

Re: Bank Crozier Limited (In Liquidation)

On the 24 July 2003, the Court ordered the liquidation of Bank Crozier Limited. The Court further ordered that I Garvey Louison of Louison Consulting be appointed liquidator of the Bank. Against this background, I reviewed the files at the Grenada International Financial Services Authority. Initially, offshore companies were under the management and supervision of the Registrar of Offshore Services, which operated as a department of the Ministry of Finance. In 2000, a statutory body known as Grenada International Financial Services Authority was established to take over these functions.

The principal office of the Bank was Grand Anse, P0 Box 1005, St. George's, Grenada. The Registered agent was Mr. Anseim Clouden, Attorney at Law with the Registered Office at Church Street, St. George's, Grenada. After a resolution by the Board of Directors signed by Mr. Johansson and Mr. Hogstrom on the 11 April 2000, the authorized agent was changed to Grenada Offshore Management Ltd, with its principal office at Grand Anse, St. George's. ([Appendix A](#))

The objective of the review was to obtain a detailed understanding of the circumstances surrounding the formation and operation of the Bank, in particular with regards to

- Capital Structure
- Organizational Network
- Compliance with the law
- Asset and operational base

Capital Structure

Section Nine (9-1 — Granting of Offshore Banking License

In the Memorandum of Association filed at GIFSA, the authorized capital of the Bank was USD\$1,000,000 comprising of 100,000 bearer shares and 100,000 registered shares. ([Appendix B](#)) The required amount of authorized capital as specified in the Act in order to obtain an unrestricted Class 1 Offshore license was \$6,000,000 Eastern Caribbean Dollars or its equivalent in a convertible currency.

The Memorandum of Association was accepted, although the authorized capital consisted of 100,000 bearer shares, which are prohibited by the Companies Act No. 35 of 1994 and although the company's authorized capital was below the required amount.

However present at the Bank's office was another Memorandum of Association which stated that the authorized capital of the company was USD\$2,000,000 divided into 20,000 registered shares, solely owned by Mr. Peter Johansson. ([Appendix C](#)) The share

certificates dated 2 October 1997 recorded Mr. Johansson as being in possession of 10,000 ordinary shares, while Mr. Hogstrom was reported to be in possession of 10,000 ordinary shares also. ([Appendix D](#))

Further in a resolution dated October 27 1997 the registered shares were reported as 30,000 although on the said resolution the sole shareholder was reported to be in possession of only 20,000 shares. (Appendix E)

There is no evidence to support the existence of collateral or assets pledged by Mr. Johansson for the purchase of either the 200,000 shares or the 20,000 shares.

Section 51 - International Companies Act Cap 152

Section 6 - Effect of Failure to satisfy requirement of section 5

The act does not permit companies to issue bearer shares. The copy of the Memorandum of Association found on the files at GIFSA contained 100,000 bearer shares. However a copy of the Memorandum recovered from the files at Bank Crozier's office contained only 20,000 ordinary share registered to Peter Johansson, each worth USD\$100.

Section Sixteen (16) - Capital Requirements

Under this clause the license should not be granted unless the applicant has fully paid up capital in Eastern Caribbean Dollars or its equivalent of six million dollars. From the Memorandum of Association available, the paid up capital amounted to USD\$ 1,000,000. The Memorandum of Association recovered from Bank Crozier's files contained paid up capital of USD\$2,000,000. There was also no evidence showing the initial funds used to purchase these shares by Mr. Johansson to make him the sole shareholder. Even after Mr. Hogstrom was reported to own 10,000 registered shares in October of 1997, there was no record of the funds used to purchase those shares. There was no evidence concerning the liquidity and availability of the capital in those purchases.

Section 23 - Restriction on distribution dividends

By a resolution of the Board of Directors held on the 10 of January, 2002 Bank Crozier declared and paid a dividend for the year 2003 in the amount of USD\$2.5 million. This dividend was not paid out in cash but was transferred to the accounts of various individuals, some of whom were not recorded as shareholders in the information available. The Act stipulates that dividends should only be paid after all of the capitalized expenditure has been completely written off. ([Appendix F](#))

The Bank in a written response dated the 27 December 2002, to queries by Mrs. Sharon Griffith of GIFSA concerning the declaration of dividends, stated that the dividend would be declared from equity to shareholders. ([Appendix G](#)) According to Section 36 of the

International Companies Act Cap 152, dividends shall only be declared and paid out of surplus. According to Section 16 of the Offshore Banking Act, a dividend can only be declared after all of the capitalized expenses have been written off. Hence the declaration and payment of the dividends by the Bank was in direct contravention of these two sections.

