Inquiry of Hindu Credit Union Co-operative Society Limited (HCU)

Presentation to Commission of Enquiry

10 April 2012

Ernst & Young
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Reliance Restricted

Limiting conditions

This presentation was prepared solely to assist the Commission of Enquiry (COE) in relation to its fulfillment of its Terms of Reference (TOR) and in particular, with respect to its enquiry into the causes, reasons and circumstances leading to the deterioration of the financial conditions of the Hindu Credit Union Co-operative Society Limited (HCU). The content of the presentation is derived from work performed by Ernst & Young Services Ltd (EYSL) for the Commissioner for Co-operative Development (CCD) in accordance with an agreement to perform an inquiry pursuant to Section 4 of the Co-operative Societies Act Chapter 81:03 into the constitution, operations and financial position of HCU. All of the information and analyses contained herein are as per EYSL's Inquiry, completed as at the end of August 2008.

This presentation was prepared specifically to assist the COE in the fulfillment of its mandate, and should not be relied upon for any other purpose. Because others may seek to use this presentation for different purposes, it should not be quoted or referred to for any other purpose other than within the scope of the COE. EYSL assumes no responsibility or liability whatsoever to any party, individual and/or entity in respect of the content of its presentation. EYSL assumes no responsibility whatsoever in respect of, or arising out of, or in connection with the contents of this presentation to any party and/or individual and/or entity whatsoever. If anyone chooses to rely in any way on the content of this presentation, they do so entirely at their own risk.

The preparation of this presentation was done as explained under the headings of "Scope of work" and "Limitations of scope" contained herein and was prepared specifically to protect the confidentiality of third parties and to assist the COE in fulfillment of its TOR.

All figures represented herein are in Trinidad and Tobago dollars, except where stated otherwise.

Abbreviations

A/C	Account
Adj	Adjusted
BOD	Board of Directors
Co.	Company
CUMIS	Credit Union Management Information System
EYSL	Ernst & Young Services Limited
FY04	Twelve months ended September 30, 2004
FY05	Twelve months ended September 30, 2005
FY06	Twelve months ended September 30, 2006
FY07	Twelve months ended September 30, 2007
GL	General ledger
HCU	Hindu Credit Union Co-operative Society Ltd
HCU Group	HCU and its subsidiaries
IMP	Improvements
k	Thousands
Ltd	Limited
m	Millions
May08	As at May 31 2008
NBV	Net book value
Sq ft	Square feet
TB	Trial balance
TCP	Town & Country Planning
TT	Trinidad & Tobago
US	United States of America
VAT	Value added tax
WIP	Work in progress
YTD	Year to date

Table of contents

Table of contents

Ernst & Young Engagement

Ernst & Young Services Limited

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Introduction

- EYSL appointed by the Commissioner for Co-operative Development (CCD) in June 2008, pursuant to section 4 of the Co-Operative Societies Act, to conduct an inquiry (the Inquiry) into the constitution, operations and financial position of Hindu Credit Union Co-operative Society Limited.
- The EYSL team assigned to the Inquiry consisted of 12 professionals with a blend of business and technology risk professionals, fraud specialists, chartered financial analysts, accountants and business valuators.
- This was not the first inquiry to be commissioned on HCU but it was the first to be completed. At least four other inquiries were attempted between October 1998 and April 2005.

History of HCU inquiries

30 October 1998
Reason for Inquiry: Disagreement among the Directors on the direction of HCU.
Result: Inspector debarred from the premises of the Society.

29 April 2003
Reason for Inquiry: Concerns about financial status of the CU.
Appointed inspectors: joint team from the Co-operative Development Division and the Credit Union Supervisory Unit (CUSU) of the Ministry of Finance.
President expressed concern on the inclusion of the CUSU and why the HCU was being treated differently to other credit unions.
The Director of the CUSU had no legal status.
Result: Inspection aborted due to lack of resources at the CUSU as members were all on vacation.

9 March 2005
Reason for Inquiry: The Auditors did not express an opinion as at 30 Sept 2004; the matters discussed in the audit report and the financial state and lack of liquidity of the CU.
Result: Recommendation for external firm to conduct an inquiry was made by the Deputy Commissioner

25 April 2005
Inspector: Pannell Kerr Foster.
HCU writes to Commissioner stating its “strongest and sternest objections” to the decision of the Commissioner.
Result: President requested cancellation given that they had external auditors in at the time

8 June 2007
Report handed in by the inspection of the CCD team with recommendation for an inquiry to be held

3 June 2008
Ernst & Young awarded contract to conduct the inquiry into the Hindu Credit Union

1998 | 2003 | 2005 | 2007 | June 2008

Scope of work

- The original scope contemplated for the engagement included:
  - Review of policies, processes and procedures of HCU's constitution, operations, deposit taking, lending, investments and redemption of shares
  - Assessment of the overall financial status of HCU including actual versus budget financial performance, risk analysis of HCU's loans and investments, liquidity position, asset-liability management, capital adequacy, IFRS compliance, interest and dividend policies/procedures
- On 9 July 2008, EYSL made an interim presentation to CCD and Ministry of Finance (MOF) on its findings, as at that date. It was apparent to EYSL that there existed significant deficiencies in the operations and financial record keeping of the HCU.
- Based on EYSL's interim findings, it was agreed by EYSL and CCD to a change in the engagement scope, with an emphasis on the following areas:
  - Assessment of the recoverability of the loan portfolio
  - Assessment of the quality of the fixed assets and investment properties
  - Assessment of the financial viability of HCU's subsidiaries
  - Assessment of members' fixed deposits/holdings
  - Preparation of Statement of Assets and Liabilities as at 31 May 2008

Limitations to scope of work

- Our scope of work did not cover the following:
  - Real estate or other fixed asset valuations
  - Physical verification of property and equipment
  - Investigation of the legal titles of HCU’s listed assets
  - Legal due diligence
  - Review of the legislative framework
  - Preparation of financial statements in accordance with IFRS
- All financial and non-financial information (written or oral) as well as explanations provided by HCU personnel was accepted as accurate and complete, unless EYSL found contradictory documentation.
- The work performed by us did not constitute an audit and there was no audit opinion expressed as a result of this engagement.
- The extent of the scope was also limited given the fact that after 17 July 2008 there was limited access to senior management and staff and a virus infected the computer database (CUMIS). In some instances reliance was placed on management discussions and other instances alternative procedures were adopted to gain a reasonable form of comfort.
- As a result of the restrictions noted above it is possible that our inquiry may not have revealed all matters that would have been identified in an unrestricted inquiry.

Inquiry timeline

- The inquiry was plagued with challenges encountered in obtaining supporting documents and explanations for business transactions and accounting entries as well as work disruptions. The following presents a timeline of the EYSL inquiry.

June 2008

03 June 2008
EYSL appointed by CCD to conduct inquiry

12 June 2008
Meeting with Commissioner's team, EYSL, President, BOD & CEO of HCU at Commissioner's office

16 June 2008
Inquiry commenced at HCU Head office building

09 July 2008
EYSL presents interim findings to CDD and MOF and a change in engagement focus was agreed

15 July 2008
Meeting requested by EYSL with the CEO. Requested "must have" list of documentation by 18 July 2008

17 July 2008
EYSL team advised by President that HCU will not be opening on 18 July due to likely levy action

18 July 2008
EYSL team not allowed access to HCU

21July 2008
Discussions with President regarding 'lock-out' Copy of Board Resolution dated 20 July 2008 revealed that HCU will no longer be co-operating with EYSL and it had resolved to stop the inquiry.

23 July 2008
Injunction granted in High Court to allow the inquiry to continue. Provisional Liquidator/Receiver appointed

08 September 2008
EYSL final report submitted to the Commissioner for Co-operative Development

September 2008

EYSL approach

Our work was based on the following sources of information:

- Financial statements and/or management accounts for historical periods ending 30 September 2002 to 2007 and the eight month period ending 31 May 2008 as well as other financial and non-financial information obtained from:
  - Discussions with HCU's CEO and other senior staff
  - HCU's Information system (IT) – mainly its CUMIS database system (recording HCU's members' accounts, members' loans and HCU's accounting transactions)
  - Review of documents, files and reports located at HCU's Head Office, Chaguanas
  - Third party reports specifically commissioned by the Commissioner for Co-operatives (namely property valuations and title searches)
- Interviews and discussions with other relevant parties, for example HCU's former auditors – Madan Ramnarine and Company Limited (FY04) and Chanka Seeterram and Company Limited (FY05).
- It is important to note after the "lock out" period there was only minimal staff but there was access to documents and files upon which some of the findings contained herein are based.
- At the end of our field work, we attempted to meet with Mr. Harnarine to discuss our findings. This request was made by formal correspondence dated August 15, 2008. However, Mr. Harnarine declined the opportunity to meet with EYSL. According to Mr. Harnarine, he was advised by his attorney not to meet.

Overview of HCU

Business timeline

Notes:

	1985	1997	2002	2004	2007	May 2008
Business snapshot	▶ HCU was registered under and governed by the Corporative Societies Act and Regulations Chapter 81:03, and by its Bye-laws	▶ Incumbent President, Harry Harnarine joined and was appointed to the Board of Directors. According to his loan documentation, he was a Clico insurance agent	▶ HCU Group of Companies conceptualized ▶ HCU Bye-laws are amended ▶ Diversification into various industry sectors commences	▶ HCU operates 18 branches ▶ HCU owns 28 subsidiaries ▶ HCU Group headcount is 927 ▶ HCU Group (except for Bankers Insurance) is run by one Board	▶ HCU's investment in subsidiaries is doubled from 2004 level but HCU Group headcount declines by 50%	▶ HCU Group headcount downsized to 271 ▶ HCU consisted of 28 subsidiaries, 16 of which were non-operating
Performance snapshot (HCU)			▶ Total assets - $550m ▶ Reported net profit - $3.2m ▶ Member shares & deposits – $505.4m ▶ Investments/ advances to subsidiaries - $23.5m[1]	▶ Total assets - $1.05b ▶ Reported net profit - $25.8m ▶ Member shares & deposits – $947.6m ▶ Investments/ advances to subsidiaries - $109m[1]	▶ Total assets - $817m ▶ Reported net loss – ($6.9m) ▶ Member shares & deposits – $760.1m ▶ Investments/ advances to subsidiaries - $205.2m[1]	▶ Member shares & deposits – $757m ▶ Investments/ advances to subsidiaries - $252m[1]

Source: Unconsolidated Audited financial statements 2002,2004; Unconsolidated Management accounts 2007; Trial balance May 2008

1 Investment/advances to subsidiaries include accrued interest

Corporate governance

- The internal oversight of HCU included predominantly the Board of Directors, members of the Supervisory and Credit Committees. There were other committees but they seemed to be less important in the critical decision making of the Credit Union.
- The President and the Corporate Secretary were both heavily involved in the daily operations of HCU. In fact, the Corporate Secretary was directly in charge of the matters pertaining to properties and construction contracts which were substantial expenses.
- The Supervisory and Credit Committees played major roles in the lending process (assessments, approvals etc).
- With the exception of HCU's subsidiary – Banker's Insurance, HCU and all of its subsidiaries were governed by one Board of Directors. There was little evidence based on a review of the BOD minutes (review period January 2005 – 29 May 2008) that:
    - The BOD acknowledged the current poor financial state of HCU and its various subsidiaries
    - Financial statements were presented or discussed on a regular basis at the BOD meetings
    - The BOD discussed the strategic direction of the HCU
    - The BOD discussed the disposal of properties/fixed assets or management of the subsidiaries, which combined, accounted for 70% of the total assets as at 30 September 2007

Quality of financial records

- The last available statutory audited accounts prepared were for the year ended 30 September 2005. However, in the previous financial year,30 September 2004, audited accounts presented to HCU's Board of Directors were not accepted because of a number of accompanying disclaimers by the former auditor, such as:
  - Inability of the former auditor to obtain (though requested) supporting documents in relation to the sale of 13 investment properties by HCU to its subsidiaries (e.g. evidence of payment, mortgage documents and property valuations). In question was the total sale proceeds of $105.8m which yielded a gain of $46.2m, which was reported as revenue by HCU. Given the lack of supporting documentation, the former auditor was unable to assess if these transactions were on arms length commercial terms and conditions.
  - Disclosure of a subsequent event (during the period 1 October 2004 to 11 February 2005) in relation to withdrawals by HCU members totaling $108.2m. $33m was encashed from HCU cash and fixed deposits held with third party financial institutions.

  In addition, according to EYSL discussions held with the former auditor, HCU's subsidiaries could not be audited as there was a general lack of supporting documentation to support financial statements presented.
- Moreover, the former auditor's report (2004) to HCU members disclosed the following:
  - There were a number of overdue accounts amounting to $55.97m of which $32.8m represented unsecured amounts which were in excess of members' shares, deposits or other securities held
  - Former auditor's inability to report on whether amounts totaling $225.5m due from the HCU subsidiaries were stated at fair values. Additionally, if inter-company revenue was removed the financial position for the year ended 30 September 2004 would have been a loss of $55m
  - There was a total included as income in HCU's financial statements of $14.7m in relation to accrued interest from subsidiaries' loans and rent charged to subsidiaries for which there had been no payments from subsidiaries up to August 2008
- The President and the Board of Directors removed the former auditor and appointed the incumbent auditor who presented comparative 2004 financial statement balances in their 2005 audited accounts. There were significant differences between both auditors' (former and incumbent) 2004 financial statements. The incumbent auditor commenced the 2006 audit but did not complete same. Notwithstanding the non approval by the BOD of the financial statements, they were forwarded to the then Commissioner of Cooperatives.

