

NATIONAL BUILDING SOCIETY OF CAYMAN

Audited Financial Statements  
Years ended March 31, 2001 and 2000  
with Report of Independent Auditors

National Building Society of Cayman

Audited Financial Statements

Years ended March 31, 2001 and 2000

**Contents**

|  |   |
|--|---|
| Report of Independent Auditors .....                   | 1 |
| Audited Financial Statements                           |   |
| Balance Sheets .....                                   | 2 |
| Statements of Operations and Accumulated Deficit ..... | 3 |
| Statements of Cash Flows .....                         | 4 |
| Notes to Financial Statements .....                    | 5 |

## Report of Independent Auditors

The Board of Directors and Shareholders  
National Building Society of Cayman

We have audited the accompanying balance sheets of National Building Society of Cayman (the "Society") as of March 31, 2001 and 2000, and the related statements of operations and accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in Note 1 in the financial statements, the Society incurred a net loss of \$880,661 during the year ended March 31, 2001 and, as of that date, the Society's total liabilities exceeded its total assets by \$413,482. The Society is in the process of negotiating the sale of additional shares in the Society to provide financing to support its operations. Without such financial support there is substantial doubt that the Society will be able to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the entity is unable to continue as a going concern.

In our opinion, except for any adjustments which may be necessary should the Society not continue as a going concern, the financial statements referred to above present fairly, in all material respects, the financial position of National Building Society of Cayman as of March 31, 2001 and 2000, and of the results of its operations and its cash flows for the years then ended in accordance with International Accounting Standards.

*Ernst & Young*

July 20, 2001

# National Building Society of Cayman

## Balance Sheets (Stated in Cayman Islands Dollars)

|   | March 31     |              |
|---|--------------|--------------|
|   | 2001         | 2000         |
| <b>Assets</b>                               |              |              |
| Liquid funds                                | \$ 282,843   | \$ —         |
| Other receivables                           | 27,568       | 97,087       |
| Loans                                       | 3,641,230    | 5,216,734    |
| Interest receivable                         | 31,082       | 42,481       |
| Fixed assets                                | 29,308       | 37,720       |
|   | \$ 4,012,031 | \$ 5,394,022 |
| <b>Liabilities and shareholders' equity</b> |              |              |
| <b>Liabilities:</b>                         |              |              |
| Bank overdrafts                             | \$ —         | \$ 78,590    |
| Savings and investment shares               | 3,741,891    | 4,739,407    |
| Interest payable                            | 121,519      | 80,625       |
| Loans sold under agreement to repurchase    | 415,000      | —            |
| Other liabilities                           | 147,103      | 28,221       |
| Total liabilities                           | 4,425,513    | 4,926,843    |
| <b>Shareholders' equity:</b>                |              |              |
| Paid-up proprietary shares                  | 595,600      | 595,600      |
| Accumulated deficit                         | (1,009,082)  | (128,421)    |
| Total shareholders' (deficit) equity        | (413,482)    | 467,179      |
|   | \$ 4,012,031 | \$ 5,394,022 |