Compliance

Section Seven (7) Content of Application

The Due Diligence agreement dated September 30 1997 was incomplete, bearing the signature of the Attorney for Bank Crozier and the witness Tara Glery. The agreement was not complete because a government official did not sign it.

Section Eight (8) - Examination of the Applicant

There was no record that a check was done of the financial status and history of the applicant company by the Minister. There was also no evidence of background checks prior to September 1 2000. The check submitted by Keith Friday on behalf of Bank Crozier Limited and was dated September 1st, 2000 after the Bank had been granted its license on October 2m1, 1997.

A further check dated 23 January 2001, was conducted by the ICC Commercial Crime Bureau. The ICC Commercial Crime Bureau verified the list that was submitted by Bank Crozier. These reports did not contain any information on the financial status or history of the applicant company. No evidence existed on file to verify that a check had been done of the associates, affiliates or a subsidiary of the company.

Section Nine (9) - Granting of Offshore Banking License

- Financial reputation and standing of the applicant - There was no record on file that the financial reputation of the applicant was examined.
- Record of international banking business — there was no evidence that a check was done of the international banking business carried on by Bank Crozier Limited, prior to their activity in Grenada.

- Verifiable records preceding the date of the application — there was no evidence of records prior to the date on which the application for an Offshore Banking License was made.
- Financial net worth of the directors, associates etc. — There was no evidence suggesting that a check was made to determine the financial net worth of the aforementioned parties.
- Records of the character of the Directors and senior staff — All of the records consisting of the general information on the Directors and senior staff members was dated after the license was granted. There was no information concerning their character.
- Display of license — The license was not displayed at the premises.

Section Twelve (12 - 1) - Condition for grant and retention of license

The Act stipulates that a licensee should appoint two individuals as their authorized agents. Initially Bank Crozier's authorized agent was Mr. Anslem Clouden, Attorney at law. The authorized agent was then changed to Grenada Offshore Management, which is a wholly owned subsidiary of the Bank, without the Ministers approval.

In reference to the International Companies Act (Section 39-2) only a barrister, solicitor, chartered accountant or trust and administration company, practicing or incorporated in Grenada or one registered under the Companies Act of 1994, with authorized and paid up capital of not less than USD\$500,000 can act as an authorized agent. There was no information on file to confirm that the paid up capital of the new authorized agent was in excess of USD\$500,000. There was no evidence to support that the Minister was notified of the change and that his approval was granted prior to the change being made.

The records of the Bank should have been kept with the authorized agent, Grenada Offshore Management Ltd. that operated from the Bank Crozier office at Grand Anse. Grenada Offshore Management was under the supervision of one employee and at my attendance at the Bank, the records of the company that were supposed to be kept by the authorized agent could not be found.

Section Twelve (12 - 4) - Condition for grant and retention of license

Establishment and Maintenance of an Accounting system — no records were found detailing the accounting system that was used. Indeed the quarterly accounts submitted to GIFSA by the Bank often didn't balance.

Section Nineteen (19) - Power of Search

There was no evidence of a Power to Search, however there are repeated requests for information concerning the Banks affairs by Mrs. Sharon Griffith of the Grenada International Financial Services Authority.

Section Twenty (20) - Powers of the Minister

The Board of Directors consisting of only one individual constituted a contravention since, under the Act the Board of Directors is unable to operate and carry out its functions if the number is reduced below the number fixed by the Articles of Association. The Articles of Association further went on to state that any meeting of the Board is duly constituted for the purpose for which it was called unless there is less than one and a half of the total number of directors, unless there is only two directors then the quorum shall be two. The Board of Directors was operated with only one member, Mr. Peter Johansson, which is evident by the minutes from the meetings of the Board of Directors, with him listed as the only individual present and by the resolutions bearing his signature only.

