

IN THE SUPREME COURT OF GIBRALTAR

CHANCERY JURISDICTION

Comp. No. 26 of 2012

IN THE MATTER of Hill Insurance Company Limited

-and-

IN THE MATTER of the Companies Act

REPORT OF THE PROVISIONAL LIQUIDATOR

I, JOSEPH CARUANA, of Deloitte Limited, Merchant House, 22/24 John Mackintosh Square, Gibraltar, in my capacity as the Provisional Liquidator of the above-mentioned Hill Insurance Company Limited (“**the Company**”) appointed by Order of this Honourable Court dated 7 September 2012 (“**the Order**”) REPORT as follows:

1. Introduction

1.1 By paragraph 4 of the Order, I was directed to report to the Court as to:

- 1.1.1 the assets and liabilities attributable to the Company’s general insurance business;
- 1.1.2 whether a winding up order should be made in respect of the Company;
- 1.1.3 any course of action I would recommend to the Court such as, but not restricted to, the run-off of the Company’s general insurance business.

1.2 By a further order dated 22 November 2012, the date for provision of such report was varied to be by Monday 21 January 2013 at 4pm.

1.3 This is my Report. I recommend that a winding-up order should be made in respect of the Company with technical directions to facilitate the liquidation.

1.4 For convenience, I exhibit:

- “JC1” directors who served on the board and other statutory information;
- “JC2” unaudited management accounts of the Company at 31 August 2012;
- “JC3” a copy of Directors’ Statement of Affairs as at 31 August 2012 the original of which has been filed with the Official Receiver;
- “JC3” Estimated Outcome Statement.

2. Executive Summary

In summary:

2.1 the Company has been operating without capital and has unpaid share capital of the order of €10.2million;

2.2 the Company is insolvent with net liabilities (at least) of the order of €6.7million;

- 2.3 it is not possible to state with certainty the full extent of the Company's liabilities, because not all the policies issued in the name of the Company may have been identified, and because of the nature of the Company's business;
- 2.4 the best indication I can give on the information presently available to me is that there could be a dividend available to insurance creditors of the order of 33 cents/€, which may be increased if it is possible to increase the assets of the estate by recoveries against claims available to the Company;
- 2.5 I see no prospect of a dividend being paid to any creditors other than preferential and insurance creditors;
- 2.6 it would not in my view be in the best interests of the creditors of the Company for there to be a continuation of the provisional liquidation beyond 24 January, or a run-off of the Company's book;
- 2.7 there is no realistic prospect of a sale of the Company or a transfer for value of any part of the portfolio;
- 2.8 I recommend that a winding-up order is made with technical directions which would enable a liquidator to act immediately and to facilitate the cost-effective and expeditious liquidation of the Company.

3. Conduct of the Provisional Liquidation

Brief history

- 3.1 The Company was incorporated on 15 October 2009 and was licensed by the Financial Services Commission in January 2010 to underwrite insurance classes 5 (Aircraft); 7 (Goods in transit); 11 (Aircraft liability); 14 (Credit); 15 (Suretyship); 16 (Miscellaneous financial loss) and 18 (Assistance).
- 3.2 The Company was initially purportedly capitalised with €5million of share capital held in bond investments.
- 3.3 By 30 June 2012 the share capital of the Company had supposedly been increased to €10.2 million, all of it purportedly held in bond investments with a value of €11.1 million. In reality, it appears that these bond investments did not exist.
- 3.4 Chronology of Purported Company Capitalisation

| Date | Shares Allotted | Supposed Consideration |
|----------------------------|--|--|
| 23 Dec 2009 | 3,499 ordinary shares of €1 at a premium of €999 per share and 1,500 preference shares of €1 each at a premium of €999 per share allotted to San Paolo Holdings (“SPH”) | HSBC France bond for €2,500,000 and Deutsche Bank AG bond for €2,500,000 |
| 19 Jan 2010 | 1,500 non-cumulative, non-voting preference shares of €1 each allotted to SPH | ABN Amro Bank NV bond for €1,500,000 |
| 4 Jun 2010 | 160 ordinary shares of €1 at a premium of €99 per share allotted to SPH | Bank transfer of €16,000 |
| 10 Nov 2010 | 1124 redeemable preference shares of €1 each allotted to SPH | Above 3 bonds were sold and together with additional consideration of €1,499,949 two bonds were allegedly acquired: ABN Amro Bank NV €6 million bond expiring 1 March 2017 and ABN Amro Bank NV €2 million bond expiring 18 January 2013 |
| 8 Apr 2011 and 12 Apr 2011 | Share reorganisation effected whereby all existing ordinary shares and preference shares (including share premium account) were redeemed or re-purchased in exchange for fresh issue of 8,201,802 ordinary shares of €1 each | Share re-structure only. No consideration provided |
| 6 Apr 2012 | Allotment of 2,000,000 ordinary shares of €1 each to SPH | Investment account deposit of €2,000,000 |

Shareholders and officers

3.5 The Company is a wholly owned subsidiary of San Paolo Holdings Limited (“SPH”). According to the Gibraltar Companies’ registry, shares in SPH are presently held as follows:

3.5.1 99.9% (2,001,750 ordinary shares) by Giuval Investment Limited, a Belize registered company said to be beneficially owned by Anna Maria Calcagni and Agostino Luongo.

3.5.2 0.1% (1,750 ordinary shares) by Giuraffy Investment Limited, a Belize registered company said to be beneficially owned by Ciro Visone.

3.6 Initially, the respective participations of the Belize entities in SPH had been 50% each. Subsequent purported increases in the share capital of the Company led to adjustments to their respective holdings. While the above details are taken from Companies House it is possible that the relative interests of respective shareholders may be different.

3.7 Directors who served on the board and other statutory information are contained in Exhibit "JC1".

Principal Activities and Events leading up to Winding Up petition

3.8 The Company commenced underwriting insurance business in March 2010. Its main focus was the underwriting of surety bonds into the Italian market using a network of Italian insurance brokers. It also underwrote a small amount of aviation business in Italy (99% of which was re-insured). Early on the company obtained authorisation to transact business in Bulgaria and the United Kingdom. So far as I am aware, the Company did not write any business in Bulgaria. It did reinsure a very small number of policies in the United Kingdom, a handful of which are unexpired.

3.9 The Company operated initially from the offices of Quest Insurance Management Limited ("Quest"), its appointed insurance manager. By February 2011, the Company moved to its own rented premises on the ground floor of Grand Ocean Plaza.

3.10 Late in 2011 the owners of the Company fell out with Quest, agreed to terminate Quest's appointment, and appointed STM Fidecs Insurance Management Limited ("Fidecs") with effect from April 2012. With the involvement of Fidecs, local directors provided by Quest resigned and were replaced by directors provided by Fidecs.

3.11 After investigations carried out by certain directors of the Company at the requirement of the Financial Services Commission "FSC" into the authenticity of the bonds supposedly held on behalf of the Company it became evident that the supposed bonds in question did not exist. An explanatory note on investigations by me and my staff into these missing bonds follows below.

3.12 On 20 August 2012, the FSC issued a Direction under Section 105(1) of the Financial Services (Insurance Companies) Act 1987 ("the Act") to the effect that the Company ceased to be authorised to enter into new contracts of general insurance..

3.13 On 24 August 2012, the FSC appointed Deloitte Limited under Section 100A of the Act to investigate the affairs of the Company and to report to the Commission on whether the criteria of sound and prudent management were fulfilled with respect to the Company. Deloitte Limited were also appointed Inspectors under Section 101(1) of the Act to investigate and report on:

- The legitimacy of the insurance business written by the Company;
- That all premium income attributable to the Company had been accounted for correctly in the accounting records of the Company;
- Payments made to related intermediaries;
- Payments made to other connected parties.