*See accompanying notes and Report of Independent Auditors.*

# National Building Society of Cayman

## Statements of Operations and Accumulated Deficit (Stated in Cayman Islands Dollars)

|   | <b>Year ended March 31</b> |                     |
|---|----------------------------|---------------------|
|   | <b>2001</b>                | <b>2000</b>         |
| <b>Interest income</b>                                |                            |                     |
| Loan interest   | \$ 587,265                 | \$ 575,370          |
| Interest from investments and bank balances           | 575                        | 3,930               |
| Less adjustment for interest on non-accrual basis     | (196,492)                  | (135,435)           |
|   | <u>391,348</u>             | <u>443,865</u>      |
| <b>Interest expense</b>                               |                            |                     |
| Interest on savings shares                            | 23,902                     | 33,177              |
| Interest on investment shares                         | 295,975                    | 303,724             |
| Overdraft interest and bank charges                   | 12,999                     | 9,814               |
|   | <u>332,876</u>             | <u>346,715</u>      |
| Net interest income                                   | 58,472                     | 97,150              |
| Recovery of (loss due to) fraud and misappropriations | (142,755)                  | 59,574              |
| Provision for loan losses                             | (475,757)                  | (43,300)            |
|   | <u>(560,040)</u>           | <u>113,424</u>      |
| Net interest (expense) income after provisions        |                            |                     |
|   | (560,040)                  | 113,424             |
| Other income  | 68,799                     | 129,101             |
| Operating expenses                                    | (389,420)                  | (384,239)           |
|   | <u>(880,661)</u>           | <u>(141,714)</u>    |
| <b>Net loss for the year</b>                          |                            |                     |
| (Accumulated deficit) retained earnings:              |                            |                     |
| At beginning of year                                  | (128,421)                  | 13,293              |
| At end of year  | <u>\$ (1,009,082)</u>      | <u>\$ (128,421)</u> |

*See accompanying notes and Report of Independent Auditors.*

# National Building Society of Cayman

## Statements of Cash Flows (Stated in Cayman Islands Dollars)

|   | <b>Year ended March 31</b> |                  |
|---|----------------------------|------------------|
|   | <b>2001</b>                | <b>2000</b>      |
| <b>Operating activities</b>   |                            |                  |
| Net loss for the year   | \$ (880,661)               | \$ (141,714)     |
| Adjustments to reconcile net loss to liquid funds provided by operating activities: |                            |                  |
| Depreciation  | 14,641                     | 12,901           |
| Provision for loan losses   | 475,757                    | 43,300           |
| Provision for bad debts   | (8,492)                    | 48,069           |
| Recovery of provision for fraud/misappropriation                                    | —                          | (59,574)         |
| Changes in operating assets and liabilities:  |                            |                  |
| Other receivables   | 78,011                     | 24,916           |
| Interest receivable   | 11,399                     | 92,523           |
| Net borrowings under bank overdraft   | (78,590)                   | 78,590           |
| Interest payable  | 40,894                     | 27,069           |
| Loans sold under agreement to repurchase  | 415,000                    | —                |
| Other liabilities   | 118,882                    | 12,827           |
| Liquid funds provided by operating activities                                       | <u>186,841</u>             | <u>138,907</u>   |
| <b>Investing activities</b>   |                            |                  |
| Net movement in loans   | 1,099,747                  | (359,580)        |
| Purchase of fixed assets  | (6,229)                    | (19,977)         |
| Liquid funds provided by (used in) investing activities                             | <u>1,093,518</u>           | <u>(379,557)</u> |
| <b>Financing activities</b>   |                            |                  |
| Net movement in savings and investment shares                                       | (997,516)                  | (235,573)        |
| Liquid funds used in operating activities   | <u>(997,516)</u>           | <u>(235,573)</u> |
| Net change in liquid funds during the year  | 282,843                    | (476,223)        |
| Liquid funds:   |                            |                  |
| At beginning of year  | —                          | 476,223          |
| At end of year  | <u>\$ 282,843</u>          | <u>\$ —</u>      |
| <b>Supplemental disclosure of cash flow information</b>                             |                            |                  |
| Interest received for the year  | \$ 402,747                 | \$ 400,953       |
| Interest paid for the year  | \$ 291,982                 | \$ 271,670       |

*See accompanying notes and Report of Independent Auditors.*

# National Building Society of Cayman

## Notes to Financial Statements

March 31, 2001

### 1. Organisation

National Building Society of Cayman (the "Society") was incorporated under The Building Societies Law (Revised) of the Cayman Islands on October 5, 1992. Its principal activities are granting home loans, operating savings accounts, and trading in foreign exchange in the Cayman Islands.

During the year ended March 31, 2001, the Society incurred a net loss of \$880,661 (2000: \$141,714) and, as of that date, the Society's total liabilities exceeded its total assets by \$413,482. These conditions may cast significant doubt about the Society's ability to continue as a going concern.

