

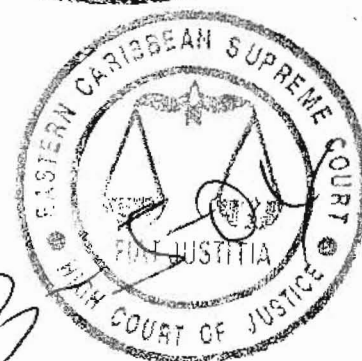
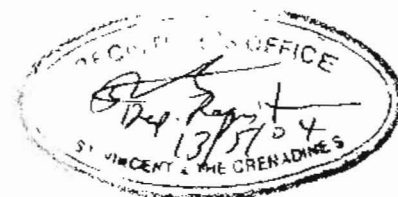
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MILLENNIUM BANK INC.

CONTROLLERS' REPORT

PERIOD OCTOBER 31, 2003- JANUARY 31, 2004

*Reporting on Time*

Partners: Lennox Timm • Kirk Da Silva • Consulting Accountant: Henry Keizer FCCA



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## **1 PURPOSE AND SCOPE OF THE ENGAGEMENT**

- 1.1 The offshore Finance Authority, acting on the advice of the Minister of Finance, appointed me, Kirk M. DaSilva of KDLT Chartered Certified Accountants to assume control of Millennium Bank's affairs in accordance with section 18(2)(e) of the International Banks Act 1996. My appointment took effect on October 31, 2003.
- 1.2 The letter to Millennium Bank Inc. from the offshore Finance Authority, appointing me as controller, stated that the decision was taken as the "bank had failed to satisfy the Authority as to why the action contemplated (as identified in the notice to show cause) should not be taken."

## **2 OVERVIEW**

- 2.1 On assuming duties as controller of the bank I immediately set out to achieve the following objectives;
- a) To obtain information with relation to current financial status of the bank.
  - b) To determine the beneficial owners, directors and senior executives of the bank.
  - c) To examine the number of employees and their related roles and functions within the organization.
  - d) To meet with the management and staff of the bank.
  - e) To report to the Offshore Finance Authority my findings with respect to the Operation and financial position of the bank.
- 2.2 My report is based upon the information maintained at Millennium Bank Inc., discussions with Mr. William Wise and Mrs. Sheryl Hinds and various other documents at the bank including accounting records. All parties concerned were quite cooperative.
- 2.3 All amounts presented in my report are expressed in United States currency unless otherwise noted. In my report depositors refer to clients of Millennium Bank Inc from various countries throughout the world who have placed funds in trust with the bank.

### 3 INCORPORATION AND OWNERSHIP

3.1 Millennium Bank Inc. was incorporated on December 16, 1999 under the St. Vincent and the Grenadines International Business Companies Act of 1996.

3.2 The Company was issued a class one (1) banking license under the St. Vincent and the Grenadines International Banks Act of 1996, thereby obtaining authority to engage in general banking business.

3.3 In its business plan dated December 20, 1999 the bank outlined its business objectives as follows;

- Secured Credit card operation
- Fixed-term / Fixed-return investment products
- Company and Trust Formation services.

3.4 In this plan submitted to the offshore Finance Authority on May 10th 2000, the bank presented a proforma income statement reflecting revenue and net earnings as follows;

	Year <u>1</u> Million \$	Year <u>2</u> Million \$	Year <u>3</u> Million \$
Total Revenue	2.7	5.9	9.6
Less: Total Expenses	1.3	3.4	5.8
Projected Net Earnings	<u>1.4</u>	<u>2.5</u>	<u>3.8</u>

3.5 The "Business Plan" also stated, that "Millennium will endeavour to ensure the preservation and maintain the growth of each and every clients deposits."

3.6 Documentation at the bank shows that the sole shareholder of the bank is United Trust of Switzerland formerly Swiss Trust SA. Mr. Trenholm Eric Healy is named as the beneficial owner of United Trust of Switzerland (100% ownership of shares). Mr. Healy resigned as director of Millennium Bank Inc. on January 31, 2002.

3.7 Currently the sole director of the bank is Mr. Piers Barber.

3.8 The bank is presently operating without the services of a manager. The previous manager Mr. John Bonadie an experienced Banker, formally employed with Barclays Bank Plc. resigned in December 2001. The financial controller, Mrs. Sheryl Hinds is presently acting as manager of the bank. Mrs. Hinds has tremendous experience in accounting but has no prior experience in banking.