Quality of financial records

- Generally HCU's financial records were in a poor condition. As a result, the management accounts presented by HCU's management to EYSL could not be relied upon. Furthermore, the Accountant responsible for the preparation of the financial statements left within two weeks of the EYSL inquiry. As a result, EYSL spent significant time trying to verify transactions from source documents and incomplete files. Consequently, there were inherent limitations to the depth of work EYSL was able to conduct on all the Balance sheet items. There were a number of factors which affected the reliability of HCU's management accounts/financial statements:
  - There was a lack of supporting lead schedules for Balance sheet balances represented within the management accounts.
  - The management accounts for the period ended 30 September 2006 and 2007 did not agree to the respective general ledger/trial balance or the CUMIS system. This implied that there were manual adjustments made to the financial statements presented by management which were not reflected in the general ledger system. Supporting documentation for these adjustments were not submitted to EYSL.
  - There were no management accounts for the Inquiry year, i.e. year-to-date 31 May 2008. Therefore, to get a financial position for the inquiry year a trial balance was extracted from the general ledger module, by EYSL. According to the Financial & Operations Director (Krishna Harrypersad), HCU's focus over the 2007 to 2008 financial periods was dealing with depositors' withdrawal requests and consequently, cash flow management rather than the maintenance of the general ledger and timely presentation of the financial statements.
  - Management accounts presented for 2007 did not reflect any provisions or write-offs of the subsidiaries' loans, accrued interest or related party balances (i.e. subsidiaries' current accounts) of approximately $200m. According to the supporting documentation reviewed by EYSL, a write-off of principal and interest on subsidiaries totaling $196,643,092 was suggested by HCU's management and also approved by the Board of Directors in a meeting held on 29 May 2008. Approval from HCU's supervisory committee was also seen.
  - EYSL understood from the Financial & Operations Director that no general ledger postings were performed for the disposal of properties or any fixed assets for the financial years 2006, 2007 and year-to-date (YTD) 31 May 2008.

Quality of financial records

- There was an absence of supporting documentation for general ledger entries. It was difficult to substantiate a number of payments and to trace transactions back to cash due to the lack of the proper record keeping and the condition of the data warehouse.
- HCU used the CUMIS system as the database system for the Members' shares, fixed deposits, savings accounts and loans which was integrated into the general ledger module. The CUMIS system was infected with a virus approximately two to three weeks after EYSL re-commenced the inquiry (i.e. post 18 July 2008). Therefore it was difficult to attain data for historical transactions.
- There was a lack of a sufficient explanation by the Financial & Operations Director for certain expenditure and transactions.
- There were a few significant transactions which were discovered and not posted to the general ledger (such as the reinstatement of HCU's Convention Centre property and the corresponding mortgage from CLICO).
- No bank reconciliations were performed for the period 1 October 2007 to 31 May 2008; and only some were presented for the year ended 30 September 2007.
- Despite a reported value of $69m as at May 2008 in office improvements, furniture and fixtures, computer equipment and vehicles, HCU maintained no fixed asset register.
- There was no loans' trial balance readily available. The loans' trial balance was specifically run based on our request from the CUMIS developer. Therefore it appeared that this report was never utilized by HCU's management. Moreover, the delinquency reports for loans did not differentiate between a secured and an unsecured loan.
- There was no accounts payable sub ledger.
- There were a number of general ledger accounts for which management provided no supporting schedules or reasonable explanations.
- During our Inquiry, we did not receive any audited financial statements or management accounts for some of HCU's subsidiaries - HCU Emergency Services Ltd, HCU Financial Insurance & Investment Agency Ltd, HCU Investments & Pension Consultants Co Ltd, HCU Real Estate Services Ltd, Shakti Communications Ltd.

Historical performance

1. HCU has been in a net overdraft position since 2004.
2. Accounts receivable/payments contained a number of balances that were brought forward prior to 2004. Additionally, there were significant accumulated accruals for rental income on HCU properties leased to HCU's subsidiaries. Furthermore, there were little or no provisions made to the doubtful accounts receivable.
3. Loan balances to members were on a steady decline since 2004 to 2007 (57% decrease)
4. Loans to subsidiaries as well as amounts due from related parties (i.e. current accounts) doubled (from $92m to $188m). Loans to subsidiaries included accrued interest. For the most part, amounts advanced to subsidiaries were not repaid.

HCU (unconsolidated) **Balance sheet**	**Notes**	**30 Sept 04**	**30 Sept 05**	**30 Sept 06**	**30 Sept 07**
Assets					
Cash in hand and at bank	**1**	15,741,236	3,660,311	1,286,579	866,313
Investments		25,142,741	20,476,834	18,510,077	31,211,153
Accounts receivable and prepayments	**2**	7,140,200	15,779,169	10,888,509	15,521,896
Inventory		223,622	402,585	402,585	402,585
Loans to members	**3**	409,954,490	288,799,398	219,455,673	176,193,372
Loans to HCU subsidiaries	**4**	54,618,621	88,618,177	131,612,665	133,656,427
Investment properties	**6**	258,174,631	253,993,016	182,641,373	182,641,373
Investments in HCU subsidiaries	**5**	16,975,000	16,975,000	17,261,000	17,261,000
Fixed assets	**7**	207,039,732	208,192,978	185,032,710	187,380,454
Due by related parties	**4**	37,438,636	51,916,789	44,829,150	54,263,860
Intangible assets	**8**	17,800,000	17,800,000	17,800,000	17,800,000
Total Assets		**1,050,248,909**	**966,614,257**	**829,720,321**	**817,198,433**
Members' Equity, Reserves and Liabilities					
Members' shares	**9**	163,805,057	128,844,348	104,580,718	91,088,770
Reserve fund		3,032,793	3,673,725	3,704,354	3,725,935
Education fund		225,793	225,793	225,793	225,793
Unclaimed shares		53,639	53,639	53,639	53,615
Capital reserve		-	-	-	-
Undivided earnings		38,742,118	10,052,160	12,781,287	5,782,327
		205,859,400	**142,849,665**	**121,345,791**	**100,876,440**
Liabilities					
Bank overdraft	**1**	26,751,478	14,969,743	9,489,187	5,048,776
Bank and other loans	**10**	19,965,588	23,198,237	37,604,047	28,188,035
Risk Management fund		4,851,926	5,244,982	3,242,961	3,242,961
Accounts payable and accruals		9,066,529	17,088,444	11,878,325	10,803,708
Members' deposits	**9**	622,769,526	621,922,662	487,056,162	519,968,862
Members' savings	**9**	160,984,462	141,340,524	159,103,847	149,069,650
		844,389,509	**823,764,592**	**708,374,529**	**716,321,992**
Total Members' Equity, Reserves and Liabilities		**1,050,248,909**	**966,614,257**	**829,720,320**	**817,198,432**

Source: Unconsolidated Audited financial statements 2004-2005; Unconsolidated Management accounts 2006-2007

Historical performance

5. Investment in subsidiaries represents HCU's equity investments (i.e. shares) in its various subsidiaries.
6. There was significant investment made in property by HCU, with a peak in 2004. In fact investment properties increased by over $240 million from 2002 to 2004. $85 million of this was capital appreciation which was reported in the Income statement. The decline in this balance by 2007 was due to disposals of properties by HCU in order to attain liquidity to repay depositors.
7. Similarly, Fixed Assets also increased by approximately $100 million between 2002 and 2004, representing property purchases and leasehold improvements for subsidiaries as well as improvements to HCU's head office and branch network expansion. Subsequent to 2004 the amounts spent on leasehold improvements were written off when branches were sold.

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Historical performance

8. Intangible assets of $17.8m represented the purported acquisition of operating licenses for Global Television from a third party. The license was never transferred and the monies never refunded.
9. The Members' shares, Members' deposits and Members' savings decreased by $187 million (20%) between 2004 and 2007.
10. Bank and other loans fluctuated over the 2004 to 2007 period, with a peak balance of $37.6 million in 2006. Notably, the 2007 balance was understated as it did not include at least two third party mortgages, over two of HCU's properties: (1) a mortgage over the HCU Convention Centre for $35m; and (2) a mortgage over Savitur for $15.2m.
11. Net equity position declined from $205m in 2004 to $100m in 2007 before taking account of losses on related party transactions. These losses would have resulted in HCU reporting an aggregate accumulated deficit.

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Members' deposits	**9**	622,769,526	621,922,662	487,056,162	519,968,862
Members' savings	**9**	160,984,462	141,340,524	159,103,847	149,069,650
		844,389,509	**823,764,592**	**708,374,529**	**716,321,992**
Total Members' Equity, Reserves and Liabilities		**1,050,248,909**	**966,614,257**	**829,720,320**	**817,198,432**

Source: Unconsolidated Audited financial statements 2004-2005; Unconsolidated Management accounts 2006-2007

Historical performance

Given EYSL's revised scope, our focus on HCU's Income statement was limited.

1. Included in the interest income of $58.6m and $50.5m in 2006 and 2007 were $21m and $19m of accrued interest income from loans to HCU's subsidiaries that was never paid. With the exclusion of these accruals, income interest from Members' loans (HCU's primary business) could not cover the interest expense and the Credit Union would be making a net interest loss.
2. The steady decline in Interest on Members' deposits reflect the declines experienced in Members' deposits balances over the 2004 to 2007 period.
3. The rental income of $4.2m and $3.2m in 2006 and 2007 respectively, were from HCU subsidiaries that were accrued and remained unpaid.

HCU (unconsolidated) Income statement	Notes	FY04	FY05	FY06	FY07
Income					
Total Interest Income	1	81,447,504	75,338,286	58,538,175	50,487,044
Less: Interest on Members' deposits	2	57,147,072	52,940,574	48,636,599	40,696,635
Net interest income		**24,300,432**	**22,397,712**	**9,901,576**	**9,790,409**
Appreciation in value of investment and investment properties	4	84,435,487	25,583,749	12,260,275	12,700,000
Interest on bank balances	5	9,013	26,939	1,341	686
Investment income		2,919,340	491,344	10,681,188	931
Rental income from HCU subsidiaries	3	4,133,232	3,733,714	4,217,421	3,169,771
Other income		5,496,113	1,888,114	253,459	501,680
Net operating profit		**121,293,617**	**54,121,572**	**37,315,260**	**26,163,477**
Less: Expenditure	6	95,529,215	48,101,694	34,586,133	33,162,616
Net surplus/(loss) for the year - reported	7	**25,764,402**	**6,019,878**	**2,729,127**	**(6,999,139)**

Source: Unconsolidated Audited financial statements 2004-2005; Unconsolidated Management accounts 2006-2007

Historical performance

4. The appreciation in the value of the investment properties in 2006 and 2007 was not calculated from independent market valuations but based on HCU's management valuations. The major value adjustments in 2006 and 2007 were from two of HCU's investment properties - Savitur and Pineview - which were incomplete real estate development projects.
5. The reduction in Interest on bank balances illustrated the reduction in HCU's cash holdings and by extension HCU's liquidity over the 2004 to 2007 period.

HCU (unconsolidated) Income statement	**Notes**	**FY04**	**FY05**	**FY06**	**FY07**
Income					
Total Interest Income	1	81,447,504	75,338,286	58,538,175	50,487,044
Less: Interest on Members' deposits	2	57,147,072	52,940,574	48,636,599	40,696,635
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Source: Unconsolidated Audited financial statements 2004-2005; Unconsolidated Management accounts 2006-2007

Historical performance

6. In 2004, the expenditure was greater than the total interest income, which included accrued interest from subsidiaries' loans. Despite the deteriorating financial state and affairs of HCU, there was significant expenditure in 2007 in the following areas:
   - $1.8 million in advertising and promotions
   - $1.8 million in Director Stipends
   - $833K in expenses related to the President
   - $1.2 million in Foreign Travel

Adjusted Income statement – FY07

7. In 2007, HCU recorded a loss of $6.99m, primarily due to the decline in total interest income and investment income, without a commensurate decrease in expenditure. However, if adjustments were made to remove non-operating and/or one-off balances (e.g. income from subsidiaries and capital appreciation of the properties), the loss in 2004 would be $63m and $42m in 2007.

HCU (unconsolidated) Income statement	**Notes**	**FY04**	**FY05**	**FY06**	**FY07**
Income					
Total Interest Income	1	81,447,504	75,338,286	58,538,175	50,487,044
Less: Interest on Members' deposits	2	57,147,072	52,940,574	48,636,599	40,696,635
Net interest income		**24,300,432**	**22,397,712**	**9,901,576**	**9,790,409**
Appreciation in value of investment and investment properties	4	84,435,487	25,583,749	12,260,275	12,700,000
Interest on bank balances	5	9,013	26,939	1,341	686
Investment income	6	2,919,340	491,344	10,681,188	931
Rental income from HCU subsidiaries	3	4,133,232	3,733,714	4,217,421	3,169,771
Other income		5,496,113	1,888,114	253,459	501,680
Net operating profit		**121,293,617**	**54,121,572**	**37,315,260**	**26,163,477**
Less: Expenditure	7	95,529,215	48,101,694	34,586,133	33,162,616
Net surplus/(loss) for the year - reported	8	**25,764,402**	**6,019,878**	**2,729,127**	**(6,999,139)**
Less:					
Accrued interest income from subsidiaries' loans				(21,411,112)	(19,172,860)
Accrued rental income from HCU subsidiaries'		(4,133,232)	(3,733,714)	(4,217,421)	(3,169,771)
Appreciation in value of investment and investment properties		(84,435,487)	(25,583,749)	(12,260,275)	(12,700,000)
Net surplus/(loss) for the year – adjusted		(62,804,317)	(23,297,585)	(35,159,681)	(42,041,770)

Source: Unconsolidated Audited financial statements 2004-2005; Unconsolidated Management accounts 2006-2007

Group financial statements

In fact, the audited consolidated financial statements for the year ended September 2005 reported a net loss of $55m

Historical performance – Overview of expenses

- Total Administrative expenses averaged at $30m to $35m per annum but peaked significantly in 2004 at $95m. Approximately 22% of this was in salaries and wages when HCU employed over 900 persons. If the bad debt provision is excluded from the total the expenses would be $78m. The net interest income was $24m.
- The 2007 management accounts reported total expenses as $22.4m; however the supporting general ledger reported $28.6m. The accounts with the largest differences were Advertising and promotions($720k), Directors fees and Stipends($200k), Ex Gratia Payment to Managers($960k), Local and Foreign Travel($813k), Professional Fees($619k) and Salaries($2.8m)
- Cleaning and Janitorial services increased significantly in 2004 and the contract was awarded to the company that also supplied construction services. Both companies were only incorporated in 2002 with the incorporation documents listing the incorporator's occupation as Marketing Representative for HCU
- Directors Fees & stipend. This account records salaries to the board of directors as well as stipends for board members when they attend statutory board meetings. This account included two $100,000 payments and one $50,000 payment made to the president in 2006 for which no support was seen. No explanation for this was given by management.

