

Third Report of The Liquidator of

**LEADENHALL BANK & TRUST COMPANY
LIMITED**

(In Voluntary Liquidation)

For the period from April 8, 2006 to November 10,
2006

Leadenhall Bank and Trust Company Limited

(In Voluntary Liquidation)

Third Report of the Liquidator (From April 8, 2006 to November 10, 2006)

C O N T E N T S

	Page
Introduction	1
Background and Basis of Appointment	1
Definitions	2
Steps Taken by the Liquidator	2 - 3
Concerns	3 - 12
Conclusion	13
Appendix 1 15	14 -
Appendix 2	16

INTRODUCTION

The Third Report of the Liquidator of Leadenhall Bank & Trust Company Limited (“the Bank”) is intended for use by the Central Bank of The Bahamas, The Bahamas Registrar General and the Supreme Court of The Bahamas and other concerned parties. This report sets out the steps taken by the Liquidator during the period from April 8, 2006 to November 10, 2006. The Liquidator had previously acted as the Receiver of the Bank for the period from July 18, 2005 to October 3, 2005. On October 3, 2006 the Bank was placed into voluntary liquidation.

BACKGROUND AND BASIS OF APPOINTMENT

Leadenhall Bank & Trust Company Limited is a Bahamian incorporated Company and was licensed under the provisions of the Banks and Trust Companies Regulation Act, 1965, as amended.

In 2000, Leadenhall was granted a license to provide services in Bahamian dollars. This license gave the Bank the authority to service the domestic market. However, that service never materialized.

The Bank’s revenue was generated primarily from the following:

- Trust services
- Managed companies (e.g. IBC, property management, etc.)
- Banking and investment services

Until July 29, 2003, the Bank also generated revenue from its MasterCard (credit card) franchise, which was operated by Axxess International Bahamas Limited. MasterCard suspended the license issued to the Bank and is now claiming a termination fee of \$1.7 million.

As a result of the loss of its credit card business and the ongoing litigation with respect to the same, along with litigation involving the Cash 4 Titles class action suit and shareholder fallout, the Bank has consequently experienced recurring losses from its operations in recent years.

Primarily as a result of the above, I was appointed Receiver of Leadenhall Bank & Trust Company Limited with effect from July 18, 2005. The Bank’s licence was suspended for the period from July 18, 2005 to October 3, 2005. My appointment was made pursuant to Section 18 (1) (f) of the Banks and Trust Companies Regulation Act, 2000.

On October 3, 2005, by a resolution of the shareholders, the Bank was placed into voluntary liquidation and I was appointed the Liquidator.

A Notice of said Resolution was subsequently published in the Nassau Guardian on October 12, 2005.

Simultaneously, with the members' resolution to voluntarily wind up the Bank, The Central Bank of The Bahamas revoked the Bank's licence on October 12, 2005.

On November 11, 2005 an Order was granted by the Supreme Court granting leave for a further application to be made for an Order that the liquidation be Court supervised. The Supreme Court on November 25, 2005 granted an Order for the liquidation to be Court supervised.

DEFINITIONS

In this report, the words and expressions hereunder shall mean, as follows:

“The Liquidator” means Craig A. (Tony) Gomez or any member of his team.

“I” means Craig A. (Tony) Gomez or any member of his (the Liquidator's) team.

“The Bank” means Leadenhall Bank & Trust Company Limited.

“Counsel” means Callenders & Co., the Liquidator's Counsel.

“Court” means the Supreme Court of The Bahamas.

“Receiver” means Craig A. (Tony) Gomez acting as Receiver of the Bank during the period July 18, 2005 to October 3, 2005.

“MBH” means McKinney Bancroft & Hughes, the Liquidator's Counsel in the Axxess International litigation with First Financial Caribbean Trust Company.