### 3 Incorporation and Ownership cont'd

#### Local Director

- 3.9 Mr. Monty Maule resigned as a director of the bank on October 16, 2003. A resolution appointing Mr. Maule is dated June 16, 2003. However, in his letter of resignation Mr. Maule stated "Having not been previously advised on this and since I have not been involved in any way what so ever with the company, I hereby tender my resignation as director."
- 3.10 There is no evidence to suggest that a local director has subsequently been appointed. The bank is therefore in contravention of section 17 of the International Bank Act No.19 of 1996, which imposes a requirement on the bank to have at least two directors, one of whom shall be a resident.

### 4 MR. WILLIAMS J. WISE

- 4.1 Mr. William Wise who operates as the Chief Executive Officer indicated to me that Mr. Trenholm Healy appointed him to this position verbally. In conversation with Mr. Wise he has indicated that the shareholder of the bank is willing to offer 100% of the shares to him. However, to date this has not been effected.
- 4.2 A due diligence performed on behalf of the offshore Finance Authority on Mr. Wise by NFC Global Inc. signed by Stacy L. Smith of the investigations division states "Please note, the application on question number 13 the subject indicates his occupation as **lawyer**. NFC could not locate evidence to this fact. Research through Public Record databases, including Martindale Hubbell and West Law Legal Directories, did not show a listing for the subject. In addition, a call placed to North Carolina Bar Association revealed that William J. Wise is not registered in that state as an attorney."
- 4.3 It is of interest to note that Mr. Wise in his Curriculum Vitae submitted to the offshore Finance Authority states his profession as Attorney at law Raleigh, North Carolina.

## 5 OPERATING RESULTS

5.1 The bank has incurred significant losses from its date of incorporation, resulting in a large accumulated deficit.

5.2 These deficits were financed by a combination of shareholders funds and members' deposits.

	<u>Audited</u> 2001	<u>Audited</u> 2002	<u>Un-Audited</u> 2003
Net losses	<u>(719,743)</u>	<u>(1,276,448)</u>	<u>(2,262,678)</u>
Accumulated Deficit	<u>(719,743)</u>	<u>(1,996,191)</u>	<u>(4,258,869)</u>

5.3 Revenue is earned from interest on loans, interest on Bank deposits, and fees and Commissions.

5.4 The Revenue in relation to expenses was very low which resulted in the foregoing deficit positions. Total revenue over the three years is summarized below:

	<u>Audited</u> 2001	<u>Audited</u> 2002	<u>Un-Audited</u> 2003
Total Revenue	<u>(21,924)</u>	<u>(64,634)</u>	<u>(155,708)</u>

5.5 Examination of the administrative expenses revealed that total expenses were 31, 19 and 14 times higher than the income earned in 2001, 2002 and 2003 respectively. Of these expenses the following comprised the significant items;

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Accommodation cost	61,218	99,431	59,588
Advertising and Marketing	10,593	66,127	249,230
Business Development	<u>95,763</u>	<u>137,107</u>	<u>1,038,950</u>
	<u>167,574</u>	<u>302,665</u>	<u>1,347,768</u>
Per percentage of total expenses	25%	25%	63.6%

5.6 On the basis of the foregoing it appears that the bank has over the years operated in a manner that is not in keeping with prudent and responsible business practices. Exorbitant sums of money were spent on non-banking activities, for example, the rental of a cottage at the Young Island Resort with a rental cost of US\$7,000 per month, for most of the time the cottage was unoccupied.

5.7 One must note with concern the nature of the business development cost. This expense category represents money paid to persons deemed to be consultants to the bank. According to the Financial Controller most of these expense have been allocated to this category, as there were no supporting documentation to determine the specific nature of these expenses.

