is crucial to the future operation of the bank and should provide an up to date banking and general accounting system throughout the group.

Work-Out and Recovery Committee

Prior to the appointment the culture within the bank appears to have been that, with one or two exceptions, large non performing debts were not pursued,

We have established a work out and recovery committee which consists of representatives of the senior management in WSLB, CMB and CABS, together with the in house attorney for the group and our representative. We have also obtained the services of Mr David Bisson from the Eagle group of companies.

Our intention is to vigorously pursue all debts due to the bank and where necessary to provide further fully secured finance (within the terms of the undertaking) to viable entities to enable them to repay their indebtedness to the group. Where the debtor provides truthful details of their assets we will seek to compromise with them where they are unable to repay in full and there is no possibility of a workout. Only where the debtor will not co-operate will we resort to winding up or bankruptcy proceedings.

In the case of personal borrowers where we have security we will realise that security. We have asked Myers, Fletcher and Gordon to produce a standard format declaration of assets and liabilities under the provisions of the Voluntary Declarations Act. Any personal borrower who claims to be unable to repay his indebtedness, or the balance after the sale of any security held, will be asked to complete, swear and return the declaration of his assets together with details of his income. On the basis of this information we shall attempt to reach an agreement whereby the assets are sold, the proceeds taken by us (subject to third party charges) and monthly repayments out of income agreed upon. If the debtor will not co-operate then we will have no option other than to pursue him into bankruptcy. The same procedure will be followed to obtain repayment from guarantors.

For corporate borrowers only as a last resort will we consider the appointment of a receiver or the winding up of the debtor. If the debtor is able to provide a sworn statement of assets and liabilities together with a viable proposal whereby the group is to be repaid, with interest, over a reasonable period then we will co-operate in the workout. If the debtor refuses to co-operate we will enforce such security we have

Accounting Deficiencies

We have reported to you previously on the accounting systems which are largely manual and lack many rudimentary controls. The technology is outdated and should be replaced. The quality of many of the staff appears to be low and in some cases the staff are charged with duties clearly beyond their ability. Overtime some employees in key positions should be replaced. The manual nature of the system increases the possibility and likelihood of fraud. The following are some of the specific deficiencies found.

- The system is not able to produce timely management information
- Basic reconciliations are not done regularly.
- The systems are not year 2000 compliant.
- No one person in management has responsibility for the branch accounting system.
- Inter branch accounts have not been reconciled, in some cases, for many years
- It is arguable as to whether CABS keeps proper books of account within the generally accepted definition

We are implementing such short term remedies as are possible, however, the necessary longer term solution will require new people and systems.

Future Strategy

In the case of CMB we are of the opinion that there is no present commercial reason for the continuation of its activities and therefor that it should be wound down and eventually placed into liquidation. However the petition for Winding Up should not be pursued until the strategy for WSLB has been agreed and implemented.

There are very few loans within CABS which come within the type of business normally associated with a building society and the business is not presently viable. Unless it is thought that the value of WSLB is enhanced by the relationship with CABS then CABS should be dealt with in a similar manner to CMB

WSLB is somewhat different. We are of the view that there is commercial value within the bank although considerable rectification is needed before such value could be realised. In order for it to trade as a going concern a substantial capital injection is required both to meet BoJ requirements and to restore confidence. However it is doubtful whether a capital provider could be found prior to that rectification taking place.

The question then arises as to whether the rectification should take place under the control of the present Board or whether you should seek a Vesting Order under the legislation. Given the apparent failure of the Board to carry out corporate responsibilities in the past it must be questionable as to whether it would do so in the future in which case there would seem to be little alternative to proceeding with the Vesting Order process

I would be pleased to discuss the above with you

Yours sincerely


P J Standish

Report

to The Temporary Manager

**Workers Savings and Loan Bank
Corporate Merchant Bank and
Capital Assurance Building Society**

8 April 1998

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PRIVATE AND CONFIDENTIAL

Dr. The Hon. Omar Davies
Minister of Finance and Planning
Ministry of Finance and Planning
30 National Heroes Circles
Kingston 4
Jamaica

8 April 1998

Ref/PJS

Dear Minister Davies

**WORKERS SAVINGS AND LOAN BANK, CORPORATE MERCHANT BANK
LIMITED AND CAPITAL ASSURANCE BUILDING SOCIETY (THE COMPANIES)
(TEMPORARY MANAGER APPOINTED 23 FEBRUARY 1998)**

We enclose our report on certain matters arising from our work since our appointment to the above named entities. Despite the corporate separation of the entities we believe that, in view of the close trading relationships and common management it is more appropriate and meaningful to submit one report to you which we so do.

BASIS OF OUR WORK

Our work, including our advice and any written reports has been based on information provided to us and, to the extent that we have been able, enquiries of and discussions with the management of the Companies. It has not been possible to independently verify much of the information provided to us. We do not express an audit opinion on any of the information contained in our report.

PURPOSE OF OUR REPORT

Our advice and report in writing is addressed to you and our work has been carried out solely for the purpose of assisting you, your advisers and the Bank of Jamaica in connection with assessing the current and future financial position of the Companies. Our advice and reports have been provided in confidence. They may not be used for any other purposes or by any other person, nor may they be made available, unless so required by court order or a regulatory authority, to any other party without our consent in writing. The estimations of financial net worth, budgeted income and expenditure and cash flow projections included within the report are subject to variation which could be material and should not be relied upon for any purpose other than for discussions between ourselves.

SCOPE OF OUR WORK

We have reviewed the financial statements, together with supporting documentation, of the Companies as at 23 February 1998 and budgets for income, expenditure and cash flow for 1998 all provided to us by management. We have also reviewed certain internal controls and operational procedures and the management structure and have made such alterations as we considered necessary in the short term.

The scope of our work has been restricted by the absence of complete financial records and the failure of certain persons to supply relevant information.

GENERAL

We will be pleased to discuss the findings of this report with you in order to determine the next steps forward.

Yours sincerely



P J Standish
For P J Standish and N J Hamilton
Joint Agents for the Temporary Manager

ABBREVIATIONS

ABBREVIATION

WSLB	Workers Savings and Loan Bank
CMB	Corporate Merchant Bank Limited
CABS	Capital Assurance Building Society
BoJ	The Bank of Jamaica
Mr Lindsay	Mr Delroy Lindsay
The Companies	WSLB, CMB and CABS

INTRODUCTION

1

Since our report dated 5 March we have continued to manage the affairs of the companies. We have also been trying to establish a set of financial statements for each company as at 23 February 1998 and a projection of cash flow for the remainder of the year.

Within section 2 of this report we set out details of the assets and liabilities of the companies as at 23 February 1998. We have made adjustments to the statements prepared by management in order to reflect what we believe is a more realistic position. At section 3 are the key findings from our review of the loans portfolios more fully reported in our report dated 6 April 1998, and at Section 5 are details of the projected cash flows for 1998. We understand that all of the companies may be liable to pay considerable penalties to BoJ. We have not included any estimates of this liability in this report, save that some of the cash flow forecasts do include estimates.

There is no doubt that all three entities will continue to breach a number of liquidity and other financial requirements until such time as they are recapitalised. We have not sought to set out all such breaches at this stage.

We have reviewed the present management team capabilities and comment thereon in section 4.

During our appointment we have become increasingly concerned at the large number of what we believe are breaches of not only legal requirements but normal commercial prudence. We are continuing to investigate these matters but thought it necessary to set out a number of examples at this stage in order that you are aware of such matters at this time. These examples are also set out at section 4.

NET ASSETS AT 23 FEBRUARY 1998

2

We attach at Appendix A copies of the draft unaudited balance sheets for WSLB, CMB and CABS at 23 February 1998.

The estimated excess of liabilities over assets, on a best and worst case basis, for WSLB, CMB and CABS can be summarised as follows:

Best Case

	WSLB \$m	CMB \$m	CABS \$m	Total \$m
Deficiency shown in management accounts	3508.0	431.0	895.4	4834.4
Estimated further provision	2830.7	250.0	122.0	3202.7
Estimated total deficiency	6338.7	681.0	1017.4	8037.1

Worst Case

	WSLB \$m	CMB \$m	CABS \$m	Total \$m
Deficiency shown in management accounts	3508.0	431.0	895.4	4834.4
Estimated further provision	4404.8	308.1	293.8	5006.7
Estimated total deficiency	7912.8	739.1	1189.2	9841.1

Our estimates of total deficiencies on a best and worst case basis are based on the deficiencies shown in the draft unaudited accounts at 23 February 1998, adjusted by the increase in the loan provisions contained in our report dated 6 April 1998 and any further provision which we consider necessary in respect of non - loan assets. We have not provided for any penalties payable to BoJ, although these may be substantial if the estimates produced by CABS are accurate. As you are aware we have not conducted an audit and have relied upon the information and records provided by management. Accordingly, we have not carried out any tests to establish the completeness of the liabilities. Our estimates of the further provisions necessary are set out below.