3.14 On 28 August 2012 the directors of the Company petitioned the Court to wind up the company on the basis that it was insolvent and could not pay its liabilities in full.

3.15 On 7 September 2012 the Court ordered my appointment as Provisional Liquidator of the Company.

3.16 In the two years and six months since it started trading, the Company wrote approximately €14 million of insurance premium business.

3.17 At the time of my appointment as Provisional Liquidator, the Company had:

3.17.1 approximately 6,000 live bid and/or performance bonds issued under Italian law covering risks totalling some €432 million with an average policy term of 3-5 years although we have noted some policies with terms extending as far as 2025;

3.17.2 issued 169 medical assistance policies;

3.17.3 issued 10 aviation policies in the Italian market under Italian law, and which had been 99% re-insured;

3.17.4 acted as re-insurer for 50% of the risk for a very small number (under 10) of UK policies (surety bond business) with an exposure of £1.5 million;

3.18 On 1 October 2012 I issued notices (in English and Italian) to all known policyholders, creditors, and brokers advising them of my appointment as provisional liquidator and the implications of such appointment.

4. Actions Taken by The Provisional Liquidator since his Appointment

Securing of assets and records

4.1 Immediately upon my appointment I took action to secure the Company's office premises, collected accounting and statutory records from the current and former insurance managers and secured control of the company's bank accounts and other assets. The Company ran a sophisticated insurance policy database system known as Picass which was operated on servers maintained by IT service providers in Bulgaria. These systems have now been transferred to servers in Gibraltar.

Post-appointment trading

4.2 Due to the regulatory restriction imposed on the Company by the FSC, the Company ceased writing new business on 20 August 2012. The same restriction has remained in place following my appointment as Provisional Liquidator. The Company has continued to administer existing policies, to recover premiums due from brokers on policies written before the FSC direction, and to administer existing and new claims.

Employees and service contracts with connected and other parties

4.3 The majority shareholders of the Company had established a number of connected companies that provided services to the Company at a profit. The commercial rationale for such arrangements was not evident.

Employees

4.4 At the date of my appointment, the Company had 14 members of staff. The four most senior staff members, the office manager and underwriting managers, were employed directly by the Company. The remaining ten staff, mostly underwriting assistants, were contracted at a premium under a service agreement from DMAOL (Gibraltar) Limited, a Gibraltar registered company connected to the majority Italian beneficial owners. Upon my appointment, I immediately terminated the service agreement reducing staff levels to the 4 staff members directly employed by the Company. Given that the Company was no longer underwriting new insurance business and only needed to administer existing live policies, the retention of 4 staff was considered appropriate.

Premises

4.5 The Company occupied its office premises under a licence dated 9 June 2011 from Cathedral Square Holdings (Gibraltar) Limited (“Cathedral”), a company connected to the majority Italian beneficial owners, under which they were originally to pay £5,750 per calendar month. Cathedral had obtained a sub-lease from Sharda Holdings Limited (“Sharda”), also dated 9 June 2011. The amount charged by Cathedral increased in May 2012 from £5,750 to £11,242 per month, and Cathedral has been charging the Company a premium over the rent which was being paid by Cathedral to Sharda. I agreed with Sharda to step into the shoes of Cathedral and to pay the monthly rent which had been agreed by Cathedral with Sharda up to the end of January 2013.

Claims Handling

4.6 Calcagni Servizi Finanziari ed Assicurativi (“CSFEA”) was engaged to act as claims handler for Hill in Italy. In reality the role of CSFEA was no more than a post-box as claims correspondence was passed immediately to Italian lawyers to investigate and advise on claims. The contract with CSFEA (owned by Anna Maria Calcagni, one of the beneficial owners of Hill) was therefore terminated. I have retained the services of Hill’s Italian claims lawyers who were familiar with the company’s insurance policies and with the status of existing claims.

Insurance manager

4.7 Given that the Company was no longer underwriting any new business and that the retained staff was sufficient to administer existing business, the Company’s insurance management agreement with Fidecs was terminated. The services of Alan Kentish of Fidecs were retained on an ad hoc basis.

Reinsurance arrangements

4.8 The Company has in place a quota share reinsurance agreement with a Bermuda-based reinsurance company. This pays a proportion of claims paid by the Company that meet certain criteria. The main criteria that have to be met for a claim to be covered by the reinsurance are as follows:

- The claim relates to certain types of bonds only, as listed in the reinsurance treaty (this appears to cover most bond types issued by the Company);

- The claim relates to a bond which is less than 3 years long (5 years for state funds bonds); and
- The bond is for an amount of not more than €1m (€2m for a group).

4.9 Details of the reinsurance agreements that have been in place each year are listed below:

| Period | % reinsured | Limit: individual bond/ (group) |
|-------------------------------|-------------|---------------------------------|
| 1 April 2012 to 30 June 2013 | 25% | €1m (€2m) |
| 1 April 2011 to 30 March 2012 | 33.33% | €0.5m (€1m) |

4.10 I have continued the Company's existing re-insurance arrangements to mitigate the cost of claims against the Company. It is possible that reinsurers may not pay claims without seeking to raise defences under the contracts of reinsurance, so I cannot be certain that reinsurance recoveries will be achieved in a liquidation.

Italian Policies

4.11 I appointed counsel in Italy to advise me as to the status of the policies issued to policyholders in Italy which are subject to Italian Law, and the impact of my appointment in Italy. I was initially advised that the policies would have no further effect after the 60th day following my appointment, but this advice was reconsidered and I now understand that the formal position is that a policy governed by Italian law is automatically ineffective 60 days after ISVAP, the Italian Insurance regulator publishes a notice of the opening of insolvency proceedings. So far as I am aware, ISVAP has not to date published such a notice.

Steps taken to sell/transfer business

4.12 My initial priority was to stabilise the Company's business and see whether it would be possible to sell or at least transfer its business. To this end, Deloitte's financial advisory practice prepared a teaser document and a pack of financial and other information on the Company to be provided to parties who might express some interest. The teaser document was circulated to the Deloitte insurance practices in London and Milan in order to identify

prospective purchasers and generate interest. We also explored interest within the Gibraltar insurance market including amongst a number of Gibraltar-licensed insurance companies.

4.13 As a result of these actions non-disclosure agreements were prepared and signed with six parties, to whom financial information packs were released. Four parties followed up with further queries, but none followed up with any indicative offers.

4.14 The sale/transfer of the business proved challenging for the following reasons:

4.14.1 The uncertainty surrounding the position of policies written “off system” (unofficial policies) meant the true population of policies and risks was unknown and that an acquirer could not be certain of the liabilities they were acquiring;

4.14.2 The potential cash the Company could transfer to a prospective purchaser was considered insufficient for the size of the portfolio and risks being transferred;

4.14.3 We have also seen large number of requests for cancellation of policies that were issued most recently. The reputational damage suffered by the Company in Italy as a consequence of the publicity about its capital and its collapse has also and inevitably diminished the prospects of renewal business from its existing portfolio.

4.15 The legal representative of the minority shareholder, Ciro Visone, had indicated that his client might be interested in exploring rescuing part or all of the business. I met with Mr Visone on a number of occasions and gave him the opportunity to put forward an offer but in the event no substantial offer was put forward.