STEPS TAKEN BY THE LIQUIDATOR (for the period from April 8, 2006 to November 10, 2006)

1. Placed the second Liquidator's report on the Bank's website.
2. Completed the verification and reconciliation of credit card holders' security deposits.
3. Met with executives of First Financial Caribbean Trust Company Limited (“FFCTC”) and their Counsel along with MBH in connection with the Axxess International litigation.
4. Delivered to Gibson Rigby, & Co., Counsel for FFCTC, a copy of the report detailing total credit card security deposits due to credit card holders.

5. Met with Counsel to discuss the way forward in the Cash 4 Titles litigation in Florida.
6. Met with Counsel to discuss coverage of the Bank's insurance claim with Carib Insurance to cover the Bank's outstanding legal bills in the Cash 4 Titles matter.
7. Continued to dispose of the Bank's assets.
8. Met with Mr. William Jennings, former Managing Director of the Bank to discuss Generali and other matters.
9. Continued to investigate the status of the Bank's account with Generali.
10. Continued to follow-up on outstanding loans.

STEPS TAKEN BY THE LIQUIDATOR (for the period from April 8, 2006 to November 10, 2006) (continued)

11. Continued to facilitate clients' requests to transfer "off-balance sheet" accounts, companies and trusts to new service providers.
12. Continued to follow-up on the outstanding balance on the local and international credit card accounts and seeking to secure collection agencies to assist in the efforts.
13. Continued to follow-up with the local enforcement officials on the forged Canadian dollar check matter.
14. Continued to address request made by the Internal Revenue Service of the United States of America, which were made through the Attorney General's Office and by clients of the Bank.

CONCERNS

- **Axxess International Bahamas Limited**

The Bank is engaged in litigation with Axxess International Bahamas Limited, its principals and First Financial Caribbean Trust Company ("FFCTC"). FFCTC is claiming insufficiency of the Trust assets transferred based on the asset schedule in the Deed of Retirement and Appointment that was executed by the Bank on March 15, 2002.

I am optimistic that this matter may be settled within the first quarter of 2007, providing that the necessary documents can be obtained from third party (banking) sources.

During the period the reconciliation of the credit card customer accounts were completed by the Liquidator and subsequently delivered to FFCTC for perusal. MBH, Counsel for FFCTC and myself met with The Honorable Justice Faizool Mohammed, Justice of the Supreme Court on June 14, July 25, September 25 and October 31, 2006 to provide him with updates on the progress made.

The next appearance before the Honourable Justice Mohammed, for a status conference, is scheduled for December 13, 2006.

- **Cash 4 Titles**

Thomas Lynch

I received a copy of a U.S District Court of Southern Florida court order dated March 31, 2006 from Counsel on the pending motions in the Cash 4 Titles (“C4T”) litigation in Florida, which was faxed to my office on April 5, 2006, from the offices of Mr. Thomas Lynch, of the law firm Wildman, Harrold, Allen & Dixon LLP. The Judge’s rulings on the following motions were contained in the document:

1. The Bank’s objections on forum non conveniens and discovery were overruled.

CONCERNS

- **Cash 4 Titles (continued)**

Thomas Lynch (continued)

2. The Bank’s motion to stay discovery pending resolution of its objection was denied.
3. The Plaintiff’s motion was granted for leave to file a memorandum for excess pages.

Mr. Lynch has contacted me on numerous occasions to express concern regarding the settlement of fees outstanding to his firm in the amount of \$231K. Counsel is currently addressing this issue with the Bank’s insurers to determine whether this liability is covered under the Bank’s professional indemnity insurance policy.

I received a letter from Mr. Thomas Lynch dated August 14, 2006, with a court document attached, which was submitted to the United States District Court, Southern District of Florida by Mr. Barton Sacher, Counsel for the Plaintiff in the C4T litigation. The attached document was a "Motion for Status Conference and Directions". Mr. Sacher also formally tendered his client's claim against the Bank in the amount of \$100,000,000. Mr. Sacher is alleging that there were fraudulent conveyances of millions of dollars from the Bank on the eve of the Bank's receivership on July 18, 2005.