NET ASSETS AT 23 FEBRUARY 1998

2

WSLB

The draft accounts disclose assets of \$8,159,371,450 and liabilities of \$11,667,253,737, which represents an excess of liabilities over assets of \$3,507,882,287. Based on our loan review we consider that this underestimates the deficiency. In addition we consider that, on the basis of our desk top review of the draft accounts and our previous reports to BoJ a number of further provisions should be made in respect of other assets.

	BEST \$m	WORST \$m
Loan loss provision in management accounts	2385.8	2385.8
Estimated provision (see report dated 6 April 1998)	5152.1	6305.0
Additional loan loss provision	2766.3	3919.2
Further provisions		
Investment in subsidiaries	60.0	64.0
Other securities	4.4	4.4
Other assets		256.8
Freehold land and buildings, equipment etc.		160.4
Estimated total provision	2830.7	4404.8

Investments in subsidiaries consist of ordinary shares and preference shares in CMB valued at \$60m and ordinary shares in WBF. CMB is insolvent and the shares have no value. On a best case basis the shares in WBF may realise their book value but on a worst case basis have no value.

Included in other securities are shares in Friends Group Limited valued at \$4.4m. Friends Group is in receivership, has a deficiency of net assets and therefore the shares have no value.

Other assets include the following

	\$M
Due from Brandmaster	121.2
Cost of Finware project	106.0
Interest due from CABS	29.6
	256.8

NET ASSETS AT 23 FEBRUARY 1998

2

The value of the investment in the Finware project is dependant on whether the project is completed and on a worst case basis has no value. We consider it prudent to provide in full for the interest due from CABS on a worst case basis. On a worst case basis we have provided in full for the amount due from Brandmaster.

On a worst case basis we have estimated that a provision of 25% should be made against freehold land, buildings and equipment.

CMB

The draft accounts disclose assets of \$838,769,695 and liabilities of \$1,269,741,848 which represents an excess of liabilities over assets of \$430,972,153. Based on our loan review we consider that this underestimates the deficiency. In addition we consider that, on the basis of our desk top review of the draft accounts and our previous reports to BoJ a number of further provisions should be made in respect of other assets.

	BEST \$m	WORST \$m
Loan loss provision in management accounts	182.1	182.1
Estimated provision (see report dated 6 April 1998)	383.8	434.5
Additional loan loss provision	201.7	252.4
Further provisions:		
Other assets	30.7	38.1
Other securities	17.6	17.6
Estimated total provision	250.0	308.1

Included in other assets are the following

	\$m
Non current loan interest	0.152
Non current demand interest	7.714
Non current instalment interest	5.261
Non current management interest	0.342
Long Pond receivable	15.833
Uncollected interest	1.352
Receivable from CABS	7.429
	38.083

We consider that on a worst case basis full provision should be made in respect of these amounts but that on a best case basis the amount due from CABS will be realised.

NET ASSETS AT 23 FEBRUARY 1998

2

Other securities include an investment of \$17.560m in Long Pond. We consider that full provision should be made against this amount.

NET ASSETS AT 23 FEBRUARY 1998

2

CABS

The draft accounts disclose assets of \$802,631,735 and liabilities of \$1,698,020,386 which represents an excess of liabilities over assets of \$895,388,651. Based on our loan review we consider that this underestimates the deficiency. In addition we consider that, on the basis of our desk top review of the draft accounts and our previous reports to BoJ a number of further provisions should be made in respect of other assets.

	BEST \$m	WORST \$m
Loan loss provision in management accounts	246.0	246.0
Estimated Provision (see report dated 6 April 1998)	368.0	486.3
Additional loan loss provision	122.0	240.3
Further provisions:		
Freehold land and buildings		53.5
Estimated total provision	122.0	293.8

On a worst case basis we have estimated that a provision of 25% should be made against freehold land, buildings and equipment. CABS may become liable to pay penalties to BoJ. We have not increased the estimated total provision to reflect this liability. However, it should be noted that in their monthly cash flow projections CABS estimate total penalties will exceed \$130m by the end of 1998.

LOAN LOSS PROVISIONS

3

We have more fully set out our findings of our review of the loan loss provisions in our report to you dated 6 April 1998. Below we set out the key findings from that review.

Results of loan review

The loan portfolios for WSLB, CMB and CABS have been reviewed as at 23 February 1998. We estimate that the portfolios may realise:

	Total book value \$m	Estimate to realise (High) \$m	Estimate to realise (Low) \$m
WSLB	7,557.1	2,405.0	1,252.1
CMB	466.2	82.4	31.7
CABS	680.6	312.4	194.2

Our classification of the loan portfolios is as follows:

Classification	WSLB		CMB		CABS	
	Book value		Book value		Book value	
	\$m	%	\$m	%	\$m	%
Pass	193.6	2.6	1.8	0.4	0.0	0.0
Watch	69.2	0.9	10.8	2.2	6.1	0.9
Substandard	150.7	2.0	5.5	1.2	100.4	14.8
Doubtful	1,591.9	21.0	7.7	1.7	51.2	7.5
Loss	5,551.7	73.5	440.4	94.5	522.9	76.8
Total	7,557.1	100.0	466.2	100.0	680.6	100.0

LOAN LOSS PROVISIONS

3

LOAN PORTFOLIOS RECOMMENDED PROVISIONS

We estimate that the following provisions should be made against the loan portfolios:

	WSLB	CMB	CABS
	\$m	\$m	\$m
Book value	7,557.1	466.2	680.6
High ERV	5,152.1	383.8	368.0
Low ERV	6,305.0	434.5	486.3
Companies' provisions at 31.12.97	4,625.6	323.3	392.9

We have confirmed that the source of data for calculating our provisions is the same as that used by the Companies.

COLLATERAL

The loan portfolios of WSLB, CMB and CABS are inter-linked.

Collateral security for loans in many cases is poorly recorded.

There is no central record of collateral.

The Legal Department lacks a manager with the skills to ensure that this function is completed in a timely and effective manner.

Collateral is frequently incompletely registered or documented. In a formal foreclosure it may be found to be unreliable and invalid.

Many real estate collateral valuations are not current. The depressed real estate market places doubt on the effective realisations of such collateral in the current economic climate.

LOAN LOSS PROVISIONS

3

CREDIT CONTROL

The most recent summary of delinquent debtors at the date of this report is dated 31 January 1998.

The delinquency of the loans appears to be due in part to Mr Lindsay disenfranchising the credit control function through personal but unrecorded intervention.

Instances have been found of loans being sanctioned by the same staff who are then responsible for controlling the credit on the same debtor.

A number of performing loans are charged at a preferential rate of interest. Application of a commercial rate to these loans may cause the debtor to default.

Records of aggregate exposure to debtors across all Companies are not maintained thus preventing monitoring of such debtors.

Accounting records are fragmented, incomplete and audit trails cannot easily be established.

Detailed statements of account could not be extracted for many loans.

Control of the loan portfolio has been conducted with poor regard to authorised and enforced credit limits.

In our view the Risk Management Department lacks a manager with the skills, qualifications and energy to drive forward the Credit Control function.

The credit committee does not perform a systematic frequent review of debtor exposure. At the time of our review monthly branch loan delinquency reports as at 28 February 1998 have not all been submitted. The Credit Committee does not therefore have adequate timely information to make informed decisions.

Branches are supposed to submit monthly non-performing debtor reports to head office. These are assigned to staff in risk management to pursue. Despite this the credit control decisions are not followed through in a timely manner.

The Companies have no system for assigning a credit rating to debtors.

LOAN LOSS PROVISIONS

3

BANKERS ACCEPTANCES

Receivables totalling \$2.08bn relating to bankers acceptances which originated in the books of CMB appear to have been transferred to WSLB during 1997. The reason for this transfer is unclear. We are currently examining the legal basis of these transactions since no formal assignment of these receivables appears to have taken place.