On February 9, 2001, a Special General Meeting was called by the Board of Directors to approve a resolution to enable the creation of a special class of shares to be designated "Special Proprietary Shares Series A" within the framework of the rules of the Society. Issue of these shares is the prelude to their purchase by Jamaica National Building Society ("JNBS") to obtain a majority interest in and control of the Society under a previously proposed agreement. Under terms of the agreement, JNBS would provide a substantial investment package to facilitate liquidity support of the Society to see to its resuscitation and viability. This will result in an overall investment of approximately \$1,000,000. JNBS has provided interim management expertise to address the immediate issues facing the Society and to manage the day-to-day affairs of the Society during the period required to complete the process of procuring controlling voting rights and management of the Society.

Professional management was contracted in March 2001 and an aggressive program begun to implement internal controls, collection of problem assets and re-staffing of the Society with trained personnel. In the months following introduction of new management, the Society has improved its liquidity by converting problem assets to cash and hiring experienced personnel. While the work of rehabilitation continues, the Society has begun to address the way forward. In June 2001, the Society signed a three-year lease in a large commercial development (Trinity Square) to house its operations. Acquisition of this facility is in keeping with a Business and Marketing Plan initiated by JNBS for the future operation of the Society. The Plan is an extensive document which further underscores the commitment of the Society to overcome the past and move confidently into the future.

### 2. Significant Accounting Policies

The Society's financial statements are prepared in accordance with International Accounting Standards and are stated in Cayman Islands Dollars. The following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

*See Report of Independent Auditors.*

National Building Society of Cayman  
Notes to Financial Statements (continued)

**2. Significant Accounting Policies (continued)**

**Loans**

Loans are recorded at their principal amount outstanding less a provision for possible loan losses. The provision is maintained at a level considered adequate to provide for potential loan losses. The level of the provision is based on management's evaluation of the loan portfolio, which takes into consideration prevailing and anticipated business and economic conditions.

Interest income on loans is credited to revenues based upon loan principal amounts outstanding at appropriate interest rates. When it is determined as a result of management evaluation procedures that the payment of interest or principal on a loan is doubtful of collection, the loan is placed on a non-accrual basis. Any interest accrual on a loan placed on a non-accrual basis is reversed and charged against current earnings when appropriate.

**Fixed Assets and Depreciation**

Fixed assets are recorded at cost, and depreciated on a straight-line basis over 5 years, except for new computer hardware and software which are depreciated over 3 years.

**Loans Sold under Agreement to Repurchase**

The Society has sold certain loans to the Jamaican National Building Society under an agreement to repurchase these loans on April 4, 2001. Loans sold under the agreement to repurchase are treated as collateralized financing transactions and are recorded at their contracted repurchase amounts plus accrued interest. The Society is required to deliver, as collateral, the loans sold under the agreement to repurchase to the Jamaican National Building Society.

**Foreign Currencies**

Balances denominated in foreign currencies at the balance sheet dates are translated at the rates of exchange ruling on that date. Transactions in foreign currencies are converted at the rates of exchange ruling on the dates of those transactions. Realised and unrealised gains and losses arising from fluctuations in exchange rates are included in the statements of operations.

**Commitment Fees**

Commitment fees are calculated at 1% to 2% of the loan amount and are recorded as income in the statements of operations in the period in which the loan is granted.

**Disclosures about Fair Value of Financial Instruments**

International Accounting Standard No. 32, "Financial Instruments: Disclosure and Presentation," requires the disclosure of fair value information about financial instruments, whether or not recognised in the financial statements, for which it is practicable to estimate the value. The carrying amounts of all financial instruments in the balance sheets are reasonable estimates of fair value.

*See Report of Independent Auditors.*



# National Building Society of Cayman

## Notes to Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Taxation

There is currently no taxation imposed on income or capital gains by the Government of the Cayman Islands. As a result, no tax liability or expense is recorded in the financial statements.