4.16 I consider the steps which have been taken to have been reasonable and proportionate, and if a sale or transfer was achievable, they would have been sufficient and there has been adequate time to bring forward any offer which is available. I am now of a view that there is no prospect that a sale or transfer of the business is likely to be achieved, and do not consider that it would be worth expending more money or time on pursuing the possibility.

General Investigations

4.17 In view of the revelation that the bonds which were said to represent the Company’s capital do not exist and other serious questions which have been raised regarding the manner in which the Company conducted its business, I invited all the Company’s directors and representatives from Quest and Fidecs to attend for formal interviews. All those who agreed to attend in person have been interviewed. Mr. Agostino Luongo and Ms. Ana Maria Calcagni

declined my invitation to come to Gibraltar for interview, Mr Luongo alleging medical reasons, but written statements on the issue of the bonds have been provided by them via their lawyers.

4.18 I have also requested and obtained files relating to the Company from its lawyers and auditors.

The Company's bond investments

4.19 By August 2012, the Company purportedly held €11.2million in investment bonds. The bonds were said to have been contributed by its shareholder as consideration for the allotment of shares in Hill on four separate occasions. The bonds were purportedly held on behalf of the Company from time to time by either (i) The Royal Bank of Scotland PLC, (ii) Comfimo Inversiones SL or (iii) DekaBank . I wrote to those three Institutions and provided them with copies of the relevant documents seeking their confirmation as to whether the documents were authentic. The Royal Bank of Scotland PLC and DekaBank have both responded confirming that neither the Company nor anyone connected to it held any such account and that neither of them at any time held bonds for the Company. Furthermore, they confirmed that the documents I provided to them which purported to evidence the bonds had not been issued by the respective banks. We have had no response from Comfimo Inversiones SL but have noted that, in an official warning to the public dated 18 June 2012, CNMV (the Spanish financial regulator) highlighted that Comfimo Inversiones SL was not authorised to provide investment services or investment advice. I have seen other evidence indicating that Comfimo may have been a rogue firm. From my investigations, I have concluded that the bonds are not genuine and do not exist and I believe, based on the evidence I have seen, that they never existed.

Unofficial policies

4.20 At the commencement of the provisional liquidation, evidence came to hand that a director of the Company had overseen the issue of a significant insurance policy in the name of the Company which had not been recorded in the Company's systems, the premium for which had been diverted to a corporate account which appears to have been controlled by the director involved. After investigation into the manner in which this policy had been issued, further evidence came to hand suggesting that further policies were issued off the Company's books, the extent of which I have to date been unable to determine. My staff and I believe there may be up to 50 such policies, and possibly more. I have been provided with a translation of a voluntary statement apparently made by Mr Agostino Luongo to the Deputy Public Prosecutor in the Court of Santa Maria Capua Verde (which I understand is in Southern

Italy) in which Mr Luongo admits signing a surety policy for €104 million in his house in Caserta, Italy when the underwriting director of the Company had previously decided that the Company should not issue a bond for half that amount. Mr Luongo says that his wife subscribed the policy before a notary as a director of the Company, unaware what he was doing. Because neither Mr Luongo nor Ms Calcagni have attended for interview, I have not been able to interrogate this account.

4.21 The validity of such policies, the Company's liability in respect of them, and the respective interests in the premium which was paid for them, are all questions which will need to be investigated by a liquidator of the Company, and, may require determination by the Court. I understand that individual cases may turn on their own facts and the interplay between Italian and Gibraltar law.

Investigation into Payments to Connected Companies and potential claims

4.22 The Company generated accumulated losses of €3.6m in the 30 month period for which it traded prior to my appointment as Provisional Liquidator. The primary cause of these losses was that there were significant payments to companies connected to the majority beneficial owners that appear to have been unjustified, commercially excessive, or without the requisite regulatory approval. These included:

4.22.1 €1.06 million paid to Data Management and Outsource Limited ("DMAOL"), a company registered in England, when the latter had provided no services to Hill. The shareholders of DMAOL were Anna Maria Calcagni and Ciro Visone.

4.22.2 Approximately €850,000 was paid to CSFEA by way of overriding commissions, over and above commissions paid to brokers. This entity is wholly owned by Anna Maria Calcagni;

4.22.3 Approximately €880,000 was paid to Pluriconsult SRL by way of overriding commissions over and above commissions paid to brokers. This entity is wholly owned by Agostino Luongo.

4.23 The appointed liquidator will need to consider these and other payments and possible actions to recover such sums against the companies concerned, as well as consider potential claims against a number of service providers to the Company including those that owed a fiduciary duty to it.

Insurance Claims and Counter Indemnities

4.24 At the time of my appointment, the Company had 30 outstanding claims for which it had provided approximately €3.5 million. Since my appointment, the Company has been notified of a further 12 claims which are currently under review with an approximate claims value of €2.3 million. I have retained the same staff and Italian lawyers that used to handle the claims on the Company's behalf.

4.25 While the Company had obtained counter-indemnities from policyholders at the time of issuing policies, by the time of my appointment, the Company had not managed to recover any funds from counter-indemnities for the claims paid to date. Counter-indemnities consist of guarantees from policyholders, in some cases backed by security on either personal or business property. In a minority of cases (< 10%), there are pledged deposits. I have been advised that the legal process for claiming and recovering on such guarantees in Italy is lengthy and potentially costly if the process is resisted by the guarantor. Potential recoveries from counter-indemnities are therefore very difficult to quantify. Through the Company's Italian claims lawyers, I have nonetheless continued to follow up potential recoveries in this area.

4.26 Although the Order allowed the provisional liquidator to nominate an informal creditor's committee as a Committee of Inspection this was considered not necessary or practicable although we have kept the FSC fully informed throughout.

5. Causes of failure of the Company and extent of insolvency

5.1 The principle cause of the failure of the company has been the revelation that the entire share capital of the Company of €10,201,803 did not exist. These amounts are technically owed to the Company by its immediate parent shareholder, SPH. However, on the information available to me, I believe that this entity has no means of paying the amounts due to the Company.

5.2 Furthermore, the Company's management accounts to 31 August 2012 reflect accumulated losses of €3,558,773. The losses were caused predominantly by the high level of expenses drawn from the Company or charged to the Company by entities connected to the shareholders and to which I have referred in 4.22 above.

5.3 A copy of the Directors' statement of affairs is included in "JC3". This statement reflects what the company assets are likely to realise and estimates a deficiency of assets over liabilities of €5.3million at 31 August 2012.

5.4 The estimated deficit to date has worsened to approximately €6.7million as a consequence of reported claims in the period since my appointment as provisional liquidator.