We have not investigated any impact or infringement that this action may have on BoJ regulations regarding deposit taking.

DOCUMENTATION

There does not appear to be a system for checking the Companies' exposure to any one borrower across all locations of each of the Companies.

There is no central database for loans or collateral, despite the existence of an in-house Legal Department.

The quality of credit files, ledger records and collateral files is frequently poor and inconsistent. This will affect the ability to recover certain of the debts.

There may be some loans that are unrecorded in the general ledger returns submitted by the branches. At this time we have not investigated this matter fully and cannot comment further.

STATUTORY BREACHES

Booked interest on non performing debts has been written off in full for some loan balances but for others has continued to be included in the general ledger rather than written off in line with Section 17 of the Banking Act 1992, as amended.

There are examples of large loans being made with little or no documented evidence of the purpose of these loans, the current financial standing of the applicant or the economic purpose of the loan. This contravenes provisions made in Section 8 of The Act.

Loans made to related parties should have been declared at board meetings of WSLB or CMB under the terms of The Act (First Schedule, Part 2). As yet we have not reviewed the minute books of the Companies to determine whether they were correctly declared, and if so, whether they were correctly sanctioned by the board of directors.

The loan portfolio review has highlighted many instances where the undertaking given by WSLB to BoJ dated 6 August 1996 has been materially breached, for example, by the taking of inadequate security for loans and the continuation and increase of loans to connected parties.

LOAN LOSS PROVISIONS

3

ACCOUNTING ISSUES

Interest on loans did not reconcile fully to the general ledger for a number of branches and head office codes.

Management has not been able to provide reconciliations of all inter-company bank balances. We cannot therefore state with certainty the correct balances between each company.

Management has not been able to provide reconciliations of all suspense accounts. At this time we are therefore unable to state with certainty whether or not there are any additional loans that should be properly recorded in the accounts as such.

The accounting functions at WSLB, CMB and CABS are extremely weak. The requisite skills, internal controls and procedures normally expected within such financial institutions are absent.

The methods used by the Companies to ensure that credit is only taken for interest in accordance with BoJ requirements means that the records for total interest due are unreliable. In addition a number of old loans have been written off and are now excluded from the books of account. We are presently correcting this position.

MANAGEMENT OF THE COMPANIES

4

We have been reviewing the present management structure and the capabilities of the individual members of the team. We have made a number of redundancies within the junior management area. We are of the opinion that, moving forward, WSLB will need to recruit two senior persons, namely a Chief Executive Officer and a Debt Recovery Unit Manager. These persons will be needed to ensure that the necessary drive and lack of association with the past are present within WSLB. It may be necessary to recruit others in addition, particularly in the finance area, but these are less urgent.

We have sighted a number of instances where we consider that the Companies businesses have been administered in a manner inconsistent with generally accepted banking and building society practice and in many cases in direct contravention of the Undertakings given to BoJ by the Boards of WSLB, CMB and CABS and dated 6 August 1996. We are continuing our investigations into a considerable number of matters but we set out below examples of our findings

ARDERNE LIMITED

The records show that this company is owned 50% by CABS with the remaining shares being held by Mr Arthur Barrett (also a director of the company). On 7 September 1994 the shareholding was acquired from CMBI for the sum of \$4,325,302. CABS has advanced the sum of approximately \$121,000,000 secured on a property known as 3 Hopefield Avenue Lady Musgrove Road St Andrew. At the date of the loan advance the property value was unknown. Contrary to normal policy at the time no personal guarantees were obtained. The authority for the loan was given by Ms Grace Palmer outside of the normal company lending procedures. Since the date of the advance the debt has not been serviced with the result that the present debt is at least \$220,000,000 compared with a best case property valuation of \$11,800,000

The available records are incomplete and do not demonstrate that the loan was commercially viable at the outset nor do they demonstrate that the debt has been monitored and pursued when it became delinquent. Notwithstanding any breach of the undertaking referred to above the loan advance, and indeed, the investment itself are not the type of asset normally associated with a building society.

ARTHUR BARRETT

In November 1996 \$12,000,000 was advanced to Mr. Barrett, which was to be secured on land at Llandovery. The advances were made up as follows:

US\$ 230,000 payable to Kelly's Tractors Ltd
US\$20,000 payable to Arthur Barrett
J\$ 3,200,000 payable to Horizon Merchant Bank Ltd

MANAGEMENT OF THE COMPANIES

4

Although the approval was given on the basis that security over land at Llandovery would be provided the advances were made before security was given and before the loan application form had been completed. Subsequently security was offered over land at Lillyfield and Elgin Hall. However, that land was registered in the name of Llandmid Ltd. We understand that CABS does have a charge over this property.

CABS has requested, but not received, a copy of the valuation on the land. At 24 February 1998 only two payments have been received by CABS and the total due is now in excess of \$16,000,000.

On 16 March 1998 formal demand was made against Mr. Barrett for repayment.

NENAN LIMITED

Nenan is a company owned and controlled by Neville and Nancy James. Neville James is a director of WSLB and CMB. In July 1994 Nenani borrowed \$5,000,000, secured by a charge over property at 41a Half Way Tree Road, Kingston, 10. At this date Mr. James already owed \$4,577,629 to CMB and the loan due from CABS was used to extinguish this liability, with the balance going to Mr. James. By November 1994 arrears of \$937,726 had built up on the account and by 31 December 1995 the principal and interest outstanding amounted to \$8,654,138. Formal demand for repayment was issued on 17 January 1996.

The property was scheduled to be auctioned on 2 May 1996 but was withdrawn when an amount of \$1,000,000 was promised in reduction of the indebtedness. However, only \$250,000 was received.

Formal demand was again issued on 19 August 1996, this time in the sum of \$9,770,122. It was agreed that Mr James be given 4-6 weeks to arrange a private treaty sale of 41a and the adjoining property, 41b. The sale did not take place. The property was again entered for auction on 4 September 1997 and again withdrawn when \$200,000 were received together with a promise to regularise the account. The account has not been regularised and the indebtedness has grown to \$13,523,174 at 28 February 1998, with daily interest accruing at \$6,665.76.

CHARTER HOUSE INVESTMENTS LIMITED

We understand that this company is jointly owned by Mr Lindsay and Mr Wayne Richardson and they are the only directors. In April 1994 CABS granted a mortgage loan of \$2,000,000 against the security of a residential property at 8, Upper Musgrave Avenue St Andrew. At the date of the advance the property was valued at \$1,466,000. The loan became delinquent during 1997 and the society foreclosed and subsequently sold the property. However the proceeds were insufficient to cover the loan and there is a shortfall

MANAGEMENT OF THE COMPANIES

4

of \$2,700,000. The Society has now advised the company that unless the balance is paid by the 30 April 1998 it will instruct lawyers to take appropriate action. We have subsequently given instructions that in the event that the loan is not repaid by the required date the Society will seek to obtain a Winding-Up order on the grounds that the company is unable to pay its debts, and in addition, the personal guarantees are to be called immediately.

Legal reasons notwithstanding in our view it is totally inappropriate for the Chief Executive and sole beneficial shareholder of the Society to be the personal guarantor for a loan and allow that loan not only to become delinquent but also to cause the Society to foreclose and suffer loss.

CORPORATE GROUP LIMITED

The Companies total exposure to Corporate Group increased during 1997 from \$1373.3 at 1 January to \$2379.5 at 31 December as follows:

	1 January 1997	31 December 1997
	\$m	\$m
WSLB	936.0	2149.3
CMB	304.0	183.6
CABS	33.3	46.6
	1373.3	2379.5

In our view no prudent executive of a financial institution would have allowed the exposure to Corporate Group to continue at the amounts outstanding at the beginning of the year let alone allowed any increase.

No audited accounts of the borrower are available subsequent to 1995 and the management accounts at 31 December 1996 showed an insolvent position with shareholders' deficiency of net worth of \$387m. Our desk top review of these accounts indicates a more realistic figure to be at least \$500m.

There is no evidence within the WSLB files to show any systematic review of the exposure nor is there any evidence that the position was reviewed by the Credit Committee. Commercial reasons aside any increase in these amounts is a direct breach of the undertaking of 6 August 1997 referred to above.