### 3. Liquid Funds

|                        | March 31          |             |
|------------------------|-------------------|-------------|
|                        | 2001              | 2000        |
| Cash and bank balances | \$ 282,843        | \$ -        |
|                        | <u>\$ 282,843</u> | <u>\$ -</u> |

### 4. Other Receivables

|                              | March 31         |                  |
|------------------------------|------------------|------------------|
|                              | 2001             | 2000             |
| Other receivables            | \$ 67,145        | \$ 145,156       |
| Less provision for bad debts | (39,577)         | (48,069)         |
|                              | <u>\$ 27,568</u> | <u>\$ 97,087</u> |

### 5. Loans and Interest Receivable

|                                 | March 31            |                     |
|---------------------------------|---------------------|---------------------|
|                                 | 2001                | 2000                |
| Mortgage loans                  | \$ 4,165,563        | \$ 5,265,310        |
| Less provision for loan losses: |                     |                     |
| Beginning balance               | (48,576)            | (5,276)             |
| Change                          | (475,757)           | (43,300)            |
| Ending balance                  | <u>(524,333)</u>    | <u>(48,576)</u>     |
|                                 | <u>\$ 3,641,230</u> | <u>\$ 5,216,734</u> |

*See Report of Independent Auditors.*

# National Building Society of Cayman

## Notes to Financial Statements (continued)

### 5. Loans and Interest Receivable (continued)

The maturity distribution of the loan portfolio is as follows:

|                     | March 31     |              |
|---------------------|--------------|--------------|
|                     | 2001         | 2000         |
| Within 10 years     | \$ 1,684,506 | \$ 2,469,620 |
| Between 10-20 years | 2,066,418    | 1,970,326    |
| Over 20 years       | 414,639      | 825,364      |
|                     | \$ 4,165,563 | \$ 5,265,310 |

The loans bear interest generally at approximately 12% p.a. except for related party loans which are negotiated at preferential rates.

Consistent with most Building Societies with similar lending and deposit-taking activities, the management of mismatched maturity positions is ultimately based on management's reasonable expectations of future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e., within one year) and that the effect of such changes could be material to the financial statements.

It is management's belief that the Society's liquid funds together with maturing loans will be sufficient to cover any net withdrawal from savings or investment shares over the next twelve months.

The Directors have determined that provisions for loan losses of \$524,333 (2000: \$48,576) on loans are adequate as of March 31, 2001.

The Directors have also determined that interest receivable of \$196,492 (2000: \$135,435) should be placed on a non-accrual status as of March 31, 2001.

The loans are repayable in monthly installments of principal and interest, and are primarily secured by a first charge on real estate in the Cayman Islands.

Of the mortgage loans, 12% (2000: 13%) are repayable in United States Dollars at March 31, 2001, with the remaining loans being repayable in Cayman Islands Dollars. The Cayman Islands dollar is tied to the United States Dollar at CI\$1.00 = US\$1.20.

There were 82 (2000: 108) loans outstanding and nine (2000: seven) loans which were over one year in arrears at March 31, 2001.

There were no loans where the property offered as collateral was in the possession of the Society.

*See Report of Independent Auditors.*

National Building Society of Cayman

Notes to Financial Statements (continued)