6. Assets and liabilities attributable to the Company's general insurance business at 31 August 2012

6.1 A copy of the Company's unaudited management accounts at 31 August 2012 is included in Exhibit "JC2".

6.2 A summary of the assets and liabilities attributable to the Company's general insurance business at 31 August 2012 is set out below.

| | Note | € |
|---|------|--------------------------------|
| Fixed Assets - Tangible fixed assets | 6.4 | 36,765 |
| Unpaid share capital | 6.5 | 10,201,803 |
| Current Assets | | |
| Debtors | | |
| Premiums due from intermediaries | 6.6 | 653,194 |
| Reinsurers' Share of Technical Provisions | 6.7 | 1,651,857 |
| Deferred acquisition costs | 6.8 | 1,936,294 |
| Deferred processing costs & prepayments | 6.9 | 353,726 |
| Deposits with financial institutions | | 4,763,469 |
| Cash at bank | | 19,829 |
| | | <hr/> 9,378,369 |
| Creditors | | |
| Provision for unearned premiums | 6.10 | 8,245,547 |
| Claims payable | 6.11 | 3,446,169 |
| IBNR reserve | 6.12 | 230,382 |
| Unearned reinsured ceded commissions | 6.13 | 502,787 |
| Reinsurance creditors | 6.14 | 131,440 |
| Taxation for IPT payable | | 265,197 |
| PAYE and Social Insurance | | 4,453 |
| Amounts due to shareholders & directors | | 31,555 |
| Other creditors & accruals | | 116,378 |
| | | <hr/> 12,973,908 |
| Net assets | | <hr/> € 6,643,029 <hr/> |
| Represented by: | | |
| Share Capital | | 10,201,803 |
| Profit and loss account deficit | | (3,558,773) |
| | | <hr/> € 6,643,030 <hr/> |

- 6.3 The net financial position of the Company at 31 August 2012, after adjusting for the non-existent share capital, reflects a deficit of €3.5 million (i.e. €6.6million less €10.2million [see note 6.5 below]).
- 6.4 Tangible fixed assets refers to the book value of the company's office furniture and equipment.
- 6.5 Unpaid share capital of €10,201,803 is due from SPH, a Gibraltar registered company, which I understand has no assets out of which to pay the amounts due.
- 6.6 Policy premiums due by Italian brokers. Since my appointment brokers have been cancelling policies for which the premiums had not been paid over to the Company. Hence the extent to which such premiums can be recovered is doubtful.
- 6.7 These are claims due by re-insurers (€234,560) and pre-paid re-insurance premiums (€1,417,297).
- 6.8 These are commissions paid to brokers relating to unexpired policies.
- 6.9 These are processing costs already incurred and which are amortised over the life of policies and hence will not realise any future proceeds for the Company.
- 6.10 This is the unexpired portion of premiums for all live policies and will rank as insurance creditors.
- 6.11 These are outstanding claims at 31 August 2012 and will rank as an insurance creditor. Since then a further €2.3 million of claims have been reported to the company.
- 6.12 IBNR is general provision for claims not yet reported.
- 6.13 Reinsurance commissions relating to unexpired policies.
- 6.14 Reinsurance premiums due.

7. Estimated Outcome Statement

- 7.1 The estimated outcome statement in "JC4" estimates that preferential creditors will be paid in full and that insurance creditors are likely to receive in the region of 33cents/€.

7.2 The assumptions on which these figures are based may turn out to be overly optimistic and may need to be revised in light of further information coming to hand.

8. Conclusions and Recommendations

8.1 I have considered with the assistance of my professional advisors the likely course of a liquidation and the possible alternatives which I discuss below.

8.2 In my professional opinion, a winding up order should be made in respect of the Company.

8.3 The options I have considered for the company are:

- running off the liabilities of the business to expiry;
- closure of the business through a scheme of arrangement;
- liquidation of the business.

9. Run-off

9.1 At the time of my appointment, the Company was insolvent as a consequence of the absence of share capital and accumulated losses of €3.6 million. In the period since my appointment as provisional liquidator to date, there have been a further 12 reported claims amounting to €2.3 million. Allowing the portfolio to run off is likely to give rise to further potentially material claims that would adversely affect the position of existing insurance creditors and policyholders. The on-going run-off of the business would also give rise to potentially significant additional costs in managing the business until the last policies in issue expire in 2025, which would be borne by creditors from the limited funds available. In a run-off there would also be little prospect of any distributions being made to creditors until the last policies expire in 2025.

9.2 It is sometimes the case that running-off a book of insurance business allows premium to be booked as profit for the insurer in respect of which the policyholder would otherwise be entitled to claim for dividend in a liquidation. If the claims experience is low, this can make run-off an attractive proposition. However, there is a significant risk that one or more large claims hit the account and exhaust the limited money available to meet claims of creditors.

9.3 I have not been able to identify any source of funds which would finance a run-off, and the Company would have no income other than a small amount of interest on deposits as it would not be permitted to write new business.

9.4 I therefore do not regard a run-off of the business of the Company as a realistic or attractive proposition.

10. Closure of the business through a scheme of arrangement

10.1 An alternative to a formal liquidation and run off to 2025 could in theory be to use a scheme of arrangement allowing creditors to submit an estimate of their ultimate claims which could then be agreed and distributions made.. This could be used to facilitate either:

10.2 A partial run-off of the business, and its liabilities, on a more flexible basis than would be the case in either a liquidation or were the provisional liquidation to continue; or

10.3 A cut-off of the creditor claims, and imposition of an alternative valuation mechanism for creditor liabilities.

10.4 I note that using a scheme of arrangement, in jurisdictions where such an approach exists in company law, is not uncommon given the flexibility such a procedure offers. However, there would be significant costs attached to attempting to arrive at such a scheme and in reaching agreement with creditors and policyholders with regards to the valuation methodology to be applied

10.5 I have already discussed the disadvantages anyway potentially associated with running off the liabilities to expiry. For this reason, and given that there is significant uncertainty regarding the likely profitability of the book, I do not consider that using a scheme of arrangement to facilitate a run-off of this nature would in this case be in the best interests of creditors, as a whole. In particular the relatively small pool of assets available to creditors would be further dissipated, and there would be significant risk of the potential creditor deficit increasing as a result of on-going costs and the possibility of adverse claims development.

10.6 The use of a scheme could avoid the need for a formal insolvency process, and hence might not trigger ISVAP's 60 day notice period for cancellation (although it is at least possible that ISVAP could issue such a notice based on the order already made).

10.7 In addition, the use of a scheme could allow a more flexible mechanism to be established for the estimation of creditor claim values and the calculation and payment of interim dividends. However, I do not consider that the advantages of this approach are likely to outweigh the

costs of designing and implementing a scheme of arrangement. In addition, the existence of policies written outside of Company's systems would provide a significant hurdle to overcome and I would expect these to require resolution ahead of the implementation of a scheme of arrangement in any event. I therefore consider that the significant costs and uncertainties of a scheme of arrangement are likely to outweigh the potential benefits.

11. Reduction of Contracts

11.1 I have given consideration to the possibility that the insolvency of the Company could be addressed by a *reduction of contracts* under paragraph 3 of Schedule 8 of the Insurance Companies Act as an alternative to the making of a winding-up order.

11.2 I do not consider that this would be a realistic prospect in the case of the Company, because of the lack of certainty as to the extent of the Company's liabilities and because of possible arguments which might be raised where contracts are not subject to Gibraltar law (whereas it is my understanding that the effects on contracts of a Gibraltar liquidation would be likely to be recognised either automatically or with the benefit order throughout the EU).

12. Conclusions

12.1 It is my opinion as an accountant with long experience of insolvency that the process of liquidation under the Companies Act and the powers available to a liquidator to investigate and compromise claims are flexible enough to deal cost-effectively with the valuation of the sort of claims likely to arise in respect of the Company's business, and it would in any event be necessary to consider and address the position in respect of policies written "off the books" but by a director in the name of the Company. In addition, as I explain below, with my legal advisors I have identified a procedural method which would permit the cost-effective and even-handed determination of claims in respect of the unexpired portion of policies through disclaimer which would release the estate from the risk of a claim arising in the future and obviate the need for delay to await developments.

12.2 Having considered the alternatives and dismissed them, I therefore conclude that it would be in the best interests of the Company's creditors for the Court to make an immediate winding-up order, and that is what I recommend. When I refer to the Company's creditors, I should clarify that I am referring to the Company's insurance creditors who are afforded priority under Gibraltar's statutory scheme for the liquidation of an insurance company, as I do not consider that there is any realistic prospect on the information available to me that, absent a substantial recovery from a third party, the Company's other creditors are likely to have any economic interest in the liquidation.