MANAGEMENT OF THE COMPANIES

4

CORPORATE GROUP LIMITED

By an agreement dated 19 July 1991 Corporate Group contracted with WSLB to provide:

- Chief Executive Officer (on secondment)
- Management services 'provided by skilled individuals'

The contract includes the clause- 'Corporate Group shall, to the best of its ability, render Management Services to Workers in the best interest of Workers and its shareholders and in a proper and business-like manner.'

The contract was terminated by us immediately after our appointment.

In our view if the Boards of WSLB and Corporate Group had carried out their duties in an appropriate manner clearly they would have seen that the contract was not being complied with, not least in the conduct of WSLB business with Corporate Group. Both Boards surely should have taken steps to correct the situation at a much earlier stage thus reducing the substantial losses which have been incurred.

EMPLOYEE TAXATION

Subsequent to our appointment we instigated a review of the senior employee records in order to ensure that the appropriate taxation rules were being complied with. A summary of our findings was submitted to you by letter on 2 April. It is clear that, for a considerable period of time employees have deliberately been remunerated without the appropriate taxation having been deducted.

HOWARD MCINTOSH

Mr. McIntosh is a director of CMB and WSLB. Mr. McIntosh has two loans in his own name and three in the name of Genesis Consultants Limited, a company which we believe he controls. At 31 January 1998 the following amounts were outstanding with CABS:

Borrower	Account Number	Total Due \$m
Genesis	800253	8.4
Genesis	800712	11.3
McIntosh	403905	4.2
Genesis	204297	3.8
McIntosh	204487	1.0
Total		28.7

MANAGEMENT OF THE COMPANIES

4

Only loans number 204297 and 204487 are performing.

Contrary to laid down policy, the loans were advanced without the security documentation being completed and in the case of the loans to Genesis without any personal guarantees by the directors. We understand that despite repeated requests Genesis has not provided security for the loans and nor have any guarantees subsequently been received from Mr McIntosh nor other directors of Genesis.

Instructions will be given to make formal demand for repayment where the loans are delinquent either because of non-payment or the failure to provide security or guarantees.

INVESTMENTS IN SUBSIDIARY COMPANIES OF CORPORATE GROUP LIMITED

During 1997 \$3m was advanced by Corporate Group to Consumer Brands Limited and, during 1998 \$5m was advanced by Corporate Group to Corporate Insurance Brokers Limited, both companies being subsidiary companies of Corporate Group. The only method of funding these two advances was to increase the indebtedness of Corporate Group to WSLB. The Chief Executive of both Corporate Group and WSLB was the same person namely Mr Lindsay and therefore he ought to have known that by causing Corporate Group to make such advances he was causing WSLB to breach the Undertaking of 6 August 1996.

FRIENDS GROUP LIMITED

At 23 February 1998 \$958.3m had been advanced to Friends Group Limited by WSLB.

At 31 October 1996, after the undertaking had been requested by BoJ, the amount due to WSLB was \$616m. The security for this indebtedness is inadequate and, in one case, invalid due to incomplete documentation. Full details are included in our report on the loan portfolios dated 6 April 1998.

CASH FLOW

5

The Companies' management has prepared, and we have reviewed, profit & loss account and cashflow forecasts for the ten month period covering March to December 1998. Our best estimate, based on the stated assumptions, is that the Group will require additional funding of around \$1.8 bn over this period. The requirement, split by company, is as follows;

	<i>\$'million</i>
WSLB	1,500
CMB	174
CABS	92
Total	1,766

Of the \$1.5 bn WSLB requirement, most has already been spent and approximately \$1.1 bn during the period relates to BoJ and Finsac interest.

There may be a funding requirement for the Corporate Group or Friends Group receiverships, but it is too early to conclude on this.

You will appreciate that there is a great deal of uncertainty surrounding the future of the Group at the present time, and that forecasting is extremely difficult. We have assumed that the existing position will remain broadly the same over the period, but that the customers and depositors will gain in confidence to some degree, as the hiatus initially caused by the temporary managership is overcome.

A key assumption applied is that deposits will remain at a similar level throughout. To the extent that depositors funds are withdrawn, an additional funding requirement will arise. The progress of actual results against budget should be monitored, and it is likely that some assumptions will need to be amended as circumstances change. Not all penalties potentially payable regarding breaches of liquidity requirements are included in the budgets, for example.

The cashflow or net asset position of the Group could be improved in the longer term by a mix of the following options, which need to be considered:

- Subletting, removal from or sale of part or all of the Group's head office
- Gaining economies of scale by combining two or more financial institutions under BoJ or Finsac control

CASH FLOW

5

- Further redundancies, including redundancies at branches
- Finsac purchasing impaired debt at original book values

WSLB

WSLB has a book capital deficiency of \$5.6 bn at 28 February 1998, compared to \$3,508 at 23 February 1998. This is after making additional provisions against the loan book, which brings the carrying value down to \$2,699 m. This compares to the estimate of realisable value in our loan book review of \$2,405 m (high) and \$1,251 m (low), and is therefore broadly in line with the "high" value.

Its operations have been supported by BoJ funding, a portion of which has been converted to a Finsac debenture.

WSLB has been unable to meet the BoJ's requirement to maintain liquid assets at 47% of deposits held, 25% of which should be in cash.

It should be noted that WSLB/ CMB officers consider it possible that a substantial amount (up to \$400 m) of BoJ penalties have yet to be debited to the account, and have written to BoJ to clarify the situation. This is not allowed for in the cashflow and would increase the estimated deficiency.

Profit & loss account forecast

WSLB is forecast to incur a trading loss of \$1.5 bn in the ten month period, after accounting for BoJ and Finsac interest of \$1.1 bn.

The value of deposits now exceeds the estimated realisable value of the loan book. Interest income is also less than interest paid to depositors.

Cashflow forecast

The cashflow forecast is attached at Appendix B.

WSLB is forecast to require funding of around \$1.5 bn after allowing for BoJ and Finsac interest of \$1.1 bn. At the end of December, the BoJ overdraft would be \$205 m and the total of balances converted to debentures would be \$8.9 bn. This compares to the February balances of \$5 bn BoJ funding and \$2 bn of Finsac debentures.

The cashflow is highly sensitive to the timing of conversion of BoJ debt to debentures, because of the interest rate differential.

Finware costs are allowed for, together with a cash outflow in the first three months arising from deposits being withdrawn and new funds being extended (mainly to Horizon).

CASH FLOW

5

The principal assumptions applied in constructing the forecasts were as follows;

- Deposits remain at a static level, apart from a \$200 m reduction in March.
- Additional facilities of \$435 m provided to Horizon after 23 February, under Finsac's guarantee, will be repaid in July.
- Except as above, loan repayments will be matched by new lending from April onwards. If this is not achieved the funding requirement would decrease in the short term, but interest income would also decrease.
- The majority of BoJ funding (attracting interest at 28%) will be converted to a Finsac 15% debenture in May.
- The London operation will be closed in May, saving overheads of \$1.5 m per month.
- The Finware computerisation project will continue, costing \$88 m and completing in October. A further \$6 m is included in the CABS cashflow. To meet this deadline, a decision on the project would need to be made by the end of May.
- No interest income is recognised on the CABS overdraft or on the Horizon debt extended before 23 February.
- No recoveries will be made from suspended debt. In the past, WSLB has in fact generated funds from this source.
- The acceptances book will terminate by the end of April. It is assumed that customers will not roll over their funds.

CMB

CMB has a capital deficiency of \$465 m at the end of February, compared with \$431m at 23 February 1998. (This is due to further provisions being made by management in the month end accounts.) However, the carrying value of the loan book was \$196 m, which compares with the estimated realisable values from our loan book review of \$82 m (high) and \$31 m (low). The deficiency therefore seems understated.

It is now a small operation with little active business, and only two staff. WSLB provides any necessary support.

CASH FLOW

5

Profit & loss account forecast

Customer deposits of \$1.1 bn significantly exceed the value of the loan book. Interest receivable is the only significant source of revenue and a trading loss is therefore inevitable. Interest income does not currently cover staff and administrative overhead.

A loss of \$191 m is forecast for the ten month period.

Cashflow forecast

The cashflow forecast is attached at Appendix C. Although CMB remains cash negative after June, existing cash resources are adequate to support the company until the end of the year.

CMB will not be able to meet its liquid asset requirement of 35% of deposits, 17% of which must be in cash. No penalties are included in the forecast.