I received a further letter from Mr. Thomas Lynch dated August 28, 2006, by fax. The document was a motion submitted by Mr. Lynch before the United States District Court in the Southern District of Florida on August 28, 2006, requesting leave of the court to withdraw immediately as the Bank's counsel of record in the C4T litigation.

Mr. Lynch has since formerly withdrawn his representation of the Bank in the C4T matter. Mr. Lynch claimed that he could not get any instructions from the Bank or its officers as to his representation in the C4T litigation. Mr. Lynch also mentioned that the non-payment of his outstanding legal fees from June 2005 was another reason for his withdrawal. I along with Counsel was addressing these matters with Mr. Lynch at the time of his decision to withdraw as the Bank's attorney in the C4T litigation.

I received a Summons from the U.S Court of Southern Florida requesting my appearance at a hearing scheduled for November 23, 2006, to show cause why a default judgment should not be entered against the Bank. Throughout I have acted upon the advice from Counsel. I have also sought advice from U.S Counsel as to the effect of any potential default judgment on the Liquidation.

Counsel has advised that the Liquidator remains subject to the direction of The Bahamian Court.

CONCERNS

- **Cash 4 Titles** (continued)

Akerman Senterfitt

I received a letter from the law firm of Akerman Senterfitt, the Florida attorneys assisting Mr. Thomas Lynch in the C4T litigation dated August 28, 2006, by fax. The document was a motion submitted by the law firm

before the United States District Court in the Southern District of Florida on August 28, 2006, requesting leave of the court to withdraw immediately as the Bank's counsel of record in the C4T litigation

- **Professional indemnity insurance**

Counsel is currently in discussions with the attorneys representing the Lloyds underwriters regarding coverage under the Bank's professional indemnity insurance policy. Counsel for the underwriters have expressed concern over any potential default judgment in the U.S court action. I am seeking the advice of U/S counsel in this regard.

- **Investment in the CIG 24/24 Preferred Funds ("CIG")**

I received a check in the amount of \$535,787.05, from the CIG Fund Manager, which represents the Bank's final settlement from the investment.

The Bank's investment in the Fund and its returns are as follows:

	<u>Amount</u>
Investment as at June 2001	
\$2,000,000.00	
Less principal returns:	
Returns January 10, 2003	
(1,209,684.01)	
Returns June 2, 2003	(170,009.64)
Returns April 6, 2006	
(535,787.05)	
Shortfall	\$
(84,519.30)	

CONCERNS

- **Generali International – Policy no. PF32322**

The portfolio totaled \$15,685,684 as at September 30, 2006. The investment is comprised of the following:

				September 30, 2006	
				Market Value	
Structured Asset Investment Loan T-Bill					\$
1,040,821					
Caledonia	Corporate	Group	Limited		
3,068,339					
Cash					
11,576,524					
Total					
\$15,685,684					

Below are the fees charged by Generali for the period from January to September 30, 2006.

Amount			
1 st Qtr. 2006			118,156.46
2 nd Qtr. 2006			118,156.46
3 rd Qtr.			2006
118,156.46			
Total fees			
\$354,469.38			

Below is an analysis of the Bank's 2006 interest earned and charges incurred on the Bank's portfolio held at Generali:

				January - September 2006	
Interest earned on investment				\$432,838	
Various fees paid to Generali					
(354,469)					
Direct net gain for the year 2006					
\$ 78,369					

After further review of the March 2006 quarterly policy statement received from Generali in April, 2006, I concluded that further details were necessary to substantiate the quarterly fees being charged on the policy. On May 16, 2006 I requested from Generali, details of the quarterly fees charged on the policy which amounted to \$118,156.46. I also requested details of the allocation of the fees being charged.

CONCERNS

- **Generali International – Policy no. PF32322 (continued)**

I also requested from Generali on May 30, 2006, details of the method used in the calculation of their quarterly charges. I received a response from Generali on June 1, 2006 advising that the terms and conditions stated that a quarterly administrative charge of .375% is calculated on either the present investment value or the initial investment amount whichever is greater.