5.8 I am of the view that this was a vehicle used to recklessly withdraw funds from the bank.

## 6 CREDIT CARDS' OPERATION

- 6.1 The credit card operation was governed by an agreement made between the Caribbean Credit Card Corporation Limited and Millennium Bank Inc. on August 21, 2001. The bank began its credit card operation in October 2001.
- 6.2 An experienced employee Mr. Lincoln Caine, who had received an enormous amount of training while employed at the National Commercial Bank (SVG) Ltd, managed the department.
- 6.3 Three categories of cards were offered by the bank namely Business, Classic and Gold.
- 6.4 Credit cards were issued to persons deemed as consultants to the bank, to Mr. William Wise and members of his family. It must be noted that neither the appointments, the purposes of the consultancy nor the legitimacy of these credit card transactions could have been validated. According to the Financial Controller, documents supporting these transactions were never presented although requested on numerous occasions.
- 6.5 A listing of the corporate credit card holders and card limits issued by Millennium Bank Inc. to individuals who are not customers of the bank are as follows;

### Business

<u>Name</u>	<u>Account #</u>	<u>Card limit</u>
Jason D Wise	172400012	\$ 2,000
Lynn P Wise	172390015	\$ 5,000
Jacqueline S. Hoegen	170210033	\$10,000
Trenholm E. Healy	172410011	\$15,000
Harvey Allan Freeman	176430015	\$20,000
Stephen A. Blake	174980011	\$25,000
William J. Wise	171460017	<u>\$50,000</u>
	Sum total	\$127,000

### Classic

<u>Name</u>	<u>Account #</u>	<u>Card limit</u>
Muriel Veniez	172420010	\$2,000
William J. Wise	171460025	<u>\$5,000</u>
	Sum total	\$7,000

### Gold

<u>Name</u>	<u>Account #</u>	<u>Card limit</u>
William J. Wise	172380016	\$5,000
	<b>Grand Total</b>	<b><u>\$139,000</u></b>

Credit Cards' Operation cont'd

- 6.6 All credit card transactions were halted on April 18, 2003. This was due mainly to the fact that the security deposits had been fully drawn and the bank was actually indebted to the Caribbean Credit Card Corporation in the amount of \$243,000. This situation occurred as a result of the high transactions from the Millennium Bank Inc. cardholders, who were not customers of the bank, but were issued the cards to pay for expenses incurred on the banks' behalf.
- 6.7 Moreover, this was done to the detriment of customers with substantial deposits with the bank. These customers had been unable to use their credit cards for quite sometime.



## 7 FINANCIAL POSITION

### Assets

7.1 At January 31, 2004 total assets of the bank were \$1,725,616 comprising mainly of loans to customers in the amount of \$850,725 or 50% of total assets. Cash resources total \$486,428 or 28% of the assets. The loans are as follows;

➤ Sterling Administration Inc. (Demand Loan)	450,325
➤ Sterling Administration Inc.	33,085
➤ Beaver Administration Inc.	<u>367,315</u>
Total	<u>850,725</u>

7.2 Sterling Administration Inc. is a company owned by Mr. William Wise (100% ownership of shares).

7.3 Mr. William Wise is currently repaying the loan listed to Beaver Administration Inc. There is evidence that may suggest that the loan to Beaver Administration Inc. should have been cleared.

7.4 There are numerous transactions paid on the bank's behalf by Mr. Wise. These transactions have been offset to his loan accounts. In some instances there is no evidence to verify that these transactions are relevant to the bank.

### Liabilities

7.5 As at January 31, 2004, current liabilities totaled \$4,428,673, which is two times larger than the total assets of the bank. Customers' deposits total \$3,774,463 or 86% of the total liabilities. The remaining 14% is made up of accounts payable and accrued liabilities.

### Customer's Deposits

7.6 In order to attract depositors various agents from different countries are used to solicit funds. Deposits are classified into the following;

➤ IRA – Individual Retirement Accounts	\$1,516,378
➤ CDs	<u>\$2,258,085</u>
Total	<u>\$3,774,463</u>

7.7 Should the bank be liquidated at this time there are insufficient funds to cover customers' deposits. In fact, available funds and assets would only be able to meet approximately .46 cents of each dollar of customers' deposits. This position reduces the liquidity of the bank to a very critical level.