CABS

CABS has accumulated trading losses of \$1 bn and a capital deficiency of a similar amount. Continued operations are currently dependant on WSLB funding through the overdraft account, which stood at \$801 m at the end of February. We have previously informed you that WSLB intends to continue to fund CABS until a decision is made on the future of the Group, unless you advise us to the contrary. This is, strictly speaking, contrary to the terms of WSLB's undertaking.

The mortgage loan book totals \$367 m, net of provisions. This compares to the estimated net realisable value in our loan book review of \$312 m (high) and \$194 m (low), and hence we believe the book to be underprovided. The book includes a \$76 m managed portfolio for WSLB staff members, at a preferential interest rate of 6%.

The book is out of line with the value of savings and share deposit accounts, which has been decreasing since 1996 and now amounts to \$764 m. The trend has been as follows;

At 31 Dec 1995	At 31 Dec 1996	At 31 Dec 1997	At 28 Feb 1998
\$ million	\$ million	\$ million	\$ million
1,059	1,128	838	764

A net outflow of \$56 m occurred between 24 and 28 February, immediately after the Temporary Manager appointment.

CASH FLOW

5

CABS has been unable to meet the qualifying level of 27% of deposits to be on-lent as residential mortgages. As a result, the liquid asset requirement increases from 5% to 11% of deposits, all to be held in cash. This has not been complied with, and penalty charges from BoJ have been incurred. This position is expected to continue throughout 1998.

The minimum capital requirement of \$25 m has not been met, since the balance sheet is in deficit. For the same reason, the requirement that fixed assets should not exceed the value of the capital base has not been met.

Profit & loss account forecast

Trading losses are inevitable in view of the mismatch noted above between deposits and the value of the performing loan book. The forecast assumes receiving interest on loans at an average rate of around 25% and paying interest to depositors at around 24%. Interest paid to depositors is forecast to exceed interest earned by \$83 m.

After adding administration overheads of \$24 m, interest on the WSLB overdraft of \$413m (which will not actually be paid) and other costs, a loss for the ten months to 31 December 1998 of around \$515 m is forecast.

Cashflow forecast

CABS will require additional funding of approximately \$92 m for the period to the year end, which is roughly equivalent to the trading losses less the overdraft interest accrued that will not be paid. The cashflow forecast is attached at Appendix C.

The principal assumptions that have been applied are as follows;

- Deposits will remain at an even level throughout the period. They have decreased in the recent past, but it is hoped that the stability afforded by the temporary managership will improve the position.
- Mortgage repayments of around \$21 m will be received, which is equivalent to 6% of the performing loan book.
- A certificate of deposit of \$50 m with Horizon has been cashed. This will improve cashflow, but harm the liquid asset position.

APPENDIX A

BALANCE SHEET AS AT FEBRUARY 23, 1998.

**LIABILITIES, SHAREHOLDERS' EQUITY
& SPECIAL DEBTENTURE**

	<u>1998</u>	<u>JANUARY</u>	<u>1998</u>	<u>JANUARY</u>
CAPITAL				
Authorized:				
300,000,000 Ordinary Shares @ 50c each	150,000,000	150,000,000	150,000,000	150,000,000
Issued and Fully Paid				
159,189,360 Ordinary Shares @ 50c each	83,079,875	83,079,875	83,079,875	83,079,875
Capital Reserve (Revaluation)	20,142,966	20,142,966	20,142,966	20,142,966
Share Premium	89,758,596	89,758,596	89,758,596	89,758,596
Reserve Fund	11,412,000	11,412,000	11,412,000	11,412,000
Profit & Loss Account (Deficit)	(3,712,960,306)	(3,712,960,306)	(3,704,128,875)	(3,704,128,875)
SPECIAL DEBENTURE				
(3,508,567,069)	(3,508,567,069)	(3,508,567,069)	(3,499,735,636)	(3,499,735,636)
884,783	884,783	884,783	884,783	884,783
(3,507,682,286)	(3,507,682,286)	(3,507,682,286)	(3,499,050,855)	(3,499,050,855)
8,159,371,450	8,159,371,450	8,159,371,450	8,025,240,586	8,025,240,586
OTHER ASSETS				
DANS (Less Provision for Loan Losses (\$2,380,767,440))	4,551,304,867	4,359,244,844	4,551,304,867	4,359,244,844
Customers' Liabilities Under Acceptances, Guarantees and LC's as per Contra	653,062,429	761,137,892	653,062,429	761,137,892
Freehold Land & Buildings, Equipment at Cost Less Accumulated Depreciation (\$119,322,667)	641,623,851	936,851,279	641,623,851	936,851,279
Other Assets	491,502,725	492,185,628	491,502,725	492,185,628
PLACEMENTS WITH SUBSIDIARIES: Loans to Subsidiaries:	0	0	0	0
National Housing Trust	1,786,189,005	1,881,974,497	1,786,189,005	1,881,974,497
	180,009	180,009	180,009	180,009
	1,786,369,015	1,882,154,506	1,786,369,015	1,882,154,506
	8,159,371,450	8,025,240,586	8,159,371,450	8,025,240,586

WORKERS BANK

BALANCE SHEET AS AT FEBRUARY 23, 1998.

LIABILITIES, SHAREHOLDERS' EQUITY
& SPECIAL DEBENTURE

A S S E T S

	<u>1998</u>	<u>1998</u>
	<u>JANUARY</u>	<u>JANUARY</u>
<u>CASH RESOURCES</u>		
Notes of, Deposits with, and Money at Call at B.O.J. and P.M.G.	1,052,784,444	1,079,934,283
owed by Other Banks and Financial Institutions	106,159,714	151,720,434
Cheques and Other Instruments in Course of Collection	438,401,301	331,231,700
	1,600,342,460	1,562,486,428
<u>INVESTMENTS</u>		
Government of Jamaica L.R.S. (At Cost)	-	-
Subsidiaries	64,000,000	64,000,000
Treasury Bills (Face Value)	0	0
Other Securities	157,355,110	167,355,110
	221,355,110	221,355,110
<u>DEPOSITS</u>		
Customers' Deposits: Demand Savings Time	1,607,098,358 1,914,749,914 384,826,120	1,428,220,365 1,918,006,062 395,258,145
	3,906,674,392	3,741,484,572
<u>OTHER LIABILITIES</u>		
Owed to Govt. Lending Agencies	48,959,137	47,273,579
Owed to Other Banks & Local Financial Institutions	6,666,363,485	6,542,651,491
Cheques & Other Instruments in Course of Payment	74,419,665	101,321,865
W.B. Liabilities for Acceptances, Guarantees & L/C's as per Contra	653,062,429	761,137,592
Due to Govt. of Jamaica	34,149	34,149
Deposits by Subsidiaries	3,217,929	132,835
Other Liabilities	296,622,551	330,255,368
	7,760,579,345	7,782,606,869

CORPORATE MERCHANT BANK LIMITED

BALANCE SHEET AS AT FEBRUARY 23, 1998

ASSETS	ACTUAL	PREVIOUS MONTH	VARIANCE	LIABILITIES	ACTUAL	PREVIOUS MONTH	VARIANCE
CASH RESOURCES:				DEPOSITS:			
Notes of Deposits with & Money on Call at B.O.J.	243,058,404	243,058,404	0	Customer's Deposit: SAVINGS	0	0	0
Owed by other Financial Inst.				: OTHER	1,128,089,137	1,153,316,418	(25,227,281)
Bank Account	202,702,688	169,144,815	33,557,873		1,128,089,137	1,153,316,418	(25,227,281)
Cash	1,000	1,000	0				
	445,762,092	412,204,219	33,557,873	OTHER LIABILITIES:			
INVESTMENTS:				Gov't Lending Agencies	0	0	0
Treasury Bills	0	0	0	Owed to other Banks & Local			0
Other Securities	33,930,020	38,411,020	(4,481,000)	Financial Institutions	5,391,826	5,391,826	0
	33,930,020	38,411,020	(4,481,000)	Bank Overdraft	0	0	0
LOANS (Less provision for loan losses (\$ 181,133,147))	213,175,659	273,109,543	(59,933,884)	Liabilities for Acceptance.			
				Guarantees & L/C as per Contra	82,905,485	82,905,485	0
OTHER ASSETS:				Other Liabilities	53,355,399	59,165,066	(5,809,667)
Customers' Liabilities under Acceptance, Guarantees and L/C's as per Contra	82,905,485	82,905,485	0		141,652,710	147,462,378	(5,809,667)
Freehold Land & Building				SHAREHOLDERS' EQUITY CAPITAL.			
Equip. at Cost Less Accum. Depreciation (\$ 5,330,856)	5,160,452	5,160,452	0	Issued and Fully Paid			
Goodwill	0	0	0	30,000,000 Ordinary Shares @ \$1.00 ea	30,000,000	30,000,000	0
Other Assets	57,845,987	57,668,169	179,819	30,000,000 Preference Shares @ \$1.00 ea	30,000,000	30,000,000	0
	145,901,924	145,722,105	179,819	Statutory Reserve	14,037,440	14,037,440	0
	838,769,695	869,446,887	(30,677,192)	Retained Earnings	(488,910,067)	(488,910,067)	0
				Profit & Loss A/C	(18,098,525)	(18,459,280)	359,756
					(430,972,153)	(431,331,908)	359,756
					838,769,695	869,446,887	(30,677,193)

CAPITAL ASSURANCE BUILDING SOCIETY
BALANCE SHEET AS AT FEBRUARY 23, 1998.