13. Further matters

Appointment of liquidator

- 13.1 It would be in the best interests of the creditors (particularly the insurance creditors) for there to be an immediate appointment of a liquidator who would immediately be in a position to seek directions as to various matters and deal with questions which require an urgent decision.
- 13.2 I have been asked by the Official Receiver if I would be prepared to act as liquidator of the Company, and have confirmed that I would. I, my staff at Deloitte's in Gibraltar, and my professional advisors, have all built up considerable familiarity with the complex affairs of the Company, and there will be a saving in time and costs, and the avoidance of unnecessary expense and delay, if that knowledge is immediately available from the time a winding-up Order is made.
- 13.3 I understand that my appointment as liquidator is supported by both the Official Receiver and the FSC, and I confirm to the Court my willingness to serve as its officer if the Court wishes to appoint me.
- 13.4 On the footing that the Court is prepared to make an appointment of a liquidator at the hearing, the Official Receiver would not need to summon meetings of contributories and creditors which would otherwise be required, and I would recommend and respectfully ask that directions might be given which would facilitate the appointment of a Committee of Inspection.
- 13.5 It would be necessary immediately following appointment for a liquidator to exercise certain powers which require sanction under the Companies Act, and would involve substantial costs and potentially undesirable delay if (until a Committee of Inspection is appointed) it is necessary to make a series of applications to Court in this regard. Given the immediately-apparent complexity of this liquidation, which I hope appears sufficiently from the matters I have discussed above, I would recommend and respectfully ask that provision for sanction is included in the winding-up Order.

14. Disclaimer

- 14.1 One of the reasons liquidation of an insurance company can be an expensive process is that costs are inevitably incurred in evaluating claims as at the date of liquidation. In the winding up of an insurer in England & Wales, the position is to some extent mitigated because there are rules in a statutory instrument (*The Insurers Winding Up Rules 2001, SI 2001/3635*)

which settle how policies which are open at the date of winding up are to be valued, which where the policy (like the policies written by the Company) is a policy of general insurance running between fixed dates, is on the basis that the policyholder claims in the liquidation where a claim under the policy has arisen before the liquidation date, and is admitted without proof for the value of pro rata return of premium for the unexpired period of the policy. This equates to the damages claim the policyholder would have, on the basis that they can then take out replacement cover.

14.2 Gibraltar does not have such rules, but in consultation with my professional advisers it has been possible to identify a procedural route which I understand to be available under the Companies Act to achieve in effect the same result. This would involve disclaimer of all the Company's policies under section 308 of the Companies Act (with the permission of the Court) and a direction that the amount for which the policyholder is permitted to prove for the injury suffered by operation of the disclaimer is (prima facie) to be valued as being the amount of premium pro rata to the unexpired period. I have instructed Counsel to attend the hearing of the winding-up petition to explain more fully the procedure and the technical terms of the directions which would be necessary.

14.3 A further advantage of disclaimer is that it would deal not only with any policies which are recorded on the Company's books but also any policies written outside those books in respect of which the Company is liable, although of course I would only be in a position to admit for dividend a claim for pro rata return of premium if it was determined (or I on advice agreed) that the Company had been liable on the policy, and I had been notified of the details of the policy in question. I would not be able to admit the return-of-premium claims without proof or at least the information being provided to me, because by definition I would not have the details in the Company's own records.

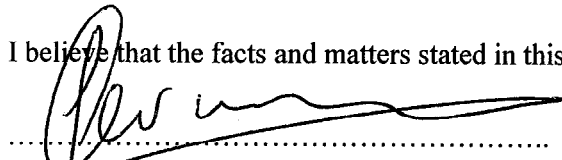
15. Conclusions and Recommendations

15.1 I respectfully ask this Honourable Court to accept this, my Report, and I respectfully recommend:

- that the Court make an order to wind up the Company;
- that the Court makes an immediate appointment of a liquidator;
- that the Court gives directions in or substantially in the form of the draft Minute of Order to be lodged, to facilitate the convenient and cost-effective liquidation of the Company.

STATEMENT OF TRUTH

I believe that the facts and matters stated in this Report are true

A handwritten signature in black ink, appearing to read 'Joseph Caruana', written over a dotted line.

Joseph Caruana

Date: 21 January 2013

EXHIBIT JC1

EXHIBIT JC2

EXHIBIT JC3

EXHIBIT JC4

Hill Insurance Company Limited – Estimated Outcome Statement

| Asset class | Asset | Notes | Balance sheet value as at 31 August 2012 EUR | Estimated to realise EUR |
|---|---|-------|---|-----------------------------|
| Investments | Investments | | 0 | 0 |
| | Other financial investments | | 0 | 0 |
| Reinsurers' share of technical provisions | Provision for unearned premiums | 1 | 1,417,297 | unknown |
| | Claims outstanding | 2 | 234,560 | 234,560 |
| Debtors | Debtors arising out of direct insurance operations - intermediaries | 3 | 653,194 | 653,194 |
| | Debtors arising out of reinsurance operations - reinsurance contracts ceded | | 0 | 0 |
| | Other debtors | 4 | 10,201,803 | 0 |
| Other assets | Tangible fixed assets | 5 | 36,765 | 10,000 |
| | Cash at bank and in hand | 6 | 4,783,298 | 4,783,298 |
| Prepayments and accrued income | Accrued interest | | | |
| | Deferred acquisition costs | 7 | 1,936,294 | Unknown |
| | Deferred processing costs | 8 | 344,592 | 0 |
| | Other prepayments | 8 | 9,134 | 0 |
| Total assets as at 30 June 2012 | | | 19,616,937 | 5,681,052 |
| Additional realisations | Counter indemnities recoveries | 9 | unknown | Unknown |
| Estimated total assets | | | 19,616,937 | 5,681,052 |
| | | | | In liquidation |
| Costs of realisations | | | | 1,000,000 |
| Net assets available for distribution to creditors | | | | 4,681,052 |
| Distributions to preferential creditors | | | | 269,650 |
| Net assets available to insurance creditors | | | | 4,411,402 |
| Distributions to insurance creditors | | | | 4,411,402 |
| Net assets available to unsecured creditors | | | | 0 |
| Percentage recovery for: | | | | |
| - Preferential creditors | | | | 100% |
| - Insurance creditors | | | | 33% |
| - Unsecured creditors | | | | 0% |

- 1 Legal advice is being sought concerning the extent to which unearned re-insurance premiums may be recovered from the Company's re-insurer. At present it is too uncertain to predict.
- 2 Re-insurer's share of claims is expected to be recoverable in full.
- 3 A provision for non-recovery of 20% of the amount due by brokers has been provided.
- 4 While the liquidator is expected to pursue claims against contributories the expected amount to be recovered is too uncertain to predict.
- 5 Office furniture and equipment are expected to realise in the region of €10,000.
- 6 The Company's bank accounts are already under the control of the provisional liquidator.
- 7 Deferred acquisition costs is the portion of commissions paid to brokers relating to unexpired portion of policies sold. Legal advice is being sought concerning the extent to which such commissions may be recovered from brokers.
- 8 Deferred processing costs and prepayments are not considered recoverable.
- 9 The amount of paid out claims recoverable under counter-indemnities is too uncertain to predict at this stage.

The assumptions on which these figures are based may turn out to be overly optimistic.