Currency: $	Notes	FY02A	FY03A	FY04A	FY05A	FY06A	FY07A
Advertising and promotions		1,489,949	3,621,122	5,517,989	1,492,909	2,388,385	1,127,324
Annual general meeting		11,951	23,545	400,650	209,428	(5,477)	28,585
Audit fees		56,000	95,000	430,000	460,652	1,623,024	567,454
Bailiff charges		-	189,625				
Bad debts		2,687,650	2,488,358	17,660,890	(5,912,683)	402,838	302,163
Bank and other loan interest		1,615,417	1,875,359	2,000,529	1,093,558	904,723	-
Bank overdraft interest		900,105	710,998	2,023,319	1,705,643	2,350,646	874,423
Board expenses		25,080	10,323	20,333	24,054	-	
Cleaning and janitorial services		124,138	120,809	1,580,868	584,758	659,229	421,522
Commission		1,455,121	1,602,435	441,894	1,732,051	747,237	391,998
Depreciation		3,550,619	7,007,860	4,148,747	5,723,818	4,519,128	2,448,915
Director's Fees & Stipend		243,300	640,325	1,400,214	1,511,686	1,019,967	1,640,884
Disposal of Investment Property						(8,717,248)	-
Disposal of property, plant and equipment				217,901	411,748	(1,662,728)	-
Divali celebrations		17,983	-				
Donations		15,000	111,548	434,307	177,903	201,774	219,387
Electricity		530,634	748,075	1,236,490	960,280	694,355	780,454
Ex-Gratia to Manager		74,417	57,106	186,000	515,393	185,878	712,351
Local & Foreign Travel		157,086	127,128	2,106,311	2,378,993	1,330,658	1,052,575
Indian Arrival Day Celebrations		-	35,479	38,872	-	21,250	-
Insurance		841,539	1,884,523	3,154,048	2,753,518	1,239,056	1,239,060
Junior Co-operative		351,464	505,653	128,439	6,237	54,922	4,100
Marketing expenses		623,734	954,945	1,465,959	560,068	463,653	124,129
Miscellaneous expenses		182,208	239,575	940,763	94,086	146,179	61,162
Money Express expense				3,095,403	-		
Motor vehicle expenses		423,454	845,126	813,487	304,532	285,636	269,647
Office expenses		1,263,824	1,279,439	1,869,317	784,100	258,391	326,273
Pension plan		144,700	254,518	453,800	361,450	256,800	223,100
President's Expenses						351,700	833,800
Professional fees		325,295	1,908,296	2,751,254	4,809,766	3,889,595	1,735,320
Ramayan		-	115,668				
Religious activities				188,558	53,446	130,230	47,176
Rent, rates & taxes		1,066,361	1,121,299	1,305,736	1,105,960	697,716	864,533
Repairs and maintenance		307,870	1,918,998	1,404,013	1,075,886	1,839,205	849,689
Salaries		7,875,086	15,839,383	21,472,636	16,893,382	13,796,781	11,578,750
Security		1,119,400	3,818,049	9,045,649	2,673,633	1,186,880	1,795,349
Share incentives		253,897	357,903	196,973	18,970	4,240	-
Staff welfare & benefits		538,136	1,377,890	1,212,204	1,068,676	727,704	576,962
Stamp & stationery		864,239	1,088,605	1,451,313	332,757	400,135	395,628
Telephone		1,335,865	2,526,295	2,469,002	2,135,036	2,193,670	1,669,904
Travelling and Transport							
Visa Debit Card		-	782,032	2,265,347	-		
Total expenditure		**30,471,522**	**56,283,292**	**95,529,215**	**48,101,694**	**34,586,132**	**33,162,617**

Source: Unconsolidated Audited financial statements 2004-2005; Unconsolidated Management accounts 2006-2007

Historical performance – Overview of expenses

- The balance as per the general ledger for ex gratia payments in 2007 was $1.6m, exactly $960k more than that reported in the financial statements. The ex-gratia payments were made as severance to members of the board. A resolution was taken at an unspecified Annual General meeting stating that individuals had given up their jobs elsewhere to become employed full time on HCU board. A severance was calculated based on number of years the person would have worked up until retirement date. In most cases, the amounts calculated in the supporting document ation did not tie back to the amounts actually paid as per system.
- Foreign travel comprised mainly of travel by the President and CEO. In 2003 and 2004 there were 16 agreements between HCU and the president for transfers to his Visa account in the total amount of $1.3m which were signed by the President. Bills supporting the travel which were seen by EYSL, only accumulated to $265k. Discussions with the CEO revealed that bills were not usually submitted.
- Money Express ($3.1m) and Visa Debit cards ($3m in total) are two examples where HCU spent significant sums on business ventures that did not materialise.

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Source: Unconsolidated Audited financial statements 2004-2005; Unconsolidated Management accounts 2006-2007

SoA May 2008

SoA 31 May 2008

The following represents the Statement of Affairs for HCU as at 31 May 2008

		30 September 2007	Adjusted 31 May 2008
Assets			
Cash		866,313	-
Investments	1	31,211,153	26,444,798
Accounts receivables and prepayments	2	15,521,896	930,648
Inventory		402,585	-
Loans to members	3	176,193,372	98,247,086
Loans to HCU subsidiary companies	4	133,656,427	-
Real estate & fixed assets	5	370,021,827	250,141,591
Investments in HCU subsidiary companies	6	17,261,000	12,000,000
Due by related parties	7	54,263,860	2,367,490
Intangible assets	8	17,800,000	-
Total Assets		817,198,433	390,131,614
Liabilities			
Bank overdraft		5,048,776	7,290,839
Bank and other loans	9	28,188,035	87,967,953
Risk management fund		3,242,961	-
Accounts payable and accruals	10	10,803,708	39,452,455
Members' deposits		519,968,862	521,864,988
Members' savings		149,069,650	144,195,268
Members' shares		91,088,770	75,897,805
Total Liabilities		807,410,762	876,669,308
Excess/(Shortfall)		**9,787,671**	**(486,537,695)**

The major EYSL adjustments were related to the following balances:

1. Investments – adjusted to take account of underlying assets
2. Accounts receivable/prepayments – write off of old/aged rent accruals from HCU subsidiaries that were never paid ,added to which most of the subsidiaries were not operating.
3. Loans to members – increase in provision from $20.6m to $44.8m for loans greater than 90 days in arrears and for which most were unsecured.
4. Loans to HCU subsidiaries – total balance written off given the financial status of subsidiaries and continued non payment of loan accounts. Additionally HCU management suggested the write off to be taken.
5. Real estate/fixed assets – write off of leasehold improvement, adjustment to certain equipment to realisable values, accumulated depreciation and adjustments for real estate transactions (disposals and additions) not previously posted.

Source: Unconsolidated Management accounts 2007, Trial balance 31 May 2008

SoA 31 May 2008

The following presents the Statement of Affairs for HCU as at 31 May 2008

		30 September 2007	Adjusted 31 May 2008
Assets			
Cash		866,313	-
Investments	1	31,211,153	26,444,798
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Members' shares		91,088,770	75,897,805
Total Liabilities		807,410,762	876,669,308
Excess/(Shortfall)		**9,787,671**	**(486,537,695)**

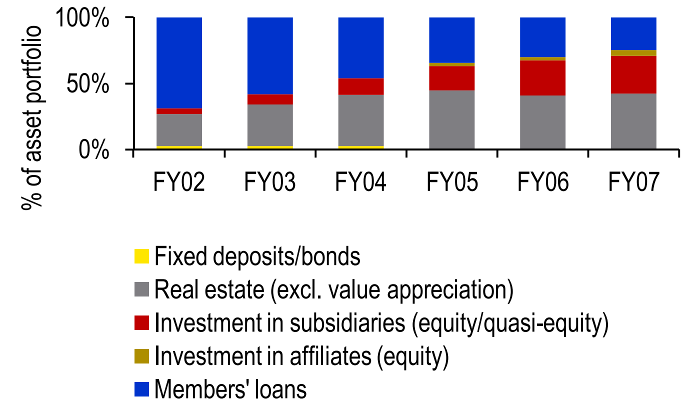
6. Investment in HCU subsidiary – write off of balances, except for Banker's Insurance, since more than half of HCU subsidiaries were either closed or non-operating. The other operating subsidiaries were in a poor financial state.
7. Due by related parties – same as 6 above.
8. Intangible assets – purchase of assets/license (total amount paid to vendor was $17m)and brand name ($800k) to establish a TV Station which never started nor was the license transferred. Further the partner started his own TV station, therefore the realisable value of this asset was deemed to be nil.
9. Bank and other loans – adjustment was required based on third party loan balance confirmation (reduction $10.7m) as well as the record of two mortgages ($62m) on properties not previously recorded in HCU's accounts.
10. Accounts payable and accruals – included unrecorded liabilities in relation to lease commitments and legal fees and statutory payments that were deducted from salaries and not paid.

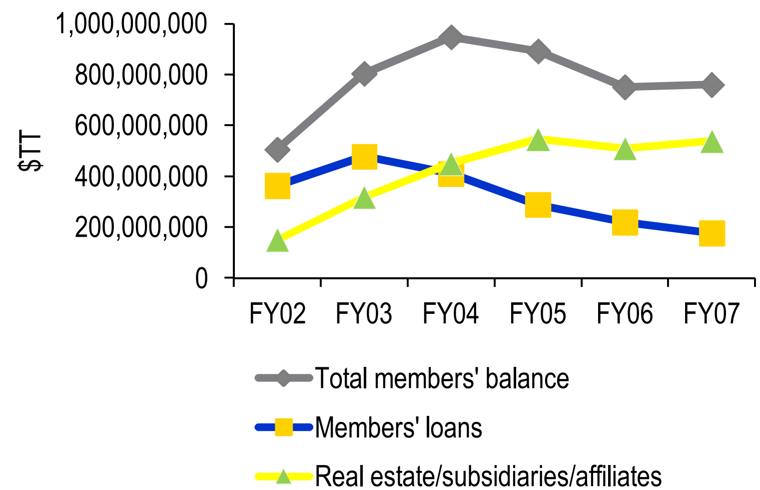
Reasons for distress

Reasons for distress

1 Financial Performance – (a) Asset-liability mismatch

- According to the Co-operative Societies Act Chapter 81:03, the objective of a credit union is to promote thrift and create credit for its members. A credit union was designed as an institution to provide lending and saving instruments to its members, the business of asset-liability matching is imperative. The investment portfolio must match the cash flow requirements to meet members' needs. The majority of members' investments in the credit union was in the form of savings accounts and fixed deposits which peaked at $784 million in 2004. The member shares which can be deemed to be longer term in nature peaked at $164m in 2004 but dipped to approx $91m in 2007.
- Therefore as members required repayments of their invested amounts, there was little or no liquid assets to be used to facilitate the repayments.
- In the case of HCU, from FY02 to FY04, total members' balance almost doubled (87% increase or $442m growth). However, by FY04, members' loans decreased from 69% to 45% of assets, as HCU's investments in real estate and HCU subsidiaries increased .
- Subsequent to FY04, there was an obvious shift in investment concentration from members' loans to less liquid, higher risk investments (i.e. real estate, subsidiaries and affiliates). By FY07, members' loans was 24% of assets, while investment in real estate, subsidiaries and affiliates combined , was 76% of assets.
- In fact, even as HCU experienced declines in members' accounts in FY05 to FY07, HCU's investments in subsidiaries and affiliates continued to increase. Therefore even when it was evident that the Credit Union was in a net cash outflow position, the HCU continued to invest in non-liquid assets.

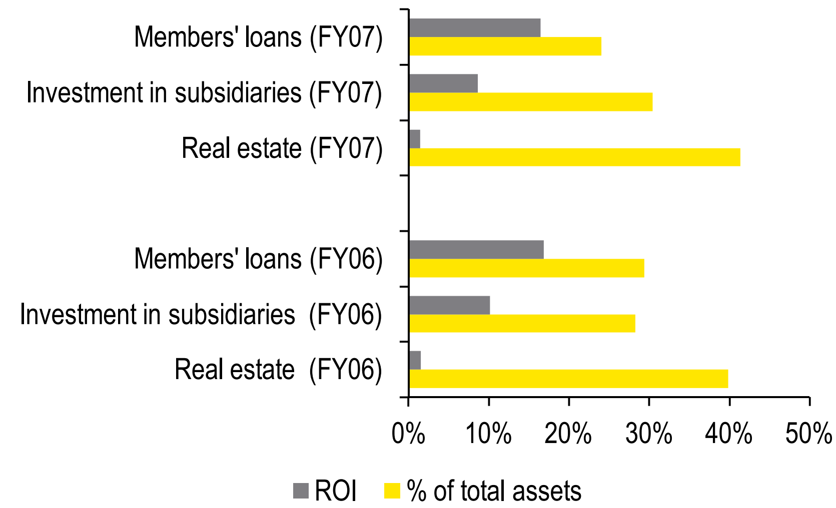




Reasons for distress

1.Financial Performance – (b) Low returns on HCU investments

- HCU's two largest asset classes were real estate and investments in subsidiaries (by way of equity and debt). Both classes contributed 41% and 30% of total assets respectively in FY07. Members' loans were 24% (compared to 29% in FY06).
- However, returns from HCU's real estate was minimal (1%-2%), while returns from subsidiaries ranged between 9%-10%. On the other hand, members' loans generated higher returns of 16%-17%. Therefore, the shift in investment concentration subsequent to FY04 did not recognise returns superior to HCU's core lending function.
- In addition, rental income earned from HCU's real estate was from leases with subsidiaries. Income earned from subsidiaries was primarily from interest on loans extended to these subsidiaries. In both circumstances, even though income had been accrued by HCU, these amounts remained outstanding (i.e. no cash was actually paid) to HCU at the end of FY07.
- Whilst the return calculated above for the subsidiaries is on the debt investment in the subsidiaries, the return on the equity investment was negative as almost all the subsidiaries with the exception of Banker's Insurance earned little or no profit.