10/03/1998

03:55 PM

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	NOTE/PAG	%	ACTUAL	BUDGET	ACTUAL	ACTUAL	ACTUAL	ACTUAL
			\$	\$	31/12/97	30/11/97	31/10/97	30/9/97
CURRENT ASSETS								
CASH AND BANK	14	0%	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00
BOJ - CASH RESERVES		2%	12,425,529.62	12,425,529.62	12,425,529.62	12,425,529.62	12,425,529.62	12,425,529.62
INTEREST RECEIVABLE	10	0%	2,665,479.45	1,813,513.49	1,651,068.49	126,446,158.61	125,332,733.96	124,530,377.80
INVESTMENTS/STERM DEPOSITS	2 & 10	11%	90,000,000.00	291,899,200.00	90,000,000.00	90,000,000.00	90,425,000.00	90,425,000.00
SHARE INVESTMENTS	2 & 10	4%	28,851,183.58	48,679,340.98	28,679,340.98	39,108,947.48	44,404,545.03	49,700,142.59
ACCOUNTS RECEIVABLE/PREPAY.	3	0%	628,212.84	1,003,049.09	708,834.74	1,421,608.94	1,258,241.28	1,155,380.32
TOTAL CURRENT ASSETS		17%	134,574,405.49	722,915,233.54	133,488,773.83	289,406,244.65	273,850,048.89	278,240,430.33
MORTGAGES/LOANS	2	46%	369,250,152.06	227,805,133.97	355,840,277.24	346,178,970.93	426,781,479.77	548,512,559.79
MORTGAGES-MANAGED PORTFOLIO	2	9%	75,988,637.01	80,372,280.00	79,488,307.73	82,248,223.96	84,629,119.53	85,359,511.82
DUE FROM AFFILIATED COMPANIES	7 & 10	1%	8,816,225.98	6,196,354.50	8,177,864.50	43,348,284.67	42,573,470.05	42,590,767.37
FIXED ASSETS	4	27%	214,002,314.31	4,294,590.24	215,048,315.19	215,506,592.75	215,488,011.27	215,929,034.02
TOTAL ASSETS		100%	802,831,734.85	1,045,172,238.35	792,023,338.49	956,788,418.96	1,043,302,130.61	1,170,632,303.33
CURRENT LIABILITIES								
OVERDRAFT	14	92%	742,059,048.14	40,135,678.46	653,144,057.44	582,209,440.38	539,087,107.53	507,535,235.01
DUE TO AFFILIATED COMPANIES	7 & 10	1%	5,010,082.32	814,355,402.42	4,586,402.42	9,426,480.26	10,044,988.68	12,539,345.46
TAXATION PAYABLE		0%	-	-	-	-	-	-
INTEREST PAYABLE		0%	46,176,498.05	40,135,678.46	42,174,081.52	40,763,736.54	38,080,879.35	34,853,564.40
ACCOUNTS PAYABLE/ACCRUALS	5	11%	85,124,981.04	8,625,535.44	78,634,836.69	71,563,186.43	67,105,506.41	62,814,521.26
SAVINGS ACCOUNTS	6	1%	11,406,944.80	11,160,124.51	12,885,820.01	12,839,757.49	13,511,577.03	13,459,708.24
SHARE DEPOSIT ACCOUNTS	8	101%	808,242,831.67	1,049,100,922.28	825,371,563.39	870,712,106.45	886,062,152.96	883,279,989.89
TOTAL CURRENT LIABILITIES		212%	1,898,020,388.02	1,632,895,420.44	1,616,846,861.57	1,567,514,708.53	1,553,892,211.96	1,514,482,364.28
SHARE CAPITAL		7%	59,500,000.00	59,500,000.00	59,500,000.00	59,500,000.00	59,500,000.00	59,500,000.00
REVENUE RESERVES/(DEFICIT)	11	-119%	(858,469,018.08)	(745,623,302.63)	(883,806,656.48)	(893,806,656.48)	(573,670,448.28)	(406,930,427.84)
GENERAL RESERVES		0%	46,769.00	46,769.00	46,769.00	46,769.00	46,769.00	46,769.00
STATUTORY RESERVE FUND		0%	3,633,597.91	3,633,597.91	3,633,597.91	3,633,597.91	3,633,597.91	3,633,597.91
LONG TERM LIABILITIES		-112%	(895,388,651.17)	(75,543,775.61)	(824,523,223.08)	(630,726,289.57)	(510,590,061.35)	(343,850,060.93)
TOTAL LIABILITIES		100%	802,831,734.85	1,045,172,238.35	792,023,338.49	956,788,418.96	1,043,302,130.61	1,170,632,303.33

APPENDIX B

We shall continue to review the operation of the network but save for the possible closures mentioned above, and possibly one or two senior executives in due course, we do not envisage any further redundancies. However this is subject to the future course to be followed by the companies.

Head Office Property

In August 1995 WSLB entered into a contract with Higgs & Hill for the construction of a head office building for the Corporate Group of companies at 12 Trafalgar Road, Kingston. The contractual cost was \$250,000,000.

We believe that WSLB financed substantially all of the building cost but that certain amounts were paid by WSLB were treated as advances to other group companies. If this is correct then in the books and records of these group companies the advance would appear as an addition to fixed assets with a corresponding increase in the amount shown as due to WSLB. It is relevant to note that at this time there was probably no real possibility of the group companies being able to repay their indebtedness to WSLB. Our immediate concern, for the reasons stated above, is that whilst WSLB appears to have financed substantially the whole of the development, by various routes, this was not reflected in the proposed division of the title.

Deloitte & Touche, the company's auditors, share our concern and suggest that these transactions are reversed, leaving WSLB as the sole owner, or that WSLB takes charges over those parts of the building transferred and forecloses.

We understand that title to the land at 12 Trafalgar Road is registered in the name of Formidable Ltd, a wholly owned subsidiary of WSLB. At the date of appointment Patterson, Phillipson and Graham, the lawyers acting for the group, were in the process of registering stratified titles for the building in the names of various companies in the group. It was proposed that WSLB would retain 57% of the building, CABS 34% and Corporate Life Insurance Company Limited (CLICO) 9%. However, as WSLB occupied 65% it would be required to pay rent to CABS and CLICO.

We have instructed Myers, Fletcher and Gordon to act and to obtain the files of Patterson, Phillipson and Graham. Work on the proposed stratification has been stopped until we can obtain further advice and the result of the further investigations are known.

Reconciliation of Inter Branch Accounts

We are concerned that transactions between branches have, in some cases, not been reconciled for a number of years. We believe that the unreconciled differences may disguise further losses. We have set up a small team to work through and reconcile all inter branch accounts and where possible we will seek to recover any losses. We will report to you further on this matter in due course.

In order to obtain the complete picture it is necessary to recreate the books and records of the company. When this work is complete we shall report to you separately on this matter.

Executive Changes, Present Management Structure and Future Requirements

We have determined the key responsibilities which we believe are appropriate for WSLB, CMB and CABS. We have reviewed staffing levels within the group and as a result the following executives together with a small number of junior staff have been made redundant:

Mr Delroy Lindsay

Mr Howard McIntosh

Mrs Faye Sampson

Ms Anne-Marie Grant

Mrs Edris Thompson

The number of employees at the date of appointment and today are as follows:

	23 February 1998	24 April 1998
WSLB	499	463
CABS	16	16
CMB	3	3
	518	482

It is our view that there is an acute shortage of management skills in a number of areas. We have not sought to recruit to address this shortage but this will become necessary in a very short time.