I perused the policy's terms and conditions and noted section 6; "Allocation of Portfolio" which indicated that this investment guaranteed no returns other than at the death of the assured person. Section 6 of the terms and conditions states;

"Following each date on which we receive the value notification of an investment account we allocate to the Portfolio the Investment Amount.

Your Policy does not give you any title to or interest on any assets within the Portfolio or any of our other assets."

I have been unable to obtain any further information from Generali on this issue.

I met with Counsel on July 12, 2006 for advice on the Generali matter, and was advised to meet with the former Managing Director of the Bank for further clarification of the matter. We met with the former Managing

Director and he indicated that all investment decisions in relation to the Generali account were approved by the Board.

Accordingly, I am in the process of reviewing the Bank's records, particularly the meetings of the Bank's Board of Directors and the Shareholders to confirm this information.

CONCERNS

- **Caledonia Guaranteed Investment Fund Ltd.**

The Bank presently holds an investment in Caledonia Fund Investments Limited ("the Fund") in the amount of \$3,000,000.00. The Fund, totaling \$3,828,000, as per the 2004 audited Financial Statements is managed by Caledonia Corporate Management Group Limited ("Caledonia"). The current directors of the Fund are; Mr. Matthew McNeilly and myself. I replaced Mr. William Jennings by resolution of the Board of Directors of the Fund. My appointment as a Director of the Fund was due to the Bank holding 78% of the total investment portfolio.

Caledonia received the following fees in 2004 for management services of the Fund as per the Fund's 2004 audited financial statements:

Investment management fees	\$38,280 (1% of the Fund's total)
Organization cost	28,931
Bank and brokerage charges	<u>477</u>
Total	<u>\$67,688</u>

It is a matter of concern that this investment appeared on the Bank Generali International financial statement, where the same asset is further

charged for management services. This appears to be a case of double dipping by investment managers. I spoke with Caledonia on this matter and was advised that they did not know why the investment appeared on the Generali statement.

I have discussed the issue with the former Managing Director and shall continue our investigation into this matter.

CONCERNS

- **Unsecured Credit Cards**

I am in discussion with local collection companies to assist in the effort of collecting funds due on all unsecured credit card holders with local addresses. These arrangements are being finalized.

Counsel is engaging international counterparts to assist with the collection of outstanding funds for the international credit card holders.

Below is an analysis of the account balances at this time:

Classification	# of cards	Amount
Staff	2	\$ 7,497.46

Local	103	715,955.69
International	354	707,364.15
Total outstanding		\$1,430,817. 30

- **Loan receivables**

The Bank's loan receivables, inclusive of principal and interest, are represented by the seven debtors, with outstanding balances totaling \$3,315,503.

The principal activity during the reporting period are as follows:

- A) **Dimethaid Research Inc. ("Dimethaid")**

Nuvo formerly known as Dimethaid agreed to pay their outstanding loan from the sale of their property located at 1405 Denison Street, Markham. Nuvo claimed that the interest calculation on the loan violated the Canadian Interest Act and consequently, should attract a 5% default interest rate.

I was advised by Counsel to accept the proceeds of sale from Nuvo subject to court approval. It was agreed that the funds would be placed in escrow pending court appeal.

CONCERNS

- **Loan receivables (continued)**

- A) **Dimethaid Research Inc. ("Dimethaid") (continued)**

Based on the First Liquidator's Report, former officers of the Bank queried the accounting for the interest under the proposed

settlement. Subsequently, Counsel sought the advice of Canadian attorneys regarding the application of the Canadian Interest Act. Based upon the advice received, I have instructed Counsel to make application to the Court for release of these funds to the general asset pool. Nuvo has since instructed local counsel to challenge this position.