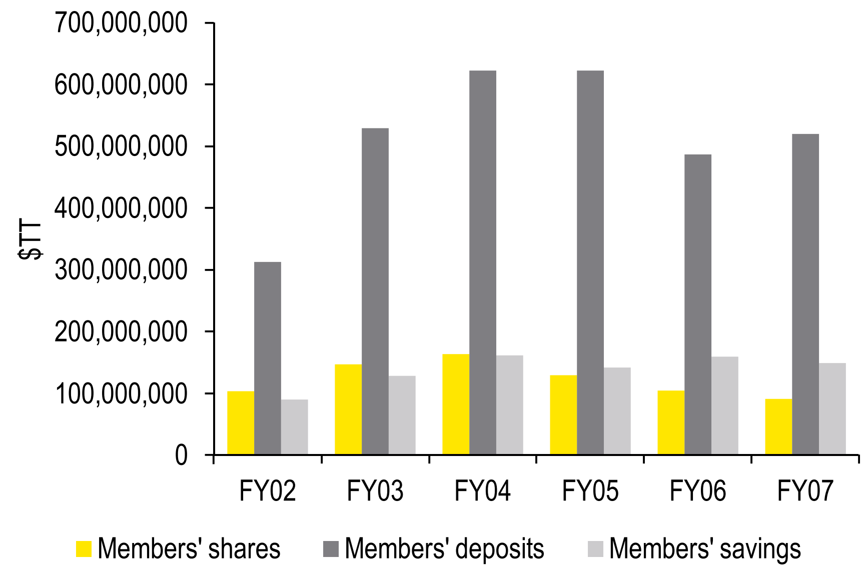


- Real estate investments should earn capital appreciation but the properties were either purchased above the market value and sold below market value or, alternatively, were purchased and significantly enhanced through improvements but sold at less than the purchase price plus the improvements.
- Consequently 75% of the asset portfolio earned almost no return.

Reasons for distress

1.Financial Performance – (c) Decline in members' interests

- The incumbent HCU President stated in a number of public forums that in September 2004, there was a financial run on HCU due to negative publicity which resulted in depositors requiring their funds due to 'fear of loss'. This he formalized as the only reason that HCU was failing and could not meet the payment of its obligations. This "financial run" became the mantra of the HCU's existence from 2004 to the completion of EYSL inquiry. It was constantly verbalized by all senior management and the President during the Inquiry. Furthermore, it is highlighted and documented in all Board of Directors (BOD) minutes. It was constantly used by the BOD and especially the President as the cause and effect for the collapse of HCU.
- At the end of FY04, total members' interest in HCU stood at $948m (total of shares, savings and fixed deposit accounts). This total declined by 6% and then by 16% in 2005 and 2006 respectively. In 2007, there was actually an increase of 1% in members' interest to $760m. At May 2008, total members' interest (according to HCU accounts) was $757m.
- Therefore, there was a general decline in members' interests in HCU since FY04. Total decrease FY04 to May 2008 was approx $190.4m (20%).

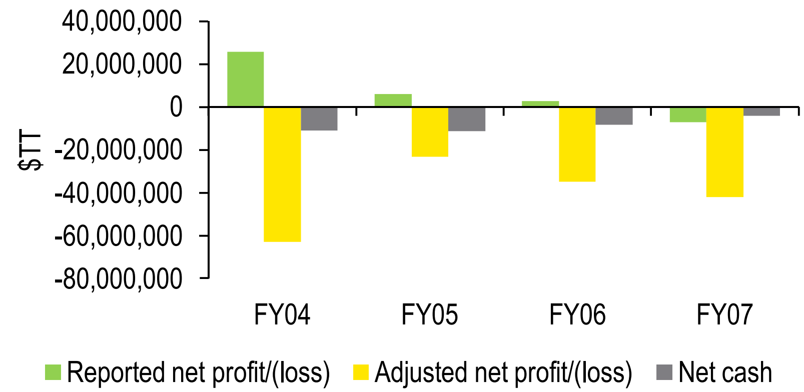


- The asset allocation could not support rapid withdrawals given that the investments were illiquid.

Reasons for distress

1. Financial Performance – (d) Deterioration in operating cash flows

- HCU experienced a steady deterioration in operating profit from FY04 to FY07. In fact HCU moved from a reported surplus of $25.7m in FY04 to a reported loss of $6.99m by FY07.
- However, after adjustments for accrued income for which no cash was received (i.e. subsidiaries' loan interest and rent) as well as non-cash/unrealised amounts (i.e. property appreciation), a vastly different operating performance is presented. HCU's core activity/business failed to realise positive returns for its members.
- As a result, HCU's unprofitability would have placed pressure on its operating (net) cash flows which remained negative over the FY04 to FY07 period. The cash balance declined from $15.7m in 2004 to $866K in FY07.



Reasons for distress

2. Rapid expansion and eventual financial losses of subsidiaries

- The concept of an HCU Group (of Companies) entailed diversifying the asset base of the credit union through direct investments in a number of industries. The intention based on its mission statement was to provide a superior financial return to members and simultaneously facilitate economic and social participation of the members in transactions of HCU. Consequently, HCU incorporated a number of subsidiaries and undertook investments in these subsidiaries to pursue this growth path.
- Based on the review of the correspondence with the CCD, HCU was granted permission to make equity investments in companies up to $250,000. Consequently, on the Balance Sheet for many subsidiaries, the paid in equity capital was $250,000. HCU circumvented this limit by granting loans to the subsidiaries. Consequently, based on management accounts, except for Bankers' Insurance, HCU's subsidiaries were highly leveraged.
- The expansion took place in a relatively short period with rapid growth by acquisitions of businesses and properties within a two year period followed by rapid deterioration in financial strength almost immediately.
- HCU acquired in most cases 100% of each subsidiary, the exception was Bankers' Insurance (67% ownership). This subsidiary was the most viable and was governed by a separate Board of Directors.
- By the end of 2007, HCU subsidiaries equated to a total investment of $205.2m (loans, current accounts and equity investments). This amount included $56m in unpaid/accrued interest. This amount does not include any purchase of real estate for the subsidiaries as these were recorded in HCU and leased to the subsidiaries. This gave rise to an additional $11.9m for outstanding rent to HCU.
- There appeared to be little expertise by the management to operate these subsidiaries and consequently the businesses quickly spiraled into financial difficulty.
- HCU and its members never saw financial returns on these investments except for Banker's Insurance. When all amounts related to the investment in subsidiaries are tallied, this was the largest cash outlay for the credit union. In fact, many of the subsidiaries were insolvent prior to this Inquiry which placed a serious financial strain on HCU.

HCU subsidiaries

- HCU Group consisted of 28 subsidiaries, 16 of which were non-operating[1] as at 31 May 2008. The following presents a snapshot of the HCU Group (as at 31 May 2008).

HCU Co-operative Society (HCU)

	Operating	Non-Operating
Media	HCU Communications Ltd HCU Publications Ltd Massala Radio Ltd	Shakti Communications Ltd Global Television Production Company Ltd
Leisure/ Travel	Trans World Travel (1995) Ltd	HCU World Travel Ltd Jovi's Island Park Co Ltd
Financial Services	Bankers' Insurance Co (Trinidad & Tobago) Ltd	HCU Trust & Asset Management Co Ltd HCU Financial Insurance & Investment Agency Ltd HCU Investments & Pension Consultants Co Ltd
Retail & Distribution		HCU Food Corporation Ltd HCU Home Furnishing Ltd
Security Services	HCU Security Services Ltd HCU Electronics & Surveillance Ltd	
Real Estate	HCU Real Property Developers Ltd	HCU Real Estate Services Ltd HCU World Select Gem Hotel Ltd
Other Professional Services	HCU Financial Ltd Sajeevan Medical Complex HCU Auto Care Services Ltd HCU Foundation	Millennium Advertising Ltd HCU Institute for Higher Learning Co Ltd HCU Impressions & Printing Services Ltd HCU Auto Rentals HCU Emergency Services Ltd

1. Non-operating is defined as closed, not trading or incorporated with no or limited history of trading

HCU subsidiaries

- HCU's total capital committed to the subsidiaries was $161.4m. This excludes capital committed by way of property purchases and improvements that were used by subsidiaries. Investments in subsidiaries' properties were typically recorded in the financial records of HCU. The subsidiaries were either start-ups by HCU or acquisition of existing businesses.
- The following presents a summary of significant acquisitions made by HCU

HCU Capital committed to subsidiaries (at May 2008)	
Loans (principal amt only)	89,919,266
Equity investment	17,261,000
Net current account	54,263,860
Total capital committed	161,444,126

	Details of acquisition	Consideration	Status (at May 2008)
HCU Impression & Printing Services Ltd	Property and equipment	$6.1m	Closed down, property divested
HCU Food Corporation Ltd	Property and other assets	$11.65m plus $0.7m contingent payment	Closed down, property divested
HCU Auto Rentals Ltd	Property	$1.2m	Auto rentals business closed down, property being leased to third party
HCU Auto Care Services Ltd	Property	$0.95m	No significant investment made
Jovi's Island Park Company Ltd	Property and other assets	$2.574m	Significant improvements undertaken to property, closed in 2005
Transworld Travel (1995) Ltd	Share purchase	No information provided	Operating, however, it lost its IATA designation
Bankers' Insurance Company (Trinidad & Tobago) Ltd	67% of shareholding acquired from third party	$12m	Re-emerging from intervention by Central Bank

HCU subsidiaries

- A summary of the financial position of the operating subsidiaries follows:

Operating companies	Revenue	Profit/(Loss) before tax	Total assets	Total liabilities	NAV Status	# of employees (FY07)
HCU Communications Ltd (FY07)	3,617,859	(5,342,312)	18,570,369	63,575,033	Insolvent	42
HCU Publications Ltd (FY07)	1,767,933	(2,253,283)	4,592,364	20,887,202	Insolvent	17
Massala Radio Ltd (FY07)	2,632,829	231,729	17,080,778	16,000,821	Solvent	n/a
Trans World Travel (1995) Ltd (FY07)	204,996	(775,094)	383,167	5,252,672	Insolvent	6
Banker's Insurance Co (Trinidad and Tobago) Ltd (FY07)	35,315,455	5,046,361	55,506,510	38,249,352	Solvent	47
HCU Security Services Ltd (FY07)	3,160,714	(2,366,816)	7,762,038	18,484,759	Insolvent	44
HCU Electronics and Surveillance Services Ltd (FY05)	518,958	(2,125)	743,502	496,023	Solvent	n/a
HCU Real Property Developers Ltd (FY07)	2,361,444	1,359,203	7,318,083	9,322,812	Insolvent	n/a
HCU Financial Ltd (FY07)	1	(1,424,903)	689,127	10,296,022	Insolvent	n/a
Sajeevan Medical Complex (FY07)	830,564	(2,262,168)	8,430,098	16,489,246	Insolvent	9
HCU Foundation (FY05)	450,272	(118,545)	475,432	3,146,979	Insolvent	3
HCU Auto Care Services Ltd (FY07)	729,032	14,886	605,725	1,017,615	Insolvent	6

EYSL used the last available management accounts or audited financials .

HCU subsidiaries

- A summary of the financial position of the non-operating subsidiaries follows:

Non-operating companies	Revenue	Profit/(Loss) before tax	Total assets	Total liabilities	Status	# of employee (FY07)
HCU Auto Rentals Ltd (FY07)	259,518	(46,395)	1,677,526	2,454,141	Insolvent	n/a
HCU Institute for Higher Learning Co Ltd (FY05)	250,197	(620,552)	99,954	637,552	Insolvent	5
HCU Home Furnishings Ltd (FY07)	0	(321,143)	611,890	2,908,555	Insolvent	n/a
HCU Impressions & Printing Services Ltd (FY07)	1,830,501	(2,560,279)	8,324,489	17,687,986	Insolvent	27
HCU Food Corporation Ltd	12,831,768	(10,153,582)	15,557,100	29,997,626	Insolvent	15
Global Television Production Co Ltd (FY06)	4,976	(225,949)	7,480,411	7,743,990	Insolvent	n/a
HCU Trust & Asset Management Co Ltd (FY07)	6,333	(167)	257,472	19,774	Solvent	n/a
HCU World Travel Ltd (FY04)	468,023	125,683	640,429	456,082	Solvent	n/a
Millennium Advertising Ltd (FY05)	0	(22,558	35,178	137,117	Insolvent	n/a
Jovi's Island Park Company Ltd (FY07)	0	(40,238)	379,249	816,004	Insolvent	n/a
HCU World Select Gem Hotel Ltd (FY07)	1,612	(132,053)	1,822,095	1,743,622	Solvent	n/a

EYSL did not receive audited financial statements or management accounts for HCU Emergency Services Ltd, HCU Financial Insurance & Investment Agency Ltd, HCU Investments & Pension Consultants Co Ltd, HCU Real Estate Services Ltd, Shakti Communications Ltd. For all others EYSL used the last available management accounts or audited financial statements.