We have reviewed with management the branch network and opening hours. We have agreed with management's view that Saturday opening should be discontinued. Accordingly, 25 April 1998 will be the last Saturday on which WSLB and CABS are open for business. Prior to the appointment, management were considering the closure of two branches (Negril and Ocho Rios) and two sub-branches (Golden Grove and Treasure Beach) on the basis that they are loss making. The closures would result in approximately 16 redundancies only as most staff would be absorbed into the remaining network. There would be a loss of deposits as people transferred their accounts to other banks. We have asked for a detailed viability study to be produced in order that we can consider the matter further.



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Private and confidential

Mr David Wan
Finsac Limited
76 Knutsford Boulevard
Kingston 5
Jamaica

26 January 2001

KE/PJS

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Direct Fax: 020 7951 2095

E-mail: pstandish@cc.ernsty.co.uk

Dear David

Status Report

In accordance our reporting requirements, I set out below the present status of the various streams of work that we are presently undertaking.

Following our previous practice this letter is not meant to be a complete appraisal of progress to date but is intended to be, and therefore should be, read in conjunction with previous reports issued to both the Minister of Finance and Planning and to Finsac Limited in order to have a complete understanding of the issues involved. However, as agreed, this report does contain more detail than would normally be the case in order that you may more readily assimilate the current situation. When reading this report it should be borne in mind that the previous report was dated 3 November 2000 and that persons from the Ernst & Young team have been present on the Island for only very limited periods since that date.

The work carried out during the past year or so is best considered in four work streams and I set out below the status under the relevant heads.

WORKERS SAVINGS AND LOAN BANK

Banker's acceptances

There were a considerable number of bankers acceptance transactions conducted by the bank and by Corporate Merchant Bank prior to the appointment of the Temporary Manager in February 1998. The majority of the borrowers were related or 'friendly' parties and in many cases there had never been any repayment by the borrowers to the investors, as repayments became due the original principal and the accumulated interest were funded by further borrowings. The result was that the original borrowings were 'rolled' many times which coupled with the high interest rates prevailing at the time and, in the case of \$US borrowings, the fall in the value of the \$J meant that the borrowings became substantial debts.

In order to institute recovery proceedings it was necessary to provide a documented trail of the various debts. As in many areas of the Bank, the records were not properly maintained and it was agreed that

- A list of partners' names is available for inspection at the above address, and at Becket House, 1 Lambeth Palace Road, London SE1 7EU, the partnership's principal place of business.

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we, together with assistance from Finsac personnel, would attempt to create documentation of an adequate standard in order to commence recovery. Also, it was agreed that we should concentrate initially on the \$US transactions the reason being that there were a small number of high value transactions with the result that the cost of the exercise compared with the potential recovery was more beneficial than the \$J transactions.

The initial work concentrated on the borrowings associated with Messrs Lindsay and McIntosh. Considerable progress was made in the construction of adequate trails and the details of the Lindsay related company (Linpat) borrowings were passed to Dunn Cox in order that they could issue the demand letters. These were issued and a response has been received from Linpat.

We ceased carrying out detailed work on these transactions towards the end of July 2000 and handed the papers to Mr Denis Lawrence in order that he could continue to create the recovery papers.

Corporate Resorts Limited share issue

Civil actions

During the course of our work carried out in order to ascertain the status of debts due to the Bank it became apparent that the substance of certain transactions relating to the Corporate Resorts Limited (now Friends Group Limited) were not as recorded in the books of account. In summary the position was that the response to the public issue was such that the required minimum was not achieved and in order to hide the reality an intricate web of loans was created to provide the cash so that the issue would be fully subscribed and appear to have been a success. However no funds were generated to repay the loans with the result the original loan of \$185m now exceeds \$1m.

In order to recover the loans it was agreed between Dunn Cox, Finsac and ourselves that the series of transactions would be divided into a number of parts since by doing so it would make the litigation process more manageable and would create a higher likelihood of success.

The first Suit (95/99) was brought by the Bank against Corporate Resorts and others for the recovery of the initial subscription monies. Similar actions were brought by other Government agencies. The progress of these cases is such the Writs and Statements of Claim have been issued and Defences received and responded to. The next stage is the Discovery process for which an inventory of the files that we considered needed to be reviewed by Dunn Cox as part of that process was prepared in July 2000. Ms Nerine Small and Ms Yolande Whitely have reviewed a number of the files but were unable to complete the process due other client commitments. We understand that the work will be completed by the end of this month. We are most anxious that this review be carried out without further delay as the review may well identify further documents required and the passing of time only makes further investigations more difficult due to the changes of record location and the reduction of available resource within Finsac.

The second Suit (13/2000) was brought by Corporate Life Insurance Company Limited (CLICO) against Lindsay and others for the recovery of further monies in the loans saga. The substance of the claim is that the purchase of two companies, namely Trevia Limited and Victronic Limited, by CLICO from companies in the Horizon Group was a sham and that the reality was that the payments were a further chapter in the disguising of the original loan of \$185m together with interest accrued. The Writs and Statements of Claim relating to the action have been finalised and filed. We understand that service

Denis Lawrence → has just started. But doesn't need Peter to come for this. Nothing to discuss with him right now
re Horizon however, he has provided Peter with back-up documentation.

26 January 2001 3

still has been effected on only three of the defendants and that the remaining defendants will be served as soon as their present whereabouts are known.

The third Suit was filed in the name of Eagle Permanent Building Society being the entity now holding the assets and liabilities of Capital Assurance Building Society (CABS). The substance of the claim is that a some of money paid to Horizon Building Society ostensibly as a deposit was in fact yet another chapter in the disguising of the original loan of \$185m together with interest accrued. We are advised that the Writs and Statements of Claim have been finalised and the service has been effected on a number of the Defendants. No further progress has been made. Considerable thought was given as to whether Mrs Mary Powell should be included in the action. Whilst she was not a director of CABS at the time the money left the company she was appointed soon after and would, or should, have become aware of the true nature of the payment. It was agreed that Mrs Powell should be given the opportunity to cooperate with the investigation in which case she would not be included in the action. It is now clear that the cooperation is not forthcoming and consequently Dunn Cox has been instructed by Finsac to make her a Defendant.

A key part of the investigations into the facts surrounding the second and third Suits is the part played by companies within the Horizon Group. Following the acquisition of these companies by Finsac the records have been extremely difficult to locate due to the loss of person familiar with the records and several changes of location of the records. An inventory of the Horizon records has recently been completed following which it has been possible to make progress in ascertaining nature of the transactions as recorded in those records. However there still remains much work to do in this area, in our view this work should be proceeded with all due haste and resource as the completion is key to the satisfactory conclusion of the Suits.

Criminal actions

We have prepared reports for the DPP on the circumstances concerning first two Suits. Despite the reports having been in his possession for some considerable period of time we have heard nothing from him on these matters. The report on the circumstances concerning the third Suit requires completion.

CIBONEY GROUP LIMITED

Civil Proceedings

We are very pleased to note that this matter now appears to be settled. At the time of writing we understand that completion of the settlement is imminent.

Criminal Proceedings

A number of reports have been prepared and submitted to the DPP with, to date, no action taken. We have expressed to the Minister and the Financial Secretary our concern at this lack of progress. The Financial Secretary has agreed to facilitate a meeting attended by the DPP and ourselves in order that we can attempt to move forward.

RECEIVERSHIPS

Friends Group Limited

Mr Ken Tomlinson has continued to complete the final matters outstanding within the hotel operating companies. Agreement has been reached for the assets and liabilities of the operating companies to be transferred to Friends Group.

Corporate Group Limited

There are again no matters to report at this time other than the sale of shares in Island Broadcasting Limited. This sale is being negotiated by Finsac, in view of the number of shareholdings in the company in which they are involved. The proceeds will be received into the Receivership account in the normal manner.

Corporate Life Insurance Company Limited

We are pleased to report that the release of the hypothecated funds has now been agreed and that settlement with all the policyholders has now been reached. The company will now be deregistered as an insurer and be left with only the litigation outstanding.

I trust that the above provides you with that information which you require at the present time. If you require further details, please let me know.