**6. Fixed Assets**

|                                     | <b>Leasehold<br/>Improve-<br/>ments</b> | <b>Computer<br/>Software</b> | <b>Computer<br/>Hardware</b> | <b>Fixture &amp;<br/>Fittings</b> | <b>Office<br/>Equipment</b> | <b>Total</b>     |
|-------------------------------------|---|------------------------------|------------------------------|-----------------------------------|-----------------------------|------------------|
| Cost:                               |   |                              |                              |                                   |                             |                  |
| Balance at start of year            | \$ 41,113                               | \$ 13,844                    | \$ 43,383                    | \$ 23,718                         | \$ 8,455                    | \$ 130,513       |
| Additions                           | 4,975                                   | –                            | 1,153                        | 101                               | –                           | 6,229            |
| Balance at end of year              | 46,088                                  | 13,844                       | 44,536                       | 23,819                            | 8,455                       | 136,742          |
| Depreciation:                       |   |                              |                              |                                   |                             |                  |
| Balance at start of year            | 31,268                                  | 4,433                        | 31,774                       | 20,689                            | 4,629                       | 92,793           |
| Charge for year                     | 5,759                                   | 2,030                        | 3,687                        | 1,608                             | 1,557                       | 14,641           |
| Balance at end of year              | 37,027                                  | 6,463                        | 35,461                       | 22,297                            | 6,186                       | 107,434          |
| Net book value at<br>March 31, 2001 | <u>\$ 9,061</u>                         | <u>\$ 7,381</u>              | <u>\$ 9,075</u>              | <u>\$ 1,522</u>                   | <u>\$ 2,269</u>             | <u>\$ 29,308</u> |
| Net book value at<br>March 31, 2000 | <u>\$ 9,845</u>                         | <u>\$ 9,411</u>              | <u>\$ 11,609</u>             | <u>\$ 3,029</u>                   | <u>\$ 3,826</u>             | <u>\$ 37,720</u> |

**7. Savings and Investment Shares**

The maturity distribution of the savings and investment shares is as follows:

|                 | <b>March 31</b>     |                     |
|-----------------|---------------------|---------------------|
|                 | <b>2001</b>         | <b>2000</b>         |
| On demand       | \$ 736,223          | \$ 777,661          |
| Within one year | 2,860,352           | 3,404,691           |
| From 1-5 years  | 145,316             | 557,055             |
|                 | <u>\$ 3,741,891</u> | <u>\$ 4,739,407</u> |

Savings shares are repayable on demand and have no voting rights.

Investment shares are repayable upon maturity and have no voting rights.

Interest paid on savings shares generally bear interest at rates from 3% to 3.5%.

*See Report of Independent Auditors.*

National Building Society of Cayman

Notes to Financial Statements (continued)

**7. Savings and Investment Shares (continued)**

Interest paid on investment shares during the year ended March 31, 2001 varied from 2.9% to 9.0% (2000: 4.5% to 9.5%).

Of the total of these accounts, 46% (2000: 38%) of the savings shares and 63% (2000: 64%) of the investment shares at March 31, 2001 are denominated in United States Dollars, with the remaining shares being denominated in Cayman Islands Dollars.

**8. Paid-Up Proprietary Shares**

Paid-up proprietary shareholders are entitled to vote at any meeting of the Society, with each paid-up proprietary shareholder having one vote.

Paid-up proprietary shares are issued in multiples of \$10. No paid-up proprietary shares were issued during the years ended March 31, 2001 and 2000.

During the years ended March 31, 2001 and 2000, no interest was paid on the paid-up proprietary shares.

**9. Other Revenue**

|                       | Year ended March 31 |                   |
|-----------------------|---------------------|-------------------|
|                       | 2001                | 2000              |
| Late charges          | \$ 32,281           | \$ 35,155         |
| Management fees       | 14,000              | 42,000            |
| Transfer fees         | 9,751               | 23,266            |
| Other revenue         | 7,061               | 15,913            |
| Foreign exchange gain | 4,737               | 7,000             |
| Insurance commissions | 969                 | —                 |
| Commitment fees       | —                   | 5,767             |
|                       | <u>\$ 68,799</u>    | <u>\$ 129,101</u> |

*See Report of Independent Auditors.*

National Building Society of Cayman

Notes to Financial Statements (continued)