Reasons for distress

Burden on HCU from financial losses of subsidiaries

- The financial losses of HCU's subsidiaries resulted in a detrimental financial burden for HCU. A snapshot of some of the more significant subsidiary losses is as follows:
  - HCU Communications Group – Total expenditure for this venture was over $86.1m (inclusive of the operating costs of $31.6m). Despite this significant outlay, HCU never managed to attain certain necessary statutory licenses to operate. Furthermore, HCU proceeded to borrow the funds from a third party financial institution and purchased analog television equipment in 2004 for $36.6m on the premise that the necessary transfer of licenses (for which they paid $17.6m) to HCU would take place. As at 16 July 2008, this subsidiary had an outstanding loan balance of $30.32m to the third party institution for the purchase of equipment. This equipment was estimated to be worth in the vicinity of $4.8m as at September 2008 (this was based on a discussion with HCU's lawyer in the US who stated that he was hired to sell the equipment). No return was ever made from this subsidiary.
  - HCU Food Corporation Ltd – This began as the purchase of properties in 2002 and then the acquisition of a trading company from a third party for $9.3m which was supposed to include a license to package bulk sugar. However, the final sales agreement excluded the bulk sugar license. There was little evidence that proper due diligence was performed on the target company, prior to HCU's acquisition. Moreover, the equipment which was included with the purchase did not work and the building was noted to be unsuitable for food storage. In FY04 this subsidiary operated at a gross profit (GP) margin of 8.6%. By FY05, GP margin was negative 10% and it owed HCU $27.7m. The property was sold back to the original owners for approximately $5m and the rest of equipment and inventory to a third party for approximately $250k. The property was transferred even though the full price was not paid to HCU.
  - HCU Impressions and Printing Services - – Two operating businesses were purchased. The purchases included equipment that was not operating and needed to be replaced. The machinery was obsolete but instead of spending capital on machinery upgrade, money was spent by HCU on improvements on the building occupied by the subsidiary, at a total cost of $5.8m. Financial losses of operating this business were estimated at $14.1m (inclusive of interest).
  - HCU Financial Ltd – This company was formed to provide management and consulting services to the other HCU Group companies. Members of HCU's Executive Management team were paid from this subsidiary at one point in time. Effective from January 2008, the salary of the incumbent President was also paid from this subsidiary. This subsidiary owed HCU approximately $10m. There was a fixed deposit in the HCU system reported for this entity even though there was no revenue. This fixed deposit was not recorded in the balance sheet of the subsidiary. There was also a savings account with a balance of approx $3m recorded in HCU's books. At the end of FY07, this subsidiary was insolvent.

Reasons for distress

3. Major transactions that did not materialise into tangible returns

- HCU Financial Company (USA) LLC

  - This company was incorporated in the State of Florida on 21 July 2000 under the name of Mediaco, LLC. Its board of members approved a corporate name change to HCU Financial Company (USA), LLC (HCU USA) on 15 April 2003. The name change was approved by the State of Florida.
  - Due to the laws of Florida, HCU could not own direct interest in the USA (according to legal correspondence on file). Consequently, three HCU directors (including the incumbent President) were the registered shareholders (each holding 33.3%).
  - HCU USA was organised to provide money remittance services. The license was obtained to perform these services on 7 October 2003. However, no evidence was seen to suggest that any commercial transactions related to the transmittal services ever took place.
  - Based on correspondence discovered in the HCU LLC files, there were a number of issues with the management of this company. One example was evidenced by letter to the HCU Corporate Secretary dated 21 January 2003 from the then Managing Director. This letter questioned the appropriateness of HCU's actions in Miami and mentioned a loss of US$150,000 from a transaction that went bad as well as other acquisitions. In addition, there were several complaints seen on file from HCU members in Florida demanding refunds of deposits and cancellation of membership due to lack of professionalism experienced from HCU USA.
  - Based on the audited financial statements 2003 to 2005, it appeared that HCU USA purchased a property in Miramar, Florida at a cost of US$156,010. This was purchased as a rental property. However, there was uncertainty over the 'true' registered owner of this property. There was also a second property which based on file correspondence was purchase in Pembroke Pines, Florida for US$185k, in June 2004. The property was owned by a related party. No HCU Board approvals nor property valuation were seen for this purchase. Furthermore, the property was not disclosed in the HCU Financial LLC financial statements for the years ended September 2004 or 2005. Evidence of wire transfers was seen from HCU to lawyers for at least part of the payment for this property.

Reasons for distress

3 Major transactions that did not materialise into tangible returns

- HCU Financial Company (USA) LLC
  - According to minutes of a management meeting held on 17 February 2005, the then General Manager of HCU USA stated that the operations were to be discontinued on 1 March 2005. There was no other evidence seen to confirm the closure of HCU USA. In fact, accruals for payments to the HCU USA General Manager continued in HCU USA's accounts up to June 2008. Furthermore, correspondence dated 4 July 2006 indicated that the HCU Board of Directors approved an allowance of $60k per month for the incumbent President to perform Chairman duties of the HCU Financial Group of Companies (HCU Group) as well as HCU Financial LLC Miami (HCU USA).
  - It was also unclear what happened to the assets of HCU USA and what arrangements were made to have these assets liquidated and returned to the HCU, upon closure. Based on discussions with HCU's legal counsel in Florida, HCU was said to have no direct rights to HCU USA's assets in Florida but rather it would have to have sought this through the shareholders of HCU USA, if it were to succeed in any repatriation.

Reasons for distress

3. Major transactions that did not materialise into tangible returns

- Upward Trend Entertainment Limited (Upward Trend)
  - Upward Trend owned the radio license for Radio Shakti, which was operated by HCU Communications Ltd (a HCU subsidiary).
  - In May 2005 an agreement was signed between Upward Trend and HCU where the latter was given the option to purchase 75% of Upward Trend for $5m. A 10% deposit of $500k was paid by HCU, with the balance payable one year later (May 2006).
  - According to one of the directors of Upward Trend, final payment was never received and the transaction never closed. Furthermore, the deposit paid by HCU was not repaid by Upward Trend as the latter was due other outstanding monies by HCU (according to the Upward Trend director). These outstanding amounts resulted from an arrangement (captured by signed agreement) for HCU Communications Ltd to pay Upward Trend 20% of advertising revenue of HCU Communications. There was no evidence that these outstanding amounts were accrued in HCU Communications Ltd's accounts. According to the Upward Trend director, outstanding amounts as at 4 June 2007 were approximately $1.9m.
  - Evidence from files seen on this business relationship also revealed an agreement that Upward Trend could borrow funds from the HCU at 10%.
  - File correspondence was also seen (dated 9 June 2008) referencing the sale of property at No.23A Pine View Gardens, Welcome Village, Cunupia at a price of $750k to the Upward Trend director, who took possession of the property. There was no evidence seen of a final purchase agreement or of a sale being executed.
  - The concluding position of this business transaction and its multiple arrangements was difficult to ascertain as the files provided to us lacked all the correspondence related to the transaction. This was further hampered by poor record keeping/book keeping which failed to contain the necessary accounting entries for the transaction. However, what was apparent was that as at May 2008, neither HCU Communication Ltd nor HCU owned the radio license for Radio Shakti and the 10% deposit paid for such was not repaid.

Reasons for distress

3. Major transactions that did not materialise into tangible returns

- World Select Gem Limited (World Select)

  - World Select Gem (World Select) was incorporated on 24 January 2005. This company was formed subsequent to the signing of a Memorandum of Understanding (MOU) between HCU and the Chaguanas Administrative Complex Limited (CACL) on 22 January 2005.
  - HCU purchased a property in Chaguanas (known as 'Twin Towers') from CACL for the sum of $16.9m in 2003. It was agreed in the MOU that World Select Gem was to be formed and that this property was to transferred to World Select at the same $16.9m (two years later) with HCU being paid by way of the issue of 16.9m shares. Further, CACL was to acquire 8.45m shares in World Select from HCU and pay for these shares by non monetary means (i.e. securing financing for World Select to complete the Twin Towers as well as complete the Twin Towers).
  - To the contrary, the incorporation documents of World Select stated the shareholders as HCU and Appleby Holdings Limited, each holding 50% interest. Appleby Holdings is a company owned by a third party who also had an interest in CACL. In May 2005 the share capital of World Select was increased from $16.9m to $21m, maintaining the original shareholding structure. In addition to equity injection, the shareholders extended loans to the value of $14.8m as at 31 December 2007.
  - World Select's principal activity was the construction of the Twin Towers (an office complex). As at September 2008, however, the Twin Towers were not completed and thus World Select did not generate any revenues. The net asset value of World Select was $29.3m as at 31 July 2008 (with HCU's share based on this net asset value being $14.6m). However, HCU had recorded its investment in World Select at $20m.

Reasons for distress

3. Major transactions that did not materialise into tangible returns

- Jesse's Court Limited (Jesse's Court)
  - Jesse's Court was incorporated on 1 February 2005, subsequent to the signing of an MOU between HCU and Appleby Holdings Limited. Both parties were desirous of completing an incomplete commercial building comprising of four floors situated on Eastern Main Road Tunapuna (Tunapuna Mall). The property was owned by HCU. In the MOU dated 22 January 2005, it was agreed that Jesse's Court would be formed with 6m shares and the property transferred to Jesse's Court for $6m and paid for by issuing 3m shares to HCU and $3m in cash. Appleby Holdings would pay $3m in cash for the issue of 3m shares.
  - The property was subsequently completed and was represented in the accounts of Jesse's Court at $20m as at 31 March 2007. Of this $20m, $9.429m represented a revaluation surplus. In 2008, fixed assets of Jesse's Court increased to $33.868m due primarily to the transfer of two properties from HCU. Moreover, loans to shareholders also increased by approximately $13m in the same period, implying that HCU might not have been paid for the properties transferred from HCU. No definitive agreements were seen in relation to the transferred properties.
  - Management accounts for Jesse's Court revealed that in the year of incorporation, Jesse's Court did not generate any revenue. For the year 2007 and 2008, $1.3m and $2.7m in revenues were generated, respectively. In 2007 losses of $60k were realised, while profits of $223k were generated in 2008.
- Other notable failed ventures included:
  - ATM's purchased for $1.5m but never used
  - Visa Debit cards which cost $2.265m.
  - Upgrade of the computer system of $3.8m that was never installed.

  None of these ventures yielded any returns or value to the credit union.

Reasons for distress

4. Poor corporate governance

There were a number of events and business activities which pointed to poor governance at HCU. The following highlights just a few examples:

- Real estate construction and property improvements
  - Between 2002 and 2008 HCU spent over $110m in construction contracts, which were awarded to two - three contractors. No tender documents for projects were evident, and based on EYSL's discussions with HCU representatives, there was no tendering for these contracts. Additionally, EYSL was not presented with any independent quantity surveyors' reports for work completed and paid. In fact the approval of a contract, certification of work done and approval for payment were, in most instances, performed by HCU's incumbent Corporate Secretary.
  - With these contractors, there were instances where:
    - Tender documents were not seen.
    - The major contractor(accounted for $75m of the expenditure) was a company incorporated only in 2002 where the incorporator's occupation was listed as an HCU Marketing Representative.
    - The Company was not listed in the telephone directory nor registered with the Trinidad and Tobago Contractor's Association.
    - The payments to this contractor were examined (subsequent to a request from the BOD in 2005) by an independent big Four firm and irregularities were noted, yet significant payments continued to be made.
    - No quantity surveyors' reports were attached to the cheque payment vouchers to quantify independently the work performed.
    - No details pertaining to the work conducted were stated on invoices remitted to HCU for payment.
    - There was no VAT registration number stated on the invoices and none was charged.
    - Poor quality of work was reported on a few projects conducted by one of the contractors; despite this there was no evidence seen of HCU refuting payment on the basis of quality of workmanship.

Reasons for distress

4. Poor corporate governance

- In another example $18m was spent on a property which was only valued at $12m in the Asset Swap with CLICO.
- In 2005 the HCU admitted to the contractor that there was a cash flow problem and stated that he, and another contractor, were to be paid via fixed deposits created at HCU.
- A property purchased by HCU for $1.1 million in 2003 was sold to the contractor for $350k in 2006.
- In 2007 another property was sold at an agreed price of $6.4m but the Deed stated $3.5m (it was stated that this was to save stamp duty).
- In a legal dispute over one of the properties an external quantity surveyor valued work completed as approximately $600k but the monies spent by HCU totaled $3m. The amount spent was therefore not recovered.
- One of the properties(Jovi's Park) where the contracted price was $8m to perform a number of construction projects, was visited by EYSL, and all that was seen was an unfinished board walk. According to the records at HCU $5.9m was paid for work done. There was no report seen that was given to the BOD to account for this. The park was never operated.
- It was apparent that these contractors were paid for some of these contracts via the establishment of HCU fixed deposits and below market value sale of properties.
- These contractors' fixed deposits were among the deposits transferred to CLICO as part of the CLICO Asset-Liability swap.