Section 29 - Directors Cap 153

This section requires that at all times a license should have no less than two directors, who should be appointed by written approval of the Registrar. The individuals appointed should have total net assets in excess of two million dollars. As mentioned prior to this section, there are many instances on file where resolutions were signed by one individual and where board meetings were called to order and matters agreed upon in the presence of only one Director, namely Peter Johansson. No information existed on file to confirm that the appointments of senior staff and directors were done, after a written approval by the Minister. There was no confirmation as to the net worth of any Directors, including Mr. Johansson, appointed to the Board to show that their total net assets were in excess of two million dollars.

Section 35 - Production of Books

There are many requests on file where the authorities requested the audited financial statements of Bank Crozier. There were requests for other information concerning records and documents, none of which were heeded by the Bank.

Section Five (5) - Eligible Company

Under the International Companies act a body corporate is considered eligible if it has at least two directors. In Bank Crozier Limited the directors from inception were Mr. Peter Johansson, Mr. Mikaci Lithman and Mr. Bo Silvetedt. After the appointment of the initial Board of Directors, due to resignations and appointments a number of persons were included in the Board of Directors:

1. Peter Johansson - Director / Swedish
2. Mickael Lithman - Original Director
3. Bo Silvatedt - Original Director
4. Olof Hogstrom - Director / Swedish
5. Brian Terry - Chairman / British
6. Scott Wilson - Secretary / Treasurer - effective March 8th , 2003

Consent and resolutions were signed by the Board of Director and had the signature of only Olof Hogstrom and Peter Johansson. In some cases resolutions by the Board carried only one signature. The resolutions for the other appointments were not on file.

[\(Appendix H\)](#).

There was no resolution on file where mention was made of the dissolution of the Board of Directors.

Section five (5) Part E of the Act states that there must be at least two directors on the Board in accordance with the International Companies Act. Prior to the controllership by Price Waterhouse Coopers, Mr. Johansson was the only Directors signing the resolutions and consents of the Board. Although Scott Wilson was the last appointed member of the Board his signature has not appeared on any of the resolutions or consents by the Board.

Section 30 - Restriction on Operation

There was no information on file suggesting that there was written approval by the Minister for Bank Crozier Limited to operate a subsidiary, branch, agency or representative office outside of Grenada, without the written approval of the Minister. In contravention of this clause Bank Crozier Limited operated its wholly owned subsidiary, Stourbridge in Gibraltar, it rep1 office in Sweden and its branch in St. Lucia.

Assets And Operational Base

Section Seventeen (17) - Reserve Fund

There was no reserve fund held by the Bank, since it was their interpretation of that clause that a reserve fund was to consist of 10% of the profits. According to the Bank no profit has yet been realized, hence their inability to establish a reserve fund.

Section 20 - Power of the Minister

The company did not make adequate provisions against loan defaulters, devaluation of currency and deposit losses. From the reports by Price Waterhouse Coopers and information on file provided by Bank Crozier, there were a number of related party loans and facilities provided without the necessary security or collateral. The loans were secured by debentures on fixed and floating assets or by personal guarantees. For some loans there was no evidence of collateral or security being provided. ([Appendix I](#)) Of the debentures on fixed and floating assets, none of the debentures were registered. Those loans granted under the assumption that personal assets were the security, there was no evidence supporting the existence of these assets or their current value.

The liquidity, validity and existence of the security and collateral provided could not be determined. The granting of unsecured loans was addressed by many occasions by Price Waterhouse Coopers in their letters to Bank Crozier, asking clearly for information regarding the collateral and security of loans listed on the balance sheet. (Appendix J) No information existed on file where a background check was done on the recipients of these loans, to ensure that repayment was certain. As a result Bank Crozier was putting the depositors funds at risk, since recapture of the loan amounts were unsure.

The nature of investments in the various companies was also determined to be detrimental to the interests of the depositors and others concerned. In many cases the original cost and the present value of the investment could not be determined as there were no recently audited financial statements on file and due to the fact that information on many of the companies could not be obtained. The value of many of the companies listed as assets on the balance sheet could not be determined fully as they also were not accompanied by their most recently audited financial statements or a recent valuation. (see [Appendix K](#))