**10. Operating Expenses**

|   | <b>Year ended March 31</b> |                   |
|---|----------------------------|-------------------|
|   | <b>2001</b>                | <b>2000</b>       |
| Staff costs excluding pension contributions | \$ 189,800                 | \$ 158,784        |
| Professional fees                           | 73,120                     | 64,703            |
| Rent  | 19,756                     | 21,552            |
| Depreciation                                | 14,641                     | 12,901            |
| Bad debt expense                            | 13,145                     | 48,069            |
| Telephone                                   | 11,511                     | 11,729            |
| Advertising                                 | 10,566                     | 14,028            |
| Other expenses                              | 9,056                      | 2,202             |
| Office supplies                             | 8,822                      | 2,209             |
| Utilities                                   | 6,711                      | 6,504             |
| Pension contributions                       | 6,613                      | 9,729             |
| Cleaning                                    | 6,540                      | 6,483             |
| Computer training                           | 4,608                      | 1,449             |
| Printing and postage                        | 4,279                      | 6,784             |
| Travel and entertainment                    | 3,296                      | 605               |
| Insurance                                   | 2,967                      | 6,848             |
| Government licences                         | 2,502                      | 5,678             |
| Promotion and public relations              | 1,092                      | 3,581             |
| Charitable contributions                    | 200                        | 151               |
| Subscriptions                               | 195                        | 250               |
|   | <b>\$ 389,420</b>          | <b>\$ 384,239</b> |

**11. Commitments**

In the normal course of business, there are various commitments outstanding, including commitments to extend draw-downs on mortgage loans already approved, which are not reflected in these financial statements. At March 31, 2001 and 2000, the Society had no outstanding commitments for undrawn loans.

The Society leases its premises under an operating lease that expires on April 30, 2001, at a monthly rate of \$1,750. In June 2001, the Society signed a three-year operating lease in a large commercial development (Trinity Square) at a rate of \$30,160 per annum.

*See Report of Independent Auditors.*

# National Building Society of Cayman

## Notes to Financial Statements (continued)

### 12. Pension Plan

All employees of the Society are eligible to enroll in the Cayman Islands Chamber of Commerce Pension Plan, a defined contribution plan. Included in operating expenses are pension contributions of \$6,613 (2000: \$9,729) for the year ended March 31, 2001.

### 13. Related Parties

Included in these financial statements are the following balances and transactions with directors, their associates, and their related companies:

|  | March 31     |              |
|--|--------------|--------------|
|  | 2001         | 2000         |
| Balance sheets:                          |              |              |
| Other receivables                        | \$ 10,457    | \$ 16,660    |
| Loans                                    | \$ 523,527   | \$ 1,000,969 |
| Interest receivable                      | \$ 14,688    | \$ 2,641     |
| Savings and investment shares            | \$ 1,404,518 | \$ 1,927,280 |
| Interest payable                         | \$ 67,198    | \$ 27,736    |
| Loans sold under agreement to repurchase | \$ 415,000   | \$ —         |
| Other liabilities                        | \$ 80,509    | \$ —         |
| Statements of operations:                |              |              |
| Interest income                          | \$ 55,564    | \$ 41,772    |
| Interest expense                         | \$ 122,679   | \$ 151,092   |
| Management fees                          | \$ 14,000    | \$ 42,000    |

The amount included in other receivables is recoverable from a related company. The loan is unsecured, interest free and has no fixed terms of repayment.

The other liabilities include amounts payable to the Jamaican National Building Society.

The Company provided management and accounting services to Cayman Finance Services Ltd., a related company, at a monthly fee of \$3,500. These services began in September 1996 and were terminated on July 31, 2000.

*See Report of Independent Auditors.*

## National Building Society of Cayman

### Notes to Financial Statements (continued)

#### **14. Fraud and Misappropriations**

Management has discovered a number of questionable practices and transactions by former personnel resulting in losses experienced by the Society. These losses have occurred from instances of non-posting to client accounts, non-performance of requested wire transfers and irreconcilable differences in savings and investment accounts.

To prevent further occurrences of defalcation and fraud, management is in the process of implementing new operational controls and an ongoing monitoring program.

*See Report of Independent Auditors.*