## 8. SHARE CAPITAL

- 8.1 The bank has accumulated deficit as at July 31, 2003 of \$4.2 Million. Though the bank has share capital of \$2.1 Million, an accumulated deficit position of \$4.2 Million has wiped out its share capital. Moreover, the accumulated deficit had increase to \$4.8 Million by January 31, 2004 (as per Management Accounts). Hence the bank is contravention of section (10)(a) of the International Banks act 1996, which states that **"No class one offshore Banking license shall be granted to or maintained by any company unless it remains an eligible company and has and maintains fully paid-up capital of not less than \$1 Million or equivalent in another currency, or such greater sum as the authority may reasonably determine."**
- 8.2 It must be noted that since September 25, 2002 in its inspection report the bank was requested to remedy the situation. The bank subsequently submitted two recapitalisation plans on September 30 and October 10, 2003 respectively. Both were unrealistic and were actually rejected by the Offshore Finance Authority as they did not have adequate and meaningful solutions to recapitalized the bank.
- 8.3 Moreover, commitments by the bank to inject \$2.2 Million capital, to increase its statutory deposits to \$500,000 and to have the loan to Sterling Administrative Inc. repaid by September 30, 2003, were never honoured. On assuming controllership of the bank, I was informed that \$2.5 Million would have been injected into the bank no later than December 31, 2003 again this has not materialized.
- 8.4 Further and what is of significance is the fact that Mr. Wise has failed to indicate the source of funds by which he hopes to recapitalised the bank.

## **9 ACTION TAKEN BY THE CONTROLLER**

- 9.1 As controller, it was incumbent on me to institute certain measures to reduce expenses and to rationalize the operations of the bank in order to safe guard the assets of the company and in particular attempt to safeguard customers deposits.

### **Rental Expense**

- 9.2 Monthly payments to Young Island Resort in the sum of US\$7,000 were discontinued. The payments represented rental of a cottage to be used by Mr. Wise during his visits to St. Vincent and the Grenadines. Moreover, instructions were issued to reverse amounts accrued in the draft financial statements of 2003. These decisions were communicated to Mr. William Wise. He has assumed personal responsibility for these debts.

- 9.3 Moreover, a new rental agreement was arranged with International Business Services Limited. Rent was reduced from \$7,000 to \$3,500 per month.

### **Staff Accommodation**

- 9.4 The bank now occupies the top floor of the Jaycees Building rather than both floors.

### **Staff**

- 9.5 On January 15, 2004 staff members Mr. Lincoln Caine- Manager, Credit Card department, and Ms. Juno DeRoche – Manager, Millennium Bank Trust were relieved of their services. Whereas Mr. Caine's position was made redundant, the remaining staff absorbed Ms. DeRoche's duties.

### **Credit Cards**

- 9.6 The credit cards held by Mr. Wise and family members and individuals deemed as consultants of the bank were all cancelled. The Statutory Deposit held by the Caribbean Credit Corporation was requested and is to be deposited to an NCB account.

### **Bank Signatories**

- 9.7 All signatories to local bank accounts were changed and the Controller and the Financial Controller were made signatories.

### **Advertising and Promotion**

- 9.8 All promotional activities were stopped.

## 10 CONCLUSION

10.1 The following is a review of my findings and recommendation:

- That the business of the bank was carried on with reckless disregard of the insufficiency of the Bank's assets to satisfy its debts and liabilities, specifically to its depositors
- That the above was done in such a way on such grand scale, that Millennium Bank's Officers and or Directors knew or ought to have known that the business of Millennium Bank Inc. was being conducted in this manner.
- That the Bank from inception never instituted effective revenue earning strategies.
- Large sums of money were spent on "development cost". These related activities appeared to have no clear objectives. These expenses resulted in large accumulated deficits, which eroded shareholders funds and significantly reduced the ability of the bank to repay customers deposits.
- There was no investment strategy in place from inception, Moreover, deposits which were used to finance the banks operations appeared to have benefited one man, Mr. William J Wise. The loans of the bank are those of Mr. Wise.
- The financial statements over the years reflect a continuous loss in each year of operation. **As a result, the bank's ability to continue as a "going concern" is dependent upon financing from its shareholders.**
- A significant amount of capital injection is necessary, approximately \$4 Million to really revitalize the bank. This must be viewed in context that the person on whom the bank relies to inject this sum of capital, seems unwilling or is simply unable to procure the necessary funds.
- Ample time and opportunities were granted for the injection of further capital. Moreover, I am of the view that further deposits would have been used to finance the banks operations had a controller not been in place.
- It is imperative that the integrity of the offshore jurisdiction of St. Vincent and the Grenadines be maintained.
- Although there were some improvements as a result of measures instituted, to a great extent this was mainly due to the fact that I was able to control the expenses of the bank.
- There should have been tighter controls and established policies to direct the activities the bank.

Conclusion cont'd

- It is apparent that Mr. Wise cannot raise the required capital to revitalize the bank and that the beneficial owner seem to have lost interest in the institution.

RECOMMENDATION

- Subject to the foregoing and after serious consideration, it is my honest and professional opinion that the bank should not be allowed to continue its operation