B) Other loans

I received a letter from one of the debtor's attorney outlining a payment arrangement to settle the loan balance in the amount of \$1.1M. I am currently reviewing this information and a final proposal will be sent to the attorney to settle the outstanding loan balance within the next 30 days.

C) I am actively communicating with the remaining debtors to retrieve the outstanding amounts. I estimated that approximately \$500K may not be collected, which will require further review by Counsel.

- **Forged check**

I am continuing my follow-up with the officer in charge of the investigation of the CAD\$125,937 forged check matter. To date he was unsuccessful in locating the client.

We have contacted the individual concerned, who has promised to cooperate with our ongoing investigation into the matter.

CONCERNS

- **MasterCard**

I received a letter from MasterCard regarding the deposit being held on behalf of the Bank pending final settlement of the Bank's account. The letter stated that MasterCard is holding a deposit in the amount of \$1,897,551 for the Bank out of which a termination fee of \$1,613,000.00 will be deducted and \$284,551 will be refunded to the Bank once I sign a release and indemnity letter provided by MasterCard. The letter further stated that the termination fee was assessed under MasterCard International Bylaws, Article VI, Section 10.

- **Transfer of accounts**

I am continuing to follow-up with clients to have their accounts transferred to new service providers.

Below is a summary of requests to transfer client accounts to new service providers; to liquidate the company or terminate the trust:

Transfer company to new service provider	-	42
Transfer trust to new Trustee	-	21
Close company/trust	-	18
Total request	-	81

All transfers are being acted upon, and all clients are requested to sign a liquidator's exit letter to indemnify the liquidator and/or his team members.

- **Off Balance Sheet Assets held in the name of the Bank**

Approximately 90% of the off-balance sheet assets have been transferred as per client's instructions. I am still in discussion with the remaining clients regarding the transfer of their "off-balance sheet" assets to other service providers.

- **Statement of affairs**

See Appendix 1 for the unaudited statement showing assets at estimated realizable values and liabilities as they are expected to rank, as at November 10, 2006.

CONCERNS

- **Receipts and disbursements**

The receipts and disbursements made during the period from April 8, 2006, to November 10, 2006 are shown at Appendix 2.

- **IRS**

I continue to receive requests from the Internal Revenue Services (“IRS”) in the United States of America through the Attorney General’s Office and from Axxess credit card holders, requesting credit card information as follows:

- Credit card statements
- Security deposits source of funds
- Details of payments in excess of current charges
- Details of refunded security deposits

All request are acted upon as soon as possible.

- **Customer Communications**

I received a significant number of contacts from clients resulting from an Internal Revenue Services “IRS” initiative in the United States, requesting credit card records. There was concern that cash payments made on cards may have created additional spending limits.

We continue to receive a large volume of emails, telephone calls and correspondence via mail from customers of the Bank. Their main concerns were the Bank’s ability to return their deposits, requests for credit card information and the lack of access to their funds. We are responding in the quickest possible time and are formulating replies to customers who have requested information regarding the status of the Bank.

CONCLUSION

I will continue to take customers' calls and move the liquidation forward. The primary challenges facing the liquidation are:

- Resolution of the Axxess matter between the Bank and FFCTC.
- Resolution of the Cash 4 Titles matter.
- Resolution of the Generali matter.
- Completion of the claims filed with Carib Insurance.

It is necessary that I seek the courts approval of the following:

- Payment of professional fees in the Liquidation.
- Released of the Dimethaid funds to the general asset pool.

I will continue to have the client records made current to facilitate the various transfer requests and to assist clients in making their claims with the Bank.