Kind regards

Yours sincerely

Peter J Standish

Peter Standish
29/01/2001 18:32

To: dpwan@finsac.com@INTERNET
cc:
Subject: Future Work

David

Following our conversations whilst I was on the island I have given thought as to the work I believe should be carried out in the near future and I set out below my conclusions. The work divides into two areas, namely the ongoing support to, and 'brodding' of, Dunn Cox and the investigative work necessary to complete the evidence. I deal with each separately. I have assumed that the Ciboney case is settled and that no further work is required, to the extent that it is we can respond as necessary.

1 Dunn Cox

It is some time since we had a review meeting with Dunn Cox at which meaningful progress was made. I have been pressing for a detailed discussion of each of the three cases for some time. This discussion would go into some detail of the cases with the objective of DC pointing out where they considered that further evidence would strengthen the cases. I may be being a little harsh but it seems to be usual with DC that settling up these meetings is the only way to fire them into action.

I need to discuss with Dennis Morrison, as a matter of some urgency, the matter of service of two of the writs on Lindsay. He was off island during my last visit and so I was not able to have a discussion at that time.

Got You will be aware from our conversation that it was my intention to request the Minister to facilitate an independent review of case progress. He did agree to give my request full consideration, such review may dictate the timing of a progress meeting as it would be useful for us to meet with the independent reviewers.

2 Investigative Work

The main areas of work requiring completion are the investigation of those transactions involving the Horizon Group and the completion of the report of the CABS case for the DPP.



As far as the latter point is concerned I attach cookburn04.11.00.doc a letter which sets out the reasoning for the completion.

The need to complete the Horizon work with all due haste now is becoming more apparent than ever. It has been clear for a long time that a number of the Horizon companies were used to facilitate the construction of the web of borrowings. However due to the absence of the records a number of educated guesses had to be made concerning the evidence and the Statements of Claim in order that the claims did not become statute barred. A large number of the records have since been located and it is important that the precise evidence as to the facts is located as soon as possible and that the implications as far as the cases are concerned are considered and any necessary action taken. It was evident from my conversation with the Minister and the FS that the involvement of Horizon, particularly as the Group is under the control of Finsac, needs to be resolved without delay.

Denis Lawrence continues to work on this matter but it does need a joint effort both in terms of resource and experience to bring matters to a conclusion reasonably quickly.

As far as timing is concerned I have reviewed my diary and have the following dates available:

Feb 12-16 inc

Feb28-Mar2 inc
Mar8/9
Mar12-16 inc.

In order to maximise cost/ benefit it is clearly preferable to have a 5 day period if possible. However I believe that March 12 is too distant, particularly in view of the need to discuss the Lindsay writ service with Dennis Morrison. One further point to bear in mind is that the FS has agreed to facilitate a meeting with the DPP. To make a decision earlier rather than later is therefore desirable in order to have the maximum chance of arranging the meeting.

I trust that the above gives you a clear picture as I see it but please do give me a call if you need to.

Regards

Peter

Private and confidential

Ms Carina Cockburn
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30 National Heroes Circle
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4 November 2000

JC/PJS

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E-mail: pstandish@cc.ernsty.co.uk

Dear Carina

CABS

Following our various conversations I have given some thought as to the resource requirement necessary to prepare a report for the DPP on those transactions within the Friends Group share issue matter that affect CABS.

The work falls into two areas namely the further collection of information and interviewing of witnesses and secondly the preparation of the report together with the necessary exhibits. As far as witnesses are concerned there are a number of persons who have information that is pertinent to the case. However I have strong doubts as to whether the investment of time in a number of individuals, eg, Mr Arthur Barrett would be commensurate with the output. The one person whom I consider to be of potential value is Ms Dayon Worrell who was the Acting General Manager of CABS for a period of time and who was always cooperative in our dealings with her. She is now resident in New York but we do have a contact number for her. Most of the other information is now to hand although it would need to be collated for the report.

On the basis that we see Worrell and prepare the report I estimate that it would take approximately two weeks for each of Neville Creighton and Brian Boyce and a little of my own time. In order to minimise travelling time and costs the preparation for the Worrell interview would be carried out in London utilising copies of documents that we have in London and by obtaining from Jamaica those which we do not have here. Neville and Brian would subsequently travel to New York for the interview and then follow on to Jamaica in order to complete and submit the report including exhibits.

It must, of course, be a decision for Finsac as to whether this work is carried out. However it is my view that it would be beneficial not only for the DPP but also for the civil case in that it will bring together in one volume the facts and merits of the case which would be of assistance to the case lawyers.

■ A list of partners' names is available for inspection at the above address, and at Becket House, 1 Lambeth Palace Road, London SE1 7EU, the partnership's principal place of business.

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In terms of timing I would like to have the report completed by the end of the year. However given the need to obtain the Finsac decision and then to make arrangements with Ms Worrell it may not be possible.

I trust that the above will enable you to make a recommendation to Patrick but if you do require further information please let me know.

Kind regards

Yours sincerely

Peter J Standish

Peter Standish

To: dpwan@finsac.com@INTERNET

cc:

01/03/2001 18:30

Subject: RE: Future Work

Sorry, I should have said March 12.

----- Forwarded by Peter Standish/03917H/Audit/London/ErnstYoung/GB on 01/03/2001 18:30 -----

Peter Standish

To: dpwan@finsac.com@INTERNET

cc:

01/03/2001 17:56

Subject: RE: Future Work

David

Have you any further thoughts on a visit during w/c March 5. I am anxious not to leave the arrangements such that there is inadequate time to properly arrange the meetings, particularly the FS/DPP.

Since writing the previous note I have reviewed further papers on Horizon sent to me by Denis Lawrence. I have today written to him suggesting that a full report be prepared. Please call if you wish to discuss.

Regards

Peter

----- Forwarded by Peter Standish/03917H/Audit/London/ErnstYoung/GB on 01/03/2001 17:50 -----

Peter Standish

To: David Wan <dpwan@finsac.com> @
INTERNET@EYGB_LMS@EYGB_EXT

cc:

05/02/2001 20:38

Subject: RE: Future Work

David

Thank you for dealing with the fees, I will check tomorrow on the status of the transfer.

I well understand the point on costs and have no intention, unless requested, to assist Christine and Denis with their cases. However, please do not forget that I am still trying to tie up a number of loose ends on the cases with which we have been dealing, which includes 'prodding' the DPP.

Incidentally, I believe it is not too arrogant to say that if it had not been for our constant pressure on the lawyers during the early stages of the Ciboney case the chances of achieving any settlement would have been nil and I am sure that I do not need to repeat to you my numerous pleas to Finsac, the Minister etc. to press the DPP on both the Ciboney and WSLB cases.

I look forward to hearing from you.

Regards

Peter

David Wan <dpwan@finsac.com>



David Wan
<dpwan@finsac.com>

05/02/2001 18:36

To: Peter Standish/03917H/Audit/London/ErnstYoung/GB@EYGB
cc:

Subject: RE: Future Work

Peter,
By now you should have recieved the wire transfer, if not , please advise.

At this point, I think there needs to be an evaluation of the modus operandi of the Forensic Unit. By this I mean that we need to put in place a person, in house, who can provide Dennis and Christine with guidance on the cases they are pursuing, with feedback from yourself occasionally.

There is a strong feeling that we need to advise you when we need a checkpoint, and to make sure that we don't consume resources that won't have an impact on the success and throughput of the department.

For example, someone published in the papers that Giboney had spent 96 million dollars on the case against Rousseau et al. We will have to justify every penny spent on the Forensic effort, given that the public is saying "not one of the owners of failed financial institutions has been sent to prison".

What I am saying Peter, is that I need to take a step back and evaluate the total picture re:Forensic, before I can recommend that your March 12th trip be approved.

I'll be back to you shortly.

David Wan

-----Original Message-----

From: Peter STANDISH [mailto:pstandish@cc.ernsty.co.uk]
Sent: 05 February, 2001 12:50 PM
To: dpwan@finsac.com
Subject: Future Work

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David

I have reflected further on my email to you of 29 January and have rethought my views on the optimum timing for further work.

Whilst I still believe that next week was desirable I think I may have been optimistic to believe that all the arrangements which need to be made could be so made in the time available, particularly the meeting with the FS/DPP.

I now suggest that the week commencing 12 March is the appropriate week to visit. This would allow time for all the necessary meetings to be scheduled and, on the assumption that the CABS DPP report is finalised, would also allow me to be there at the time of its completion.

I would appreciate your views on the above.

Regards

Fater