EXHIBIT JC1

Hill Insurance Company Limited

Directors, officers and other information

| | | |
|-------------------|--------------------|---|
| Directors: | Anna Calcagni | (appointed 15 October 2009) |
| | Ciro Visone | (appointed 15 October 2009) |
| | Michael Nicholls | (appointed 8 September 2010) |
| | Agostino Luongo | (appointed 18 October 2010) |
| | Alan Kentish | (appointed 4 April 2012) |
| | Stefania La Monica | (appointed 4 April 2012) |
| | Elizabeth Quinn | (appointed 15 October 2009; resigned 30 March 2012) |
| | Peter Abbott | (appointed 15 October 2009; resigned 30 March 2012) |

Registered office: 124 Irish Town
Gibraltar

Secretary: STM Fidecs Management Limited

EXHIBIT JC2



Hill Insurance Company Limited

Management Accounts

For the Period ended 31 August 2012

Statement in respect of the preparation of these management accounts.

These accounts are prepared on the basis that the business will function in an orderly manner and assumes that whilst no new policies are being taken on that the existing policies will be administered, including claims, on a proactive basis.

Key assumptions made in the preparation of these management accounts

1 An amount of €400,625 due to CFSEA/Pluriconsult has been written off. This balance had been rolled forward from 30 June 2012. Confirmation has been received from the principal that this amount is no longer due for payment.

2 Tax Bonds, it is assumed that this type of policy is to be earned over the initial life of the policy. Typically with tax bonds there is a set period of the policy with an additional one year notification period during which the beneficiary can claim. However the policy is on risk for the first period rather than the first period plus the additional notification period. This first period is the life used for calculating the unearned value of these tax bonds.

3 Claims recoveries. A feature of this type of insurance in the Italian market is that counter indemnities are obtained against each policy at the time of issue and this is indeed a key underwriting criteria. There are significant counter indemnities attached to each policy. Counter indemnities can only be called upon when the claim attaching to that particular policy is paid.

3.1 These management accounts do not include any subrogation recoveries against claims that the company is currently aware of. Counter indemnities against these known claims have significant value but are not included as a recoverable so as to ensure the consistency of accounting treatment remains in place as applied to previous management accounts.

3.2 Subrogation recoveries against these claims will be, by their very nature subjective but for a company operating on a going concern basis would be expected to mitigate the overall claims cost significantly.

3.3 The reader of these accounts should be aware that including as estimation of subrogation recoveries would materially improve the operating results of the business, but for the avoidance of doubt have not been included in these management accounts.

4 Reinsurance commission. Under the Quota Share Treaty the company will be due an overriding commission from the reinsurers based on final loss ratios for each underwriting year. This amount of 507k is being carried on the balance sheet based on current estimated loss ratios. This amount may increase or decrease depending on the loss ratio position incurred by the reinsurers under the treaty.

5 Loss Ratios. For the underwriting year 2011 the loss ratio is 48%, this is based on gross incurred claims and gross earned premiums to date. For the years 2012 and 2013 an overall loss ratio of 30% has been used. This 30% is a combination of gross incurred claims and an element for IBNR, Incurred but not reported. The above figures are gross of any subrogation recoveries.

PROFIT AND LOSS ACCOUNT
For the 2 Month Period to 31 August 2012

**Period
Ended
31.08.12
€**

**Year
Ended
30.06.12
€**

TECHNICAL ACCOUNT

Premiums

| | | |
|--|-------------|-------------|
| Gross Premiums Written | 796,117 | 7,274,056 |
| Gross Premiums Written - Reinsurers' Share | (185,260) | (1,227,431) |
| Unearned Premium b/fwd | 8,593,049 | 7,366,952 |
| Unearned Premium c/fwd | (8,245,547) | (8,593,049) |
| Unearned Premium b/fwd - Reinsurers' Share | (1,430,032) | (816,069) |
| Unearned Premium c/fwd - Reinsurers' Share | 1,417,297 | 1,430,032 |

| | | |
|----------------------------|----------------|------------------|
| Net Earned Premiums | 945,625 | 5,434,491 |
|----------------------------|----------------|------------------|

Claims Paid

| | | |
|-----------------------------------|--------|---------|
| Gross Claims Paid | 25,431 | 346,631 |
| Claims Recovered from Reinsurers' | 0 | (7,313) |
| Claims Handling fees | 0 | 0 |

Claims Outstanding

| | | |
|--|-------------|-----------|
| Gross Claims Outstanding b/fwd | (2,368,270) | (501,000) |
| Gross Claims Outstanding c/fwd | 3,446,169 | 2,368,270 |
| Subrogation recoveries b/fwd | 0 | |
| Subrogation recoveries c/fwd | 0 | |
| RI ShareSubrogation recoveries b/fwd | 0 | |
| Ri share Subrogation recoveries c/fwd | 0 | |
| Gross Claims Outstanding b/fwd - Reinsurers' Share | 163,823 | 0 |
| Gross Claims Outstanding c/fwd - Reinsurers' Share | (234,560) | (163,823) |

Provision for IBNR Claims

| | | |
|--|-----------|-----------|
| Gross Provision for IBNR b/fwd | (532,868) | (649,285) |
| Gross Provision for IBNR c/fwd | 230,382 | 532,868 |
| Gross Provision for IBNR b/fwd - Reinsurers' Share | 59,843 | 38,947 |
| Gross Provision for IBNR c/fwd - Reinsurers' Share | 0 | (59,843) |

| | | |
|----------------------------|----------------|------------------|
| Net Claims Incurred | 789,950 | 1,905,452 |
|----------------------------|----------------|------------------|

| | | |
|--------------------------------|----------------|------------------|
| Balance carried forward | 155,675 | 3,529,039 |
|--------------------------------|----------------|------------------|

PROFIT AND LOSS ACCOUNT
For the 2 Month Period to 31 August 2012

Period
Ended
31.08.12
€

Year
Ended
30.06.12
€

TECHNICAL ACCOUNT

| | | |
|--|----------------|------------------|
| Balance brought forward | 155,675 | 3,529,039 |
| Acquisition Costs | | |
| Acquisition Costs | (253,323) | 2,492,161 |
| Deferred Acquisition Costs b/fwd | 2,226,129 | 2,483,478 |
| Deferred Acquisition Costs c/fwd | (1,936,294) | (2,226,129) |
| Acquisition Costs - QSISL | 39,288 | 0 |
| Deferred Acquisition Costs b/fwd - QSISL | 0 | 59,835 |
| Deferred Acquisition Costs c/fwd - QSISL | 0 | 0 |
| Net Acquisition Costs | 75,799 | 2,809,345 |
| Processing Costs | | |
| Processing Costs | 60,833 | 467,509 |
| Deferred Processing Costs b/fwd | 337,681 | 47,741 |
| Deferred Processing Costs c/fwd | (344,592) | (337,681) |
| Net Processing Costs | 53,922 | 177,569 |
| Other Income & Expenditure | | |
| Reinsurance Commission | 48,503 | 353,807 |
| Unearned reinsurance commission B/F | 526,412 | 258,846 |
| Unearned reinsurance commission C/F | (502,787) | (526,412) |
| Notary's Fees Receivable | 0 | 0 |
| Notary's Fees | (5,601) | (33,767) |
| Provision for Doubtful Debts | 0 | 0 |
| | 66,527 | 52,474 |
| Balance on the General Business Technical Account | 92,481 | 594,600 |

