

DENISE VOIGT CRAWFORD  
SECURITIES COMMISSIONER



JOSE ADAN TREVINO  
CHAIRMAN

JOHN R. MORGAN  
DEPUTY SECURITIES COMMISSIONER

NICHOLAS C. TAYLOR  
MEMBER

### State Securities Board

KENNETH W. ANDERSON, JR.  
MEMBER

MAIL: P.O. BOX 13167  
AUSTIN, TEXAS 78711-3167

208 E. 10th Street, 5th Floor  
Austin, Texas 78701-2407  
Phone (512) 305-8300  
FAX (512) 305-8310  
<http://www.ssb.state.tx.us>

JACK D. LADD  
MEMBER

### SSB Docket No. 02-17

IN THE MATTER OF  
VIP FINANCIAL BANK GROUP  
aka VIP FINANCIAL BANK GROUP S.C.  
aka VIP FINANCIAL BANK GROUP BUDVA  
aka VIP FINANCIAL BANK GROUP LIMITED  
aka VIP GROUP LLC  
and DAVID A. GALLAWAY

§  
§  
§  
§  
§  
§  
§

**Order No. CDO-1462**

TO: David A. Gallaway, Director  
VIP Financial Bank Group  
Gainsborough House  
81 Oxford Street  
London, England  
W1D 2EU  
United Kingdom  
and  
Sveti Stefan, Business Centre  
Montenegro  
and  
Bar, 2 Mila Damjanovica Street  
Republic of Montenegro

VIP Financial Bank Group  
aka VIP Financial Bank Group S.C.  
aka VIP Financial Bank Group Budva  
aka VIP Financial Bank Group Limited  
aka VIP Group LLC  
Gainsborough House  
81 Oxford Street  
London, England  
W1D 2EU  
United Kingdom  
and  
Sveti Stefan, Business Centre  
Montenegro  
and  
Bar, 2 Mila Damjanovica Street  
Republic of Montenegro

### EMERGENCY CEASE AND DESIST ORDER

This is your OFFICIAL NOTICE of the issuance by the Securities Commissioner of the State of Texas ("Securities Commissioner") of an EMERGENCY CEASE AND DESIST ORDER pursuant to Section 23-2 of The Securities Act, TEX. REV. CIV. STAT. ANN. art. 581-1 et seq. (Vernon 1964 & Supp. 2002) ("Texas Securities Act").

The Staff of the Enforcement Division ("the Staff") of the Texas State Securities Board ("the Securities Board") has presented evidence sufficient for the Securities Commissioner to find that:

## FINDINGS OF FACT

1. VIP Financial Bank Group aka VIP Financial Bank Group S.C. aka VIP Financial Bank Group Budva aka VIP Financial Bank Group Limited aka VIP Group LLC ("Respondent VIP") maintains an Internet website at [www.vipfbg.com](http://www.vipfbg.com). Internet registration records of Verisign obtained at [www.netsol.com](http://www.netsol.com) disclose that the Internet web domain is registered to Respondent VIP. Respondent VIP describes itself as a Republic of Montenegro "Licensed Class 'A' International Bank." Respondent VIP states on its Internet website that its registered address is "VIP Financial Bank Group Budva, Sveti Stefan, Business Centre, Montenegro", with a "physical bank branch address" of "Bar, 2 Mila Damjanovica Street, Republic of Montenegro", and corporate offices at the above-listed London address.
2. David A. Gallaway ("Respondent Gallaway") is described as the Director of Respondent VIP Financial Bank Group.
3. In or about March and June, 2002, Respondent VIP made available, on the above-referenced Internet website, a variety of investments and services that include: (1) insured certificates of deposit with 9.5%-11% guaranteed returns "without risk" that are "collateralized 125% by bank assets"; (2) a program described as a "Millionaires Program" for "newly born children" to secure their future "by achieving One Million Dollars"; (3) securities transaction services for "safekeeping assets and securities and managing them" for the "purchase and sale of securities" and for the "issuance of securities of various kind (sic) (guarantee transactions)"; (4) the "Pathfinder Growth Program" making available a long-term investment with a stated yield of "91.062%" and projected to return 97% in "2002-2003" which "since inception" returned "128.625% Annual."
4. On or about June 12, 2002, a Texas resident ("potential investor") requested information pertaining to the above-described certificate of deposit program and more information regarding Respondent VIP's guarantees. Respondent Gallaway replied by forwarding a certificate of deposit contract with instructions to wire funds to the account name "Multibanka, Vecpilseta Branch, Riga, Latvia for futher credit to VIP Group LLC" The contract listed returns from 9.5% to 11% depending upon the amount invested. Respondent Gallaway is listed on the contract as "Director, VIP Financial Bank Group S.C." Additionally, Respondent Gallaway replied that, in the "About Us" section of Respondent VIP's internet website, there is an "independent assessment performed by a US Law Firm which clearly states the validity of the bank and validity of the CD and the Guarantees related to such CD's."
5. The above-referenced "About Us" section of Respondent VIP's Internet website contains a letter dated December 3, 2001, on the purported letterhead of Hay & Associates, P.C. with an address of 10303 Northwest Freeway, Suite 260, Houston, Texas 77092, and purportedly signed by Alexander J. Hay III, Attorney at Law. That letter states *inter alia* that "VIP Financial Bank Group S.C. has provided us with full access to their investment strategies concerning their Certificate of Deposit Program" and that "Upon review this firm can verify that the claims made by VIP