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Reasons for distress

4. Poor corporate governance

- Related Party Transactions
  - EYSL used International Accounting Standard (IAS) 24 as the definition of “related parties” (see Appendix for details of IAS 24)
  - EYSL’s review of documentation and transactions for the period 2004 to 2008 revealed a number of transactions that were deemed to be related party transactions including, but not limited to, the following:
    - Sale of HCU property below the cost paid by HCU to the President’s wife. There was no documentation presented to us to validate that the price at which it was sold was at market value. The proceeds of this transaction were not seen. EYSL learnt that a loan was to be established in favour of the purchaser to acquire the property, however no such documentation was presented to us.
    - Purchase of property in Florida from a related party without a valuation report or BOD approval.
    - Reimbursement totaling $968,310 to the President’s sister which, according to HCU representative was for a down payment made by this related party on behalf of HCU in relation to a business transaction. Moreover, the related party was not listed as an employee or agent of HCU authorized to conduct business on behalf of HCU. Additionally, no evidence was presented by management to EYSL to support the payment by the related party on behalf of HCU. In addition, there were numerous reimbursements for foreign travel and payments to this related party without supporting documentation.
    - Sale of lots to HCU directors and CEO at prices below the acquisition price, resulting in loss on disposal of $25,000 per lot.
  - There were also HCU directors including the President who had close relatives in key positions of the organisation. The practice of recruiting closely related family in critical positions is not in line with sound corporate governance practices.

Reasons for distress

4. Poor corporate governance

- Cash outtake by the incumbent President
  - The President's total expenses over the period of 6 years were over $7.6m. In most instances we were not presented with supporting documentation such as bills and invoices. One major example of this was foreign travel expenses which accounted for almost $5m of this total. In the majority of cases, direct transfers were made to the President's Visa account.
  - The President received a salary of $50,000 from January 2008 for responsibilities relating to HCU, HCU USA and HCU subsidiaries, in spite of the losses and closures of these businesses as well as the critical cash shortage being experienced at HCU.
  - The President's expenses and his salary were paid in cash even though cash withdrawals for staff salaries were being rationed.

- Management and issuance of loans were at times in contravention to HCU's bye laws
  - There were a number of directors whose loans were in arrears. At a time when HCU was in such a cashflow crisis, the directors should have ensured that their loans were up to date and no new loans granted to directors or staff.
  - A new loan was approved for $900k for the incumbent President in February 2008 when deposits could not be withdrawn by members and numerous loans could not be disbursed, given the cash flow crisis of HCU. The new loan was disbursed even though his other loans were in arrears.
  - Loans were issued at a rate of zero percent to certain members of staff and directors.
  - Loans were granted to non members.
  - Loans were granted in amounts in excess of the stipulated restrictions given the member's shares in HCU.
  - HCU's loan portfolio consisted of loans in arrears in excess of $65m. Furthermore, there was a significant amount of unsecured loans as well as loans where the value of collateral held was not updated.

Reasons for distress

4. Poor corporate governance

- Property Transactions
  - Our review revealed a number of issues around property transactions. These included the following:
    - No disposal or acquisition policies related to the investment or fixed asset properties and hence it was doubtful whether property transactions were conducted with the aim of maximizing members' returns
    - A number of properties that were sold below market value and in some instances without any independent valuation reports
    - Instances were properties were purchased above market value which resulted in reduced opportunity for capital appreciation
    - Instances where properties were conveyed/sold without obtaining the full proceeds or purchased without ensuring proper legal title
    - Instances where properties were conveyed to contractors in lieu of payment
    - Instances were properties were sold to staff or related parties that resulted in losses on disposal
- Other correspondence reviewed revealed that transactions were not always properly investigated, due diligence performed or commercial analysis performed prior to expended large sums of money. Matters did not appear to be presented to the BOD for consideration.
- Security access to the IT system was not adequately restricted.

Other major matters

- CLICO Asset-Liability swap - Based on the information provided by HCU, it was intended that it engage with CLICO (through HCU Financial Limited) by agreement dated 3 May 2005 on the following:
  - Form a strategic alliance between the two entities with respect to the marketing of deposit accounts.
  - CLICO to agree to undertake and take assignment of certain HCU accounts payable.
  - HCU to continue to assign to CLICO and CLICO to undertake to service the payables of the HCU as and when required.
  - The net total sum of all the payables of the HCU to be assigned shall not exceed $200m.
  - In consideration of the partial performance of CLICO's obligation, HCU promised to execute the following:
    - An option to purchase at and for the sum of not more than $225m 70% of HCU Financial and 100% of all issued shares of HCU Real Property and/or at CLICO's sole discretion an option to purchase all the real properties identified in the agreement. The final price was to be determined by outcome of valuation by a third party.
    - A first mortgage for the sum of $100m over the properties to be transferred.
  - Notwithstanding the above, in further consideration of the undertakings outlining, HCU was to grant an irrevocable option to CLICO to purchase the said land as described in the agreement at and for 75% of the market price.
  - The above was signed by members of HCU, HCU Financial and HCU Real Property Developers Limited and a representative from CLICO.
  - Discussions with CLICO revealed that when the due diligence was conducted on the HCU subsidiaries, in question, CLICO realised that there was no real value to the subsidiaries except for the real estate assets. The transaction then changed into an asset-liability swap, where selective assets (mainly properties) were to be transferred to CLICO along with depositors' accounts. HCU entered into sale and lease back arrangements for some of the properties transferred. The approx value of the swap was $175m - $178m.

Other major matters

- CLICO Asset-Liability swap (cont'd)
  - At time of our report, we were unable to confirm the final position on the value of the assets transferred. Further, there were discrepancies between HCU's values on properties to be transferred and that of the third party valuator. In one instance, a mortgage was used to replace one property after it was revealed that proper title was not available for the respective property.
  - Notably, included in the list of depositors' accounts to be transferred to CLICO were deposits for HCU ($15m), Banker's Insurance ($3.5m) and the incumbent President ($750k). A review of his account number 002813 showed no transfer of the fixed deposit from his account. It is unclear where the transfer of fixed deposits in the name of the Hindu Credit Union arose from as there were no fixed deposits held in its own name.
  - Discussions with HCU about the method for allocating depositors for the transfer revealed that it was supposed to be based on the most urgent request for payments. There was no BOD approval seen for the list of fixed deposits transferred.
  - The mortgage owed to CLICO was not paid since March 2007, the actual mortgage was not recorded in HCU's management accounts nor was the property reinstated when it was not transferred.

Major balance sheet accounts

Members' loans

Members' loans

- The core business of HCU was supposed to be to grant loans to members at reasonable rates and provide returns on their shares. Loans were made to members, non members and HCU subsidiaries.
- The HCU loan portfolio (gross balance) at FY07 was $194m compared to $433m in FY04 (66% decrease). On the contrary, loans to subsidiaries increased from $54.6m at FY04 to $133m (inclusive of interest of $38m) at FY07.
- At 30 May 2008 loans (gross) stood at $327m (principal and interest) with loans to members of $171m before provisions and loans of $156m (principal – $89.3m) to subsidiaries. It should be noted that the management accounts stated loans to subsidiaries as $133m however this included some manual entries made to reflect loan amounts approved and distributed to subsidiaries for the purchase of land for HCU that never materialized. These amounts were not reversed on the CUMIS system.
- The current loan provision of $20.6m had not been reviewed or approved since FY05. However, the total balances of loans greater than 90 days in arrears was $44.8m.
- A review of the HCU's loan portfolio showed the following:
  - Non adherence to the rules set out in the Co-operative Societies Act, the Regulations, and the Bye Laws governing HCU especially as it related to:
    - The lack of approval by the credit committee and/or the Board of Directors
    - The absence of approval from the Commissioner for mortgage loans and loans made to subsidiaries and non members
    - Instances where the instruments of charge (IOC) were not obtained for loans granted
    - The inadequacy of security held as collateral for the loans
    - Loans to officials that exceeded their shareholding in the credit union
    - The six month period that must elapse before a member can qualify for a loan was not adhered to

Members' loans

- Loans issued to the directors, staff and the president were not always issued in accordance with the Bye Laws, the HCU loan policy, the Act or the Regulations
  - Appropriate approvals were missing for loans granted
  - Loans were not adequately secured
  - The required IOCs were missing or had not been registered as required by the Act
  - Amounts granted to the directors were in arrears and in some instances further loans were being granted
  - The Commissioner's approval was not seen for land purchases made by some directors
  - The duration of the loan was not consistent with the purpose of the loan
  - The amount granted was in excess of the amount of shares held at HCU
  - There were missing application forms for amounts granted
- Interest rates offered by the HCU were higher than lending rates offered by other financial and non financial institutions in Trinidad and Tobago.
- Directors and staff have benefitted from zero rated loans. As per the loan trial balance as at 31 May 2008, of the $14.8m loans which attracted a zero rate of interest, $12.1m remained outstanding.
- Loans were extended to directors in the first six months of 2008, even though depositors were unable to withdraw their funds.
- The required documentation that should be kept on loan files was inconsistent.
- Loans were made to subsidiaries to support the operating expenses of the entities even though there was no evidence that these entities would be able to repay the loans granted. These loans were unsecured and collection was unlikely given the poor financial performance of the subsidiaries.

Net outstanding liability

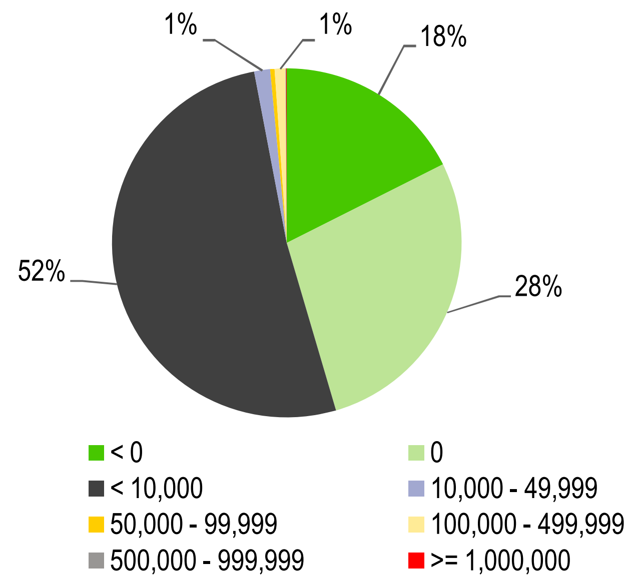
- This summary of pending withdrawals was provided by HCU. This represented unfulfilled requests for withdrawal of deposits and shares made by members as at June 24, 2008. The following is a summary of pending withdrawals.

	Total as at June 2008
Fixed Deposits - TTD	103,356,639
Fixed Deposits - US in TTD	5,379,416
Multiplier	12,988,879
Savings TTD	1,808,176
Savings US in TTD	171,953
Shares	16,369,660
Total	**140,074,723**

- The amounts above are separate and apart from other requests which were the subject of litigation during the Inquiry and/ or for which judgments were awarded. These separate categories totaled $110m and included:
  - Judgments awarded by High Court - $28m
  - Legal Matters Pending - $44m
  - Judgments awarded by the Commissioner - $32m
  - Pending matters referred to the Commissioner - $6m

Net outstanding liability

- When members' outstanding loans are applied to their deposits and shares, the net liability owed to members is reduced from $704m to $478m.
- 28% of the 152,051 members included in the Members' Deposit Report are settled to a zero balance and the remaining 62% have a net liability position, being owed $664m cumulatively.
- Furthermore, the distribution of member accounts with a net liability revealed that 52% of members are owed less than $10,000 each, which totals 6% of the total outstanding liability, or $27m; while less than 1% is owed over $1m each, which totaled 40% of the total outstanding liability, or $193m.



Fixed assets/Real estate

Fixed assets/Real estate

	FY04	FY05	FY06	FY07
Investment properties	258,174,631	253,993,016	182,641,373	182,641,373
Fixed assets (includes real estate)	207,039,732	208,192,978	185,032,710	187,380,454
	465,214,363	**462,185,994**	**367,674,083**	**370,021,827**

HCU's real estate holdings were allocated in its balance sheet between investment properties and fixed assets. The 10% decrease in fixed assets from FY04 to FY07 was attributed to the net effect of the following key variances:

- Office equipment, furniture and motor vehicles – Additions of office equipment and furniture were for the benefit of HCU's head office, its branches as well as a few HCU subsidiaries. In the case of disposals, the main transactions were motor vehicle disposals.
- Other acquisitions/additions:
  - Television equipment for $36.6m for one of HCU's subsidiaries. HCU acquired the television equipment between 2005 and 2006.
  - ATM machines for $1.5m purchased in 2005 for an intended ATM network which never materialized.
  - IT upgrade of $3.8m in relation to a new information management system (the Flexcube project) to replace CUMIS; the project was terminated before implementation.
- Depreciation charges on fixed assets

- There were amounts under fixed assets in relation to leasehold improvements (NBV at FY07 and May 2008 - $1m and $920k respectively). According to HCU management, leasehold improvements consist of costs incurred in fitting out (fitting and fixtures) branch locations which were leased, not owned by HCU.
- Some of these branches, such as Couva (improvements booked in general ledger of $3,175,239), Rio Claro (improvements booked in general ledger of $8,347), and Arima (improvements booked in general ledger of $57,919) were all closed on 31 December 2007.
- The office furniture and equipment (OFE) for the closed branches were removed and stored at HCU's warehouse in Chaguanas and a warehouse sale was held in 2008 resulting in the partial disposal of OFE from closed branches. The total sale proceeds posted in HCU's accounts were $79k from the sale.

Fixed assets/Real estate

	FY04	FY05	FY06	FY07
Investment properties	258,174,631	253,993,016	182,641,373	182,641,373
Fixed asset properties	169,163,558	142,895,840	127,718,387	133,741,675

- Investment properties were those which were primarily occupied by subsidiaries or acquired to realize investment income. Notably, for both categories (investment properties and fixed asset properties), there were unreconciled differences between balances shown on HCU's trial balance and its management accounts for FY06 and FY07. Since the 2005 audit, there was a general lack of postings of transactions in these balance sheet accounts. Therefore, the above balances do not reflect HCU's real estate transactions for FY06 and FY07.
- During the Inquiry, EYSL with the assistance of management, calculated the final real estate balance. Based on our review and schedules presented by HCU, the major real estate activity since FY05 to May 08 included:
  - Additional properties purchased - $35.4m
  - Property revaluations - $22.95m
  - Capitalized property improvements - $37.9m
  - Property disposals totaled- $247.2m:
    - FY06 - $195m ($168m sold to CLICO in the Asset-liability Swap)
    - FY07 – 18.4m
    - FY08 - $33.2m
- After adjusting for un-posted transactions, fixed asset properties were $151.3m and $141.6m in FY06 and FY07 respectively; while investment properties were $140.4m and $140.1m in FY06 and FY07 respectively.
- With annual rental income of approximately $1.64m earned by HCU on its properties, the annual cash yield on HCU's properties was a minimal 0.7% based on the May 08 total (adjusted) real estate balance.