PROFIT AND LOSS ACCOUNT
For the 2 Month Period to 31 August 2012

Period
Ended
31.08.12
€

Year
Ended
30.06.12
€

NON-TECHNICAL ACCOUNT

| | | |
|--|--------------------|------------------|
| Balance on the General Business Technical Account | 92,481 | 594,600 |
| Realised Profit | 0 | 0 |
| Unrealised Profit/(Loss) | | 738,377 |
| Bank Interest Receivable | | 242,940 |
| | <u>92,481</u> | <u>1,575,917</u> |
| Administrative Expenses | | |
| Salaries | 33,555 | 274,236 |
| Directors Fees | 15,000 | 336,000 |
| Non Exec Fees | 0 | 18,626 |
| Insurance | 895 | 12,682 |
| Legal Fees | 7,370 | 34,662 |
| Audit & Accountancy Fees | 8,134 | 97,627 |
| Fiscal Rep' Fees | 5,000 | 60,000 |
| QIMGL Management Fees | 0 | 570,031 |
| STM FIM Management Fees | 53,370 | 53,298 |
| Regulatory Fees | 6,585 | 21,148 |
| IT Services | 16,991 | 70,294 |
| Travelling & Accomodation | 5,591 | 17,214 |
| Telephone | 1,878 | 16,016 |
| Bank Charges | 1,316 | 10,557 |
| FX Realised Gain | (1,052) | (31,522) |
| Credit Card Expenses | 3,662 | 72,740 |
| Expenses | 0 | 6,309 |
| Courier Fees | 5,506 | 37,058 |
| Advertising | 0 | 6,209 |
| Entertainment | 0 | 68,192 |
| Office Expenses | 2,142 | 34,016 |
| Rent | 42,798 | 82,300 |
| Office Repairs / Maintenance | 253 | 2,478 |
| Computers - Depreciation | 917 | 3,473 |
| Furniture - Depreciation | 1,477 | 8,861 |
| Total Administrative Expenses | <u>211,386</u> | <u>1,882,506</u> |
| Loss on Ordinary Activities before Taxation | <u>(118,905)</u> | <u>(306,589)</u> |
| Exceptional Items | | |
| Unrealised Profit/(Loss) | (869,837) | |
| Bank Interest Receivable | (453,017) | |
| Taxation | 0 | 0 |
| Dividend | 0 | |
| Loss on Ordinary Activities after Taxation | <u>(1,441,759)</u> | <u>(306,589)</u> |
| | (0) | |

BALANCE SHEET
As at 31 August 2012

| | Actual As at 31.08.12 € | Actual As at 30.06.12 € |
|---|----------------------------------|----------------------------------|
| ASSETS | Notes | |
| Investments | | |
| ABN AMRO | (0) | 11,071,640 |
| RBS Nat West Fixed Deposit Account (£) | 120 | 118 |
| RBS Nat West Fixed Deposit Account (€) | 2,567,350 | 2,659,612 |
| Jyske Bank | 2,195,999 | 1,929,301 |
| Fixed Assets - Computers | 13,080 | 13,998 |
| Fixed Assets - Furniture | 23,685 | 25,162 |
| | <u>4,800,235</u> | <u>15,699,831</u> |
| Reinsurers' Share of Technical Provisions | | |
| Provision for Unearned Premiums | 1,417,297 | 1,430,032 |
| Provision for Claims | 234,560 | 223,666 |
| | <u>1,651,857</u> | <u>1,653,698</u> |
| Subrogation Recoveries | 0 | |
| Debtors | | |
| Debtors arising out of Direct Insurance Operations | 0 | 0 |
| Debtors arising out of Reinsurance Operations | 0 | 0 |
| Other Debtors | 10,201,803 | 0 |
| Premiums due from Intermediaries | 1 653,194 | 639,760 |
| Unpaid Share Capital | 0 | 0 |
| | <u>10,854,997</u> | <u>639,760</u> |
| Other Assets | | |
| Cash at Bank and in Hand: | | |
| RBS Nat West Current Account (£) | 19,829 | 62,082 |
| Petty Cash | 0 | 0 |
| | <u>19,829</u> | <u>62,082</u> |
| Prepayments and Accrued Income | | |
| Deferred Acquisition Costs - Gross Amount - Brokers | 1,936,294 | 2,226,129 |
| Deferred Acquisition Costs - Gross Amount - QSISL | 0 | 0 |
| Deferred Processing Costs - Gross Amount | 344,592 | 337,681 |
| Other Prepayments | 9,134 | 34,205 |
| Bank Interest Receivable | 0 | 453,333 |
| | <u>2,290,020</u> | <u>3,051,347</u> |
| TOTAL ASSETS | <u>19,616,938</u> | <u>21,106,718</u> |
| | 0 | 0 |

BALANCE SHEET
As at 31 August 2012

| | Actual As at 31.08.12 € | Actual As at 30.06.12 € |
|--|----------------------------------|----------------------------------|
| LIABILITIES | Notes | |
| CAPITAL AND RESERVES | | |
| Share Capital | 2,007,784 | 2,007,784 |
| Share Premium Account | 8,194,019 | 8,194,019 |
| Profit and Loss B/F as at 1 July 2012 | (2,117,014) | (1,810,425) |
| Profit / (Loss) Year to Date | (1,441,759) | (306,589) |
| | <u>6,643,030</u> | <u>8,084,790</u> |
| TECHNICAL PROVISIONS | | |
| Provision for Unearned Premiums - Gross Amount | 8,245,547 | 8,593,049 |
| Claims Outstanding - Gross Amount | 3,676,551 | 2,901,138 |
| Provision for reinsured ceded commissions | 0 | 0 |
| | <u>11,922,098</u> | <u>11,494,187</u> |
| CREDITORS | | |
| Ri share of subrogation recoveries | 0 | 0 |
| Creditors arising out of Direct Insurance Operations | 0 | 0 |
| Other Creditors including Taxation | 2 308,631 | 739,076 |
| Reinsurance Creditor | 3 131,440 ✓ | 196,556 |
| Accruals and Deferred Income | 99,898 | 56,643 |
| Unearned Reinsured Ceded Commissions | 502,787 ✓ | 526,412 |
| Unearned fronting Fees | 0 | 0 |
| Shareholder Loan | 9,055 | 9,055 |
| | <u>1,051,810</u> | <u>1,527,742</u> |
| TOTAL LIABILITIES | <u>19,616,938</u> | <u>21,106,719</u> |
| | 0 | |

HILL INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS

For the 2 Month Period to 31 August 2012

€

1 Premiums Due From Intermediaries

| | | |
|---------------------------|----------------|----------------|
| Trade Debtors | 653,194 | 639,760 |
| Trade Creditors - Brokers | 0 | 0 |
| Trade Creditors - CSFEA | | |
| | <u>653,194</u> | <u>639,760</u> |

2 Other creditors including taxation

| | | |
|----------------------------|----------------|----------------|
| Taxation for IPT payable | 265,197 | 319,604 |
| DMAOL Creditor | 0 | - |
| Trade Creditors - CSFEA | 0 | 400,625 |
| Other Creditors | 20,933 | 41,867 |
| QSISL Creditor - Wholesale | 0 | - 45,520 |
| Directors Tax Creditor | <u>22,500</u> | <u>22,500</u> |
| | <u>308,631</u> | <u>739,076</u> |

3 Reinsurance Creditors

| | | |
|---------------------------------|----------------|----------------|
| QSISL Creditor - Aviation | 0 | 6,233 |
| Reinsurance Creditor - Bonds | 136,757 | 195,640 |
| Reinsurance Creditor - Aviation | <u>-5,317</u> | <u>- 5,317</u> |
| | <u>131,440</u> | <u>196,556</u> |

EXHIBIT JC3

IN THE MATTER of

AND

IN THE MATTER of the Insolvency Act 1986

STATEMENT AS TO AFFAIRS OF HILL INSURANCE COMPANY LIMITED

On the 16th January 2013

Affidavit

(This Affidavit must be sworn or affirmed before a Solicitor or Commissioner of Oaths (for an officer of the Court duly authorised to administer oaths) when you have completed the rest of this form.)