Financial Bank Group SC are true and valid. Namely, that customer's CD Deposits are collateralized 125% by Bank assets. The investment vehicles utilized by the bank are capable of providing the bank with 100% assurance that they can realize the interest returns promised to their clients and still maintain a healthy profit margin for the bank." It is misleading for Respondents to tout "100% assurance" in the investment herein and to refer to the certificates of deposit as "insured" because the investment is secured solely by "bank assets" which may fluctuate in value.

6. The potential investor thereupon requested information from Respondent Gallaway regarding the safety and guaranty of the investment rather than relying upon the above-referenced letter. Respondent Gallaway declined to provide such information, stating, "We do not provide this information due to the fact that if we provide such information to the clients, they would simply invest in the same programs thus bypassing our bank" and adding "Most US clients have stated this was a *critical aspect of their decision making process* as they are aware that no licensed law firm would ever place such information in writing if it was not absolutely true. To do so would risk not only their practice license but also expose them to civil and criminal penalties." Additionally, Respondent Gallaway described the "millionaires program" as follows: "...the Bank simply places funds placed in the millionaire program in the same investments used for the CD program which offer us a substantial guaranteed return."
7. At no time relevant to this notice was Respondent VIP or Respondent Gallaway registered to deal in securities in Texas and at no time relevant to this notice did Respondents register any securities for sale by and with the Texas State Securities Commissioner.

#### CONCLUSIONS OF LAW

1. Respondents have offered for sale securities in Texas, as the terms "offer" and "securities" are defined in the Texas Securities Act, Sections 4.D and 4.A respectively.
2. Respondent VIP is acting as a "dealer", "agent" or "investment adviser" in securities, as those terms are defined in Sections 4.C, 4.D, and 4.N of the Texas Securities Act.
3. Respondent VIP violated Section 7 of the Texas Securities Act by engaging in the offer of the above-described securities without the securities being registered with the Securities Commissioner.
4. Respondent VIP offered for sale securities in Texas and rendered the services of an investment adviser without being registered with the Securities Commissioner, as required by Section 12 of the Texas Securities Act.

5. The making of materially misleading statements as alleged in Finding of Fact # 5 is grounds for the issuance of a Cease and Desist Order pursuant to Section 23.C of the Texas Securities Act.
6. Respondent VIP's conduct, acts and practices threaten immediate and irreparable harm to the public.
7. The foregoing violations constitute bases for the issuance of an Emergency Cease and Desist Order pursuant to Section 23-2 of the Texas Securities Act.

ORDER

1. It is therefore ORDERED that Respondents immediately CEASE AND DESIST from offering securities to Texas residents until the securities have been registered with the Securities Commissioner or an available exemption is utilized.
2. It is further ORDERED that Respondents immediately CEASE AND DESIST from dealing in securities or rendering the services of an investment adviser until it is registered with the Securities Commissioner or an available exemption is utilized.
3. It is further ORDERED that Respondents immediately CEASE AND DESIST from making materially misleading statements *in connection with the offer for sale and sale of securities in Texas.*

NOTICE

Under Section 23-2 of the Texas Securities Act, you may request a hearing before the 31st day after the date you were served with this Order. The request for a hearing must be in writing, directed to the Securities Commissioner, stating the grounds for the request to set aside or modify the order. Failure to request a hearing will result in the order becoming final and nonappealable.

You are advised under Section 29.D of the Texas Securities Act that any knowing violation of an order issued by the Securities Commissioner under the authority of Section 23-2 of the Act is a criminal offense punishable by a fine of not more than \$5,000, or imprisonment in the penitentiary for not more than two years, or by both fine and imprisonment.

SIGNED AND ENTERED by the Securities Commissioner this 18<sup>th</sup> day of June, 2002.

  
DENISE VOIGT CRAWFORD  
Securities Commissioner