Fixed assets/Real estate

There were a number of exceptions noted during our review of HCU's real estate portfolio:

- There was poor maintenance of supporting documents for acquisitions and disposals of fixed assets. One of HCU's major acquisitions was the purchase of TV equipment for Global Television Limited; however supporting documents could not be reconciled with costs capitalized in the general ledger. In the case of disposals, improper book keeping significantly reduced the level of assurance on the receipt of proceeds and the recognition of gains/losses on disposal of fixed assets, particularly motor vehicles disposals.
- Real estate transactions (disposals and additions) were not posted to the general ledger for FY06 to May 2008. There was a general lack of proper accounting (i.e. allocation of acquisition cost, improvements, and/or revaluations) on an individual property basis; this was a direct consequence of the absence of a property register.
- In the case of property disposals:
  - There were a few instances where proof of sale by way of purchase agreement and/or deeds were not seen on file.
  - There were cases where sale proceeds on disposed properties were below original acquisition costs or carrying values of properties (i.e. values including original acquisition costs, improvements and/or revaluations) at the time of sale. HCU realized a loss of approximately $42m on disposals (based on book values) from the CLICO swap, related party sales, payment to contractors and other transactions.
  - The lack of proper accounting on an individual property basis also presented a challenge in obtaining the values of properties sold by HCU at the disposal date. Furthermore, the evidence on file of independent valuations prior to disposals was not always seen.
  - EYSL's investigations revealed that in numerous cases, non-cash sales were executed. More specifically, properties were transferred to new owners in lieu of deposits held at HCU or in settlement of outstanding invoices.

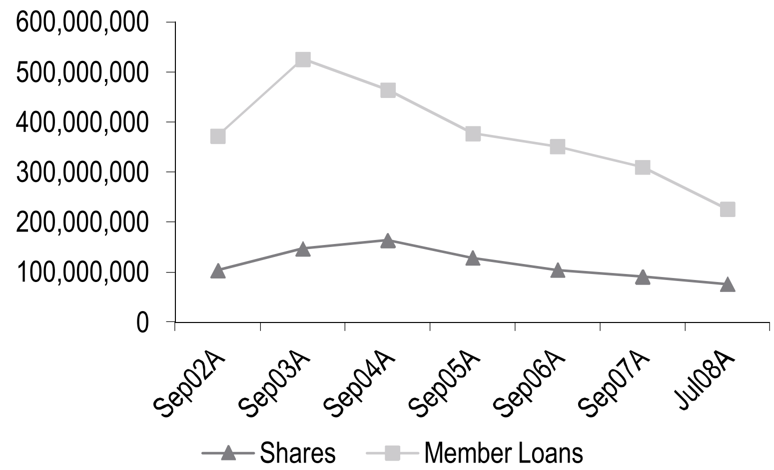
Fixed assets/Real estate

- EYSL's review of property files on HCU's real estate portfolio, also brought to light the following:
  - HCU's Head Office location at Main Road Chaguanas, its property at 5 Mulchan Seuchan Road currently leased to Bankers Insurance, and its San Juan branch were all acquired above market value, based on valuations prepared prior to acquisition. Both HCU's Head Office and 5 Mulchan Seuchan Road were mortgaged with Intercommercial Bank Limited.
  - HCU did not perform proper legal due diligence while pursuing the purchase of a warehouse in Arima. As a result, full legal title could not be obtained; instead HCU had to settle for an Assignment of Lease from the Landlord. HCU also entered into a similar arrangement for a parcel of Caroni Lands located in Cunupia. Both sites remained vacant/undeveloped, since the execution of lease agreements.
  - HCU commenced work on a property on Monroe Road to house a new printing press, before possessing legal title on the property. The transaction was terminated and HCU was granted a consent order for damages from the High Court for $821k. This judgment consisted of the down payment paid by HCU of $295k as well as a value of completed works of $526k which was based on a valuation conducted by an independent Quantity Surveyor. This value was significantly less than the actual payments made by HCU, totaling $3.1m for work done on this property.
  - HCU entered into an agreement to sell the HCU Convention Centre to CLICO, but the property was subsequently conveyed back to HCU. There was no evidence on file of Town & Country Planning approvals for this property. This property was mortgaged to CLICO, stamped to cover $35.2M. Furthermore, one of the sites included under the Convention Centre property was paid for by HCU, but legal title was not attained as at May 08.
  - Generally speaking, no evidence of Town & Country Planning approvals were seen in the majority of the property files reviewed, except for Pine View Gardens and Savitur Development.
  - HCU terminated a purchase agreement for a property in Port of Spain. After completing works on the property at a cost of approximately $2m, HCU decided to file a claim against the vendor for non performance of specific terms contained in the executed purchase agreement.

Members' deposits/shares

Members' deposits/shares- key highlights

- Membership, as measured by book value, peaked in FY04 at $164m. Thereafter there was a consistent decline by 21.3% in FY05, then 19%, 13% and 17% each fiscal year there after.
- EYSL obtained a report of all members (with share balances, savings, fixed deposits and loans) as at July 28, 2008. This report contained 152,051 individuals with an assigned member number. Of these, 23,921 had no shares and 13 had a negative share balance, bringing the number of members with shares to 128,117. Of the total members (i.e. 152,051), 98.7% had shares of value less than $10,000 each which represented $44m or 58% of total value of shares; while less than 1% of members had shares over $100,000 each, representing $1.1m or 1.5% of total value of shares.
- Loans should not be granted, except with the specific approval of the Commissioner of Co-operative Societies, unless a member has shares.
- There were only three subsidiaries with shares in HCU, but 18 subsidiaries had outstanding loans. The three subsidiaries with shares (thus members of HCU) were: Bankers Insurance, HCU Food Corporation and HCU Foundation.
- Of the 23,921 members without shares, these had deposits with HCU totaling $51.5m and 70 of these members had outstanding loans as at July 2008. Furthermore, 99% of the outstanding loan balance held by members without shares were held by 16 of HCU's subsidiaries.



Members' shares				
FY04	FY05	FY06	FY07	Jul 08
163,805,057	128,844,348	104,580,718	91,069,912	75,932,086
11.5%	(21.3%)	(18.8%)	(12.9%)	(16.6%)

Members' deposits/shares- key highlights

- Members' deposits consisted of savings accounts or fixed deposits. These generated interest for members at rates ranging from 2.5% APR to 14% APR.
- Overall movement in deposits stemmed from movements in fixed deposit balances (rather than savings accounts). In total, deposits grew rapidly from $401m in FY02 to $784m in FY04, then declined in FY05 and FY06 to $664m. After the declines in FY05 and FY06, there was an increase of 3.5% in FY07. It is likely that this increase was due to the accrual of interest on deposits coupled with the limitations placed on cash withdrawals to depositors, because of HCU's cash flow issues.
- The annual interest rates paid on fixed deposits varied significantly from 1.5% payable mainly on US$ denominated deposits to a high of 14%. There was less variation on saving accounts of 1% to 3% on average, with 7% paid on staff premium accounts and 6.5% (historical average) on multiplier accounts.
- At July 2008:
  - 95.6% of members or 138,991 (excluding subsidiaries) had deposits with outstanding balances of less than $10,000 each, which totals 9% of the total outstanding liability, or $65m.
  - 0.1% of members or 96 (excluding subsidiaries) had deposits with outstanding balances greater than $1m each, which totals 28% of the total outstanding liability, or $200m.
  - Subsidiaries' deposits totaled $53.7m. EYSL did not receive any supporting documentation to confirm that these deposits were created through cash transactions. The top five subsidiary deposits were as follows:
    - HCU Financial Ltd - $20.8m
    - Banker's Insurance - $10.4m
    - HCU Real Property Development Ltd - $5m
    - HCU Impression and Printing Services Ltd - $4.1m
    - HCU Food Corporation Ltd - $1.5m
  - Approximately $17m in deposits were created in lieu of payment for property acquisitions, held by HCU.

Appendices

International Accounting Standard (IAS) 24

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

A party is related to an entity if: [IAS 24.9]

(a) Directly, or indirectly through one or more intermediaries, the party:

- (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
- (ii) has an interest in the entity that gives it significant influence over the entity; or
- (iii) has joint control over the entity;

(b) The party is an associate (as defined in IAS 28 Investments in Associates) of the entity;

(c) The party is a joint venture in which the entity is a venture (see IAS 31 Interests in Joint Ventures);

(d) The party is a member of the key management personnel of the entity or its parent;

(e) The party is a close member of the family of any individual referred to in (a) or (d);

(f) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) The party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Bye-law amendments

- HCU was governed by its Bye laws which were amended to cater for expanded objectives under the Group structure. These amended objectives included:
  - Providing insurance coverage for shares held and loans outstanding by members
  - Purchasing for re-sale to members goods of all kinds stores and consumable articles of all description and material for religious and ceremonial activities
  - Establishing food stores, sports centres, cottage industries and book stores
  - Purchasing and developing residential lands for resale to members
  - Purchasing and developing lands and constructing homes thereon for sale;
  - Investing in wholly owned subsidiaries and companies to provide goods and services for the needs and welfare of members

Snapshot of major subsidiaries

The following presents a synopsis of a number of HCU subsidiaries:

- Operating
  - ***Banker's Insurance Company of Trinidad & Tobago Limited***
  - ***HCU Communications Ltd***
  - ***HCU Auto Care Services Ltd***
  - ***HCU Real Property Developers Limited***
  - ***Global Television Production Company Limited (non-operating)/Radio Massala Limited (operating)***

- Non-operating/Closed
  - ***Jovi's Island Park Company Limited***
  - ***HCU Financial Ltd***
  - ***HCU Impression & Printing Services Ltd***
  - ***HCU Food Corporation Ltd***
  - ***HCU Auto Rentals Ltd***

Snapshot of major subsidiaries

- ***Banker's Insurance Company of Trinidad & Tobago Limited***

  - HCU purchased an interest in Banker's Insurance Company Limited (Banker's) from a third party for $12m, in 2003. HCU owns 66% of Banker's Insurance, with the remaining 34% being held by Aurora Investment Limited.
  - In 2003 the company had nine branches with six desks being located at HCU's branches. Premiums collected by these branches were held on account and netted off against any amounts owed to HCU for claims outstanding. In most instances there were net balances in favor of Banker's.
  - Banker's was able to grow its gross written premium income from $6m in 2002 to $35m in 2007. Management accounts year ended 31 March 2008 indicated a marginal decline in gross written premium income to $34.6m. The company made underwriting profits from 2004 to 2008 with the exception of 2006. However the Company had a Retained Deficit from brought forward losses which only returned to a positive balance in 2008.
  - In 2008 there was a significant increase in claims incurred, originating primarily from the motor insurance line of business. Management expenses averaged $6m over the period 2004–2008.
  - Banker's underwrote $34.6m in gross premiums for general insurance business in 2008. HCU and HCU subsidiaries accounted for $1.6m of this total and these premiums were in arrears past 60 days.
  - The total assets of Banker's as at 31 March 2008 was estimated at $63.8m. This comprised of property plant and equipment of $20.7m, investments of $16.3m, savings and fixed deposits with HCU of $12m, receivables of $13m (of which $1.6m was due from HCU and HCU subsidiaries which were over 60 days in arrears).
  - Further, at the end of its financial year 2008, the company was in a surplus position regarding its Statutory Deposit Requirement but in a deficit with respect to its Statutory Fund Requirement of approximately $400k. The Bank therefore had to increase its assets pledged to the Central Bank of Trinidad & Tobago to satisfy its Fund Requirement.

Snapshot of major subsidiaries

- ***HCU Communications Ltd***

  - This entity operated Radio Shakti (97.5 FM). However, the license was owned by Upward Trend Entertainment Ltd (Upward Trend). Based on an undated but signed agreement, this arrangement was designed to effect a sale of 75% of the shares of Upward Trend to HCU for consideration of $5m. Sale completion was intended to take place one year from the date of renewal of Upward Trend's existing license from the legislator TATT. A deposit was made to the owners of Upward Trend to effect the transaction. This agreement was never consummated and EYSL was unable to determine whether the deposit was reimbursed.
  - Based on discussions with HCU management, this entity was thought to have experienced limited success in effectively attracting advertising from business members and other companies. Furthermore, several overhead expenses for HCU's other media companies were paid by HCU Communications Ltd, without reimbursement. Therefore, the losses recorded for this subsidiary were overstated.
  - HCU and its other subsidiaries advertised on Radio Shakti. As a result, a portion of the inter-company receivables held on HCU Communications Ltd balance sheet related to amounts due from other subsidiaries; with the majority being due from Massala Radio Ltd, HCU Publications Ltd and Global Television Production Company. EYSL was unable to determine the specific transactions that underpin these receivables. However, based on evidence seen in relation to the sale of Massala Radio Ltd to HCU, it was likely that these receivables came as a result of an arrangement made for HCU Communications Ltd to manage Massala Radio Ltd.
  - Discussions with HCU management indicated that consideration had been given to closing this subsidiary and selling off certain assets.