I, Alan Roy Kentish, Director

Of Las Neblinas, 13 Calle el Madrono, Urbanizacion El Cuarton, 11380, Tarifa, Cadiz, Spain

make oath and say that the several pages exhibited hereto and marked are to the best of my knowledge and belief a full, true and complete statement as to the affairs of the above-named company as at 31st August 2012, and that the company carried on business as a general insurance company.

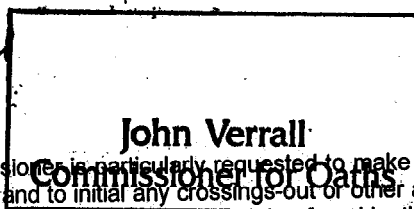
Sworn at

Date 16th January 2013

Signature(s) *Alan Kentish*

Before me

A solicitor or commissioner of Oaths




Before swearing the affidavit the Solicitor or commissioner is particularly requested to make sure that the full name, address and description of the Deponent are stated, and to initial any crossings-out or other alterations in the printed form. A deficiency in the affidavit in any of the above respects will mean that it is refused by the court and will need to be resworn.

Hill Insurance Company Limited
Directors' Statement of Affairs at 31 August 2012

A - Summary of Assets

| | Book Value € | Estimated to Realise € |
|--|---------------------|------------------------------|
| Assets specifically pledged | - | - |
| Assets not specifically pledged | | |
| Investments | | |
| Deposits with credit institutions | 4,763,469 | 4,763,469 |
| Reinsurers' Share of Technical Provisions | | |
| Provision for unearned premium | 1,417,297 | 1,417,297 |
| Provision for claims | 234,560 | 234,560 |
| Subrogation recoveries | Unknown | Unknown |
| Debtors | | |
| Premiums due from intermediaries | 653,194 | 653,194 |
| Unpaid share capital (Note 1) | 10,201,803 | - |
| Other assets | | |
| Tangible fixed assets | 36,765 | 10,000 est |
| Cash at bank and in hand | 19,829 | 19,829 |
| Prepayments and accrued income | | |
| Deferred acquisition costs | 1,936,294 | Unknown |
| Deferred processing costs | 344,592 | - |
| Other prepayments | 9,134 | - |
| Estimated total assets available for preferential creditors | € 19,616,937 | € 7,098,349 |

Note 1: The unpaid share capital relates to shares issued in return for which the Company was provided with bonds that have proven to be fraudulent and do not exist.


 Signature
 Alan Roy Kentish

Date: 16/1/13

Hill Insurance Company Limited
Directors' Statement of Affairs at 31 August 2012

A1 - Summary of Liabilities

| | Book Value € | Estimated to Realise € | |
|---|--------------------|------------------------------|-----|
| Estimated total assets available for preferential creditors (carried from page A) | | 7,098,349 | |
| Liabilities | | | |
| Preferential creditors | | | |
| Taxation for IPT payable | 265,197 | 265,197 | |
| PAYE and Social Insurance | 4,453 | 4,453 | |
| | 269,650 | 269,650 | |
| Estimated deficiency/surplus as regards preferential creditors | | 6,828,699 | |
| Insurance creditors | | | |
| Provision for unearned premiums | 8,245,547 | 8,245,547 | |
| Claims outstanding | 3,446,169 | 3,446,169 | est |
| IBNR reserve | 230,382 | 230,382 | est |
| Unearned reinsured ceded commissions | 502,787 | Unknown | |
| Reinsurance creditors | 131,440 | 131,440 | |
| | 12,556,325 | 12,053,538 | |
| Estimated deficiency/surplus of assets available for non-preferential creditors | | - 5,224,839 | |
| Non-preferential creditors | | | |
| Cerved creditor | 20,933 | 20,933 | |
| Directors current account | 22,500 | - | |
| Shareholder loan | 9,055 | - | |
| Accruals | 95,445 | 58,614 | |
| | 147,933 | 79,547 | |
| Estimated deficiency/surplus as regards to creditors | | - 5,304,386 | |



Signature
Alan Roy Kentish

Date: 16/1/13

[illegible]

ALAN ROY KENTISH

DATE 161113.

[illegible]

16/1/13.

EXHIBIT JC4

Hill Insurance Company Limited – Estimated Outcome Statement

| Asset class | Asset | Notes | Balance sheet value as at 31 August 2012 EUR | Estimated to realise EUR |
|---|---|-------|---|-----------------------------|
| Investments | Investments | | 0 | 0 |
| | Other financial investments | | 0 | 0 |
| Reinsurers' share of technical provisions | Provision for unearned premiums | 1 | 1,417,297 | unknown |
| | Claims outstanding | 2 | 234,560 | 234,560 |
| Debtors | Debtors arising out of direct insurance operations - intermediaries | 3 | 653,194 | 653,194 |
| | Debtors arising out of reinsurance operations - reinsurance contracts ceded | | 0 | 0 |
| | Other debtors | 4 | 10,201,803 | 0 |
| Other assets | Tangible fixed assets | 5 | 36,765 | 10,000 |
| | Cash at bank and in hand | 6 | 4,783,298 | 4,783,298 |
| Prepayments and accrued income | Accrued interest | | | |
| | Deferred acquisition costs | 7 | 1,936,294 | Unknown |
| | Deferred processing costs | 8 | 344,592 | 0 |
| | Other prepayments | 8 | 9,134 | 0 |
| Total assets as at 30 June 2012 | | | 19,616,937 | 5,681,052 |
| Additional realisations | Counter indemnities recoveries | 9 | unknown | Unknown |
| Estimated total assets | | | 19,616,937 | 5,681,052 |
| | | | | In liquidation |
| Costs of realisations | | | | 1,000,000 |
| Net assets available for distribution to creditors | | | | 4,681,052 |
| Distributions to preferential creditors | | | | 269,650 |
| Net assets available to insurance creditors | | | | 4,411,402 |
| Distributions to insurance creditors | | | | 4,411,402 |
| Net assets available to unsecured creditors | | | | 0 |
| Percentage recovery for: | | | | |
| - Preferential creditors | | | | 100% |
| - Insurance creditors | | | | 33% |
| - Unsecured creditors | | | | 0% |

- 1 Legal advice is being sought concerning the extent to which unearned re-insurance premiums may be recovered from the Company's re-insurer. At present it is too uncertain to predict.
- 2 Re-insurer's share of claims is expected to be recoverable in full.
- 3 A provision for non-recovery of 20% of the amount due by brokers has been provided.
- 4 While the liquidator is expected to pursue claims against contributories the expected amount to be recovered is too uncertain to predict.
- 5 Office furniture and equipment are expected to realise in the region of €10,000.
- 6 The Company's bank accounts are already under the control of the provisional liquidator.
- 7 Deferred acquisition costs is the portion of commissions paid to brokers relating to unexpired portion of policies sold. Legal advice is being sought concerning the extent to which such commissions may be recovered from brokers.
- 8 Deferred processing costs and prepayments are not considered recoverable.
- 9 The amount of paid out claims recoverable under counter-indemnities is too uncertain to predict at this stage.

The assumptions on which these figures are based may turn out to be overly optimistic.