Very truly yours

Craig A. (Tony) Gomez
November 10, 2006
Liquidator
Nassau, Bahamas
Leadenhall Bank & Trust Company Limited (In Voluntary Liquidation)

Appendix 1

**LEADENHALL BANK & TRUST COMPANY
LIMITED (In Voluntary Liquidation)**
Statement of Assets at Estimated Realizable Values
And Liabilities As Expected to Rank

As at November 10, 2006
(Expressed in Bahamian dollars)

ASSETS

Cash due from Banks
\$19,948,774
Investment in securities
4,433,780
Loans receivable, net
3,458,486
Accounts receivable
363,864
Fixed assets, net
61,669
Deposit – utilities
9,556

28,276,129

Liabilities

Amount due to Creditors
26,728,475

ESTIMATED SURPLUS AS REGARDS MEMBERS
\$ 1,547,654

Appendix 1 (continued)

**LEADENHALL BANK & TRUST COMPANY
LIMITED (In Voluntary Liquidation)**

Cash and Due from Banks

As at November 10, 2006
(Expressed in Bahamian dollars)

Cash and due from Banks (BSD)

Cash on hand		Currency	X-Rate
BSD			
FCIB (Barclays)	C/A	3,888	1.0000
3,888			
Royal Bank of Canada	C/A	<u>486,271</u>	1.0000
<u>486,271</u>			
Total BSD Cash		<u>490,159</u>	
<u>490,159</u>			

Cash and due from Banks (CAD)

Generali International	Call	37	.8845
33			
FCIB (Barclays)	C/A	21,569	.8845
	19,078 FCIB (Barclays)		F/D
770,104	.8845	681,157	
Generali International	F/D	<u>1,311,960</u>	.8845
<u>1,160,429</u>			
Total CAD Cash		<u>2,103,670</u>	
<u>1,860,697</u>			

Cash and due from Banks (GBP)

Generali International	C/A	691	1.912
1,320			
FCIB (Barclays)	F/D	79,409	1.912
151,829			
HSBC Bank	C/A	115,146	1.912
212,916			
FCIB (Barclays)	F/D	420,336	1.912
803,682			
HSBC Bank	F/D	746,594	1.912
1,427,488			
Generali International	F/D	<u>1,516,271</u>	1.912
<u>2,899,111</u>			

Total GBP Cash		<u>2,878,447</u>	
5,496,346			
<u>Cash and due from Banks (USD)</u>			
Canaccord Capital Corp	C/A	(29)	1.0000
(29)			
MasterCard	C/A	1,897,551	1.0000
1,897,551			
Generali International	Call	2,174,902	
1.0000	2,174,902		
Royal Bank of Canada	C/A	2,637,143	1.0000
2,637,143			
Generali International	F/D	<u>5,392,003</u>	<u>1.0000</u>
<u>5,392,003</u>			
Total USD Cash		<u>12,101,570</u>	
12,101,571			
			Total
	<u>\$19,948,773</u>		

**LEADENHALL BANK & TRUST COMPANY
LIMITED (In Voluntary Liquidation)**
Statement of Receipts & Disbursements

For the period from April 8, 2006 to November 10, 2006
(Expressed in Bahamian dollars)

OPENING CASH POSITION

\$20,899,308

Receipts

Sale of investment - CIG 24/24 Preferred Fund

535,787

Interest earned on Generali deposits (Jan. – Sept. 2006)

432,838

Interest earned on First Caribbean Bank GBP/CAD deposits

18,987

Fees collected for account transfers

10,460

Interest earned on HSBC deposit

10,328

Sale of fixed assets

2,000

Fees collected for credit card research

1,575

Car insurance cancellation reimbursement

523

1,012,498

Disbursements

Funds paid to clients per court order (requested prior to receivership period)

1,894,055

Professional fees

77,148

Liquidator's remuneration (Dec. 10, 2005 - April 7, 2006)

217,593

Fees paid to Generali International (Jan. – Sept. 2006)

354,468

Rent

28,000

Offsite storage – rent

12,000

Salaries

7,575

Electricity
4,418
Repairs and maintenance
1,892
Bank charges
1,615
Telephone
1,317
Petty Cash - office expense
1,261
Internet
1,005
Courier
589
IT System maintenance
413
Relocation expense

2,603,699

Add mark to market unrealized forex difference on CAD\$ and GBP
640,667

CLOSING CASH POSITION
\$19,948,774