Snapshot of major subsidiaries

- ***HCU Auto Care Services Ltd***

  - On 25 January 2001 HCU Autocare Services Limited (HCU Autocare) was incorporated to provide a one-stop-shop for private automobile owners and companies. Its goal included the purchase of land to build a proper facility with hi-tech equipment and to have properly trained and adequate staff in order to execute its mission of providing quality service.
  - For FY06 and FY07, HCU Autocare generated gross profits. A mere $15k net profit was realised in 2007. However, a net loss of $130k was realised in 2006 due to heavy general and administrative expenses, with salary expenses contributing a major portion of these expenses, 46% in 2006 and 80% in 2007. The company had six persons on its payroll for both years.
  - The company also had receivables from related parties of $89k and $271k at year end FY06 and FY07 respectively.

Snapshot of major subsidiaries

- ***HCU Real Property Developers Limited***

  - HCU Real Property Developers Limited (Real Property) was incorporated on 9 April 2001. Its principal activity was to act as an agent for HCU to collect rental income and purchase and develop properties on HCU's behalf.
  - The main sources of income for Real Property were rental income from the Convention Centre and sales/rentals from Pineview Gardens.
  - In FY06 Real Property earned income from the Convention Centre of $851k and $43k from other commercial rental income. In FY07, $1.9m was earned from the Convention Centre and $441k from Pineview Gardens. However, administration/general and interest expense (from HCU loans) eroded these incomes resulting in net losses of $1.5m and $1m in FY06 and FY07 respectively,
  - At 30 September 2007, Real Property reflected a building value under fixed assets of $1.8m which was a brought forward balance of development costs expended on Pine View in 2002 and 2003. During those years, $12.3m was spent on development costs and recorded in Real Property. $10.5m of this was transferred to HCU via an accounting journal entry in 2003, leaving a balance of $1,804,942.
  - The development arm of Real property did not operate as envisaged.

Snapshot of major subsidiaries

- ***Global Television Production Company Limited (non-operating)***
- ***Radio Massala Limited (operating)***

  - On 23 December 2002, HCU entered into a purchase agreement with a third party (the license holder) to acquire a television license and Radio Massala Limited (with radio license).
  - HCU made payments totaling $17.5m to the license holder; additionally a finder's fee of $300k was paid by HCU to an individual resident overseas.
  - Transfer of licenses under the purchase agreement was not approved by the Telecommunications Authority of Trinidad and Tobago (TATT).
  - The other assets of Radio Massala Limited were transferred to HCU; the licenses were non-transferrable.
  - An injunction was filed by HCU against the license holder on 25 August 2006 preventing the latter from testing or broadcasting under his licenses as well as entering into similar JV arrangements with other parties. A second injunction was also filed on 13 April 2007.
  - The JV arrangement was not successful.
  - On 12 December 2006, the attorney for the license holder sent a letter to HCU's attorney proposing a settlement offer of $6.6m for monies paid by HCU under the JV arrangements. HCU rejected the offer.
  - HCU, via a Notice of Discontinuance filed on 4 April 2007, agreed to dismiss its case against Mr. Jaikaran (re: case number CV2006 – 02538)
  - HCU, via a Notice of Voluntary Dismissal Without Prejudice dated 16 July 2007, voluntarily agreed to dismiss its case against Mr. Jaikaran (re: case number 07-10184 CA 32). As a result, it seems as though HCU gave up its claim(s) against Mr. Jaikaran for sums of money paid for which HCU received little or no value without any recovery being made.

Snapshot of major subsidiaries

- ***Global Television Production Company Limited (non-operating)***
- ***Radio Massala Limited (operating)***

  - The license holder currently operates a local TV station.
  - A credit facility was obtained by HCU (with Global TV as guarantor) for US$4.8m to purchase television equipment for Global TV from BAC Florida Bank.
  - The television equipment acquired was analog and never used by HCU, since Global TV never commenced operations. At 31 May 2008, this equipment was being stored in an HCU warehouse.
  - A buyer for the equipment was being sought by a foreign based attorney of HCU.
  - During the Inquiry, EYSL was verbally informed by this attorney that an offer of US$770k (approx TT$4.85m) was received. However, EYSL was unable to obtain written confirmation of this offer from HCU's attorney.
  - On 9 January 2008 there was a Supreme Court ruling for US$3.95m against HCU and Global TV for non-payment of debt commitments. This ruling was made in favour of Ex-Im Bank, since BAC Florida Bank assigned all rights, title and interest to HCU's credit facility to Ex-Im Bank.

Snapshot of major subsidiaries

- ***Jovi's Island Park Company Limited***

  - This subsidiary (Jovi's) was incorporated in January 2004. On 21 November 2003 HCU entered into an agreement with a third party to purchase a 21.5 acre property (land and buildings) in Penal for $2.86m. This asset was reflected in HCU's balance sheet.
  - The shareholding of Jovi's was 90% HCU and 10% owned by the third party from whom the property was purchased. Further, on 17 February 2004, HCU purchased fixed assets located at the property from the third party for $90k.
  - Jovi's was established to provide an interactive family entertainment and recreation centre by offering recreational activities for families, youth and organizations, including a water park, cabins and bed and breakfast facilities. According to file correspondence, approx. $5.6m was expended on works at Jovi's. An unfinished board-walk was the only evidence seen of work performed at the Park.
  - Jovi's was not successful in launching itself as an interactive family entertainment and recreation centre. Based on HCU management discussions, in 2004 Jovi's generated $48k in revenue; however, it incurred $302k in expenses for this period, 79% of which was attributable to repairs and maintenance, 10% to advertising and 7% to music and entertainment.
  - By 2006, Jovi's was not operational. However, based on management accounts, the company incurred expenses of $166k in 2006 and $40k in 2007. These expenses were derived primarily from wages, utilities expenses, audit fees, and depreciation and additionally from interest expense and security expense.

Snapshot of major subsidiaries

- ***HCU Financial Ltd***

  - This subsidiary's principal activity was supposed to be consultancy services to HCU. HCU Financial was incorporated on 7 July 2000.
  - Since inception it did not generate any revenue, except for nominal levels of interest income. However, significant administration and general expenses were incurred from inception. This comprised primarily of salaries, legal and professional fees, directors' stipends and advertising expenses.
  - Salaries accounted for approximately 85% and 65% of total administration and general expenses in 2003 and 2004 respectively. This declined to approximately 11% over the ensuing years. As per the payroll reports for 2004, there were 20 employees on staff; this declined to 1 at June 2008.
  - Consultancy and professional services accounted for approximately 25%, 50%, 69% and 86% of total administrative and general expenses in 2004, 2005, 2006 and 2007 respectively with directors' stipend accounting for 18% in 2005.

Snapshot of major subsidiaries

- ***HCU Impression & Printing Services Ltd***

  - HCU entered the printing industry in 2002 by acquiring property and specific assets of two businesses for a combined consideration of $6.1m. The company's mission entailed becoming the unrivaled regional leader in the commercial printing industry.
  - According to the Management Report, prepared 1 May 2008, a technical assessment of the product capability of the equipment acquired was not performed and ultimately the printing technology required replacement and upgrading. Additionally certain key employees were found guilty of misappropriation and were terminated.
  - HCU Impressions and Printing Services Ltd generated operating losses throughout its existence. In total this subsidiary employed 42 persons in 2004. This fell to 27 persons by 2007. This subsidiary was closed on January 31, 2008, after approximately five years of loss making operations.

Snapshot of major subsidiaries

- ***HCU Food Corporation Ltd***

  - HCU entered the food processing and distribution industry with the acquisition of two businesses as follows:
    - Property and assets from an existing business for $9.3m, in 2004. Included in the acquisition were stock and an import license for packaging brown sugar from Guyana. However, according to the original asset purchase agreement, the original owner (i.e. vendor) would retain exclusive dealership in bulk processed sugar and consequently, this was to be excluded from the transaction. Moreover, based on correspondence on file, it was apparent that several pieces of equipment acquired were not operational and that the property may not have been suitable for food storage.
    - Property and equipment from another business for $1m, in 2002. Based on the sale agreement on file, HCU purchased production equipment, concentrate and all patents, trademarks, formulae and specific brands. The sale proceeds were used to liquidate an outstanding loans held by the original owner (i.e. vendor).
  - An examination of the income statement of this subsidiary revealed that the gross margin of the company was low: 8.6% in 2004 and -10% in 2005. When general and operating expenses were factored, the business model appeared unsustainable, at the current cost structure. In operating such a low margin business, being able to achieve high sales volumes would have been critical.
  - The subsidiary was closed in December 2007.

Snapshot of major subsidiaries

- ***HCU Auto Rentals Ltd***

  - This subsidiary commenced operations in late 2003 with a fleet of four vehicles. The intention was to increase this to ten vehicles. The business plan indicated that HCU's membership alone would provide the demand to warrant such a service.
  - This anticipated demand never materialized and the company experienced internal competition for the cars, as they were also used for courier purposes. This negatively impacted availability for rental. The business was unable to launch beyond the original four-car fleet.
  - Every year of operations, rental income fell short of costs. Moreover, there were overdue receivables from related parties of $529k in 2006 and $768k in 2007.

The Pearls ratios illustrate the declining performance of the Credit Union

Currency: $	Notes	Standards of Excellence	Sep02A	Sep03A	Sep04A	Sep05A	Sep06A	Sep07A
P - Protection								
Loan Losses Allowances / Delinq >12 Mo	P1	100%					47.50%	33.82%
Solvency (Total assets/ Total liabilities)	P6	>=110%	126.33%	123.80%	124.38%	117.34%	117.13%	115.36%
E-Effective Financial Structures								
Net Loans/Total Assets	E1	70% - 80%	67.7%	61.5%	44.2%	39.0%	42.3%	37.9%
Liquid Investments/Total Assets	E2	Max. 20%	2.8%	3.0%	1.5%	0.4%	0.2%	0.1%
Financial Investments/Total Assets	E3	Max. 20%	8.4%	15.7%	28.6%	30.2%	26.3%	28.3%
Savings Deposits/Total Assets	E5	70% - 80%	73.1%	76.9%	74.6%	79.0%	77.9%	81.9%
External Credit/Total Assets	E6	Max. 50%	4.9%	1.8%	4.4%	3.9%	5.7%	4.1%
Member Share Capital/Total Assets	E7	10% - 20%	18.8%	17.2%	15.6%	13.3%	12.6%	11.1%
Institutional Capital/Total Assets	E8	Min.10%	2.0%	2.0%	4.0%	1.4%	2.0%	1.2%
A - Asset Quality								
Total Loan Delinquency/Gross Loan Portfolio	A1	<=5%					53.7%	67.1%
Non-earning Assets/Total Assets	A2	<=5%	22.7%	21.7%	26.5%	29.2%	30.8%	30.1%
R-Rates of Return and Costs								
Net Loan Income/Average Net Loan Portfolio	R1	Entrepreneurial Rate	7.6%	10.7%	4.9%	5.3%	2.7%	3.0%
Liquid Inv. Income/Avg. Liquid Investments	R2	Market Rates	3.5%	0.4%	0.0%	0.3%	0.1%	0.1%
Fin. Investment Income/Avg. Fin. Investments	R3	Market Rates	1.7%	3.7%	1.0%	0.2%	4.9%	0.0%
Gross Margin/Average Assets	R8	Variable - linked to R9,R11,R12	5.17%	6.83%	2.55%	2.22%	1.10%	1.19%
Operating Expenses/Average Assets	R9	5%	5.54%	4.98%	10.03%	4.77%	3.85%	4.03%
Other Income or Expense/Average Assets	R11	Minimal	0.72%	1.41%	0.58%	0.19%	0.03%	0.06%
Net Income/Average Assets (ROA)	R12	Linked to E9	0.59%	0.95%	2.71%	0.60%	0.30%	-0.85%
L - Liquidity								
Liquid Assets - ST Payables/Total Deposits	L1	15% - 20%	4.92%	3.23%	1.79%	0.36%	0.11%	0.11%
S - Signs of Growth (Annualized Rates)								
Net Loans	S1	Dependent on E1		41.15%	-11.62%	-18.76%	-6.98%	-11.74%
Liquid Investments	S2	Dependent on E2		64.31%	-38.65%	-76.75%	-64.85%	-32.67%
Financial Investments	S3	Dependent on E3		44.48%	13.90%	-18.56%	-9.60%	68.62%
Non-financial Investments	S4	Dependent on E4		258.92%	146.23%	-1.52%	-26.23%	0.00%
Savings Deposits	S5	Dependent on E5		63.37%	19.34%	-2.61%	-15.34%	0.00%
External Credit	S6	Dependent on E6		-41.73%	196.00%	-18.30%	23.38%	-29.42%
Member Shares	S7	Dependent on E7		42.05%	11.49%	-21.34%	-18.83%	-12.90%
Intuitional Capital	S8	Dependent on E8		53.67%	143.82%	-66.70%	19.71%	-41.62%
Membership	S10	>12%		42.05%	11.49%	-21.34%	-18.83%	-12.90%
Total Assets	S11	>Inflation		55.25%	22.97%	-7.96%	-14.16%	-1.51%
As per Loan Manual:								
Loan to Fund ratio (65% to 80%)			73.7%	65.4%	49.0%	42.3%	46.8%	40.8%

Source: HCU Financial Statements

Ref: PEARLS Ratios - Section BS - Balance Sheet Analysis

The Pearls ratios illustrate the declining performance of the Credit Union

- The declining performance of the HCU illustrated the results of the decision making and the financial repercussions of the high level of investment in the subsidiaries.
- Some of the key ratios to note are:
  - Although the solvency ratio appears acceptable, it is predicated on “assets” which are underperforming, non-performing or overvalued. If the subsidiary loans alone are written off in 2007, the solvency ratio falls to 96.5% i.e. well below the recommended range.
  - Net Loans/Total assets were half of the required ratio from 2004.
  - Liquid investments/Total assets were never above 3% even though approximately 20% of funding was savings accounts.
  - In 2004, Operating expenses/Average assets (R9) was double the industry benchmark.