

# BCCI Scandal: Behind the 'Bank of Crooks and Criminals'



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More than 12 years ago, a major U.S. bank decided not to do any business with a Luxembourg-based institution called the Bank of Credit and Commerce International.

One of the American executives recalls that something about BCCI just didn't add up. "They were reluctant to provide information about the sources and uses of funds," he says now. "We got bad vibes from them . . . so we just put them on our internal blacklist."

A lot of other people got bad vibes from BCCI, and among bankers it acquired the nickname of "Bank of Crooks and Criminals."

But it took a dozen years for regulators overseeing BCCI's far-flung empire in Britain, Luxembourg, the Cayman Islands and elsewhere to reach the same conclusion.

In the interim, BCCI wove what its auditors, Price Waterhouse, belatedly discovered and now describe as "probably one of the most complex deceptions in banking history." BCCI made phony loans, concealed deposits, hid huge losses, and was the bank for a host of

shady customers ranging from terrorists and spies to drug runners and dictators.

Its unmasking has provoked a slew of questions about how a financial scandal of such magnitude was covered up for so long while 1.2 million individuals and companies—most of them from Third World countries—entrusted their money to BCCI.

Where were the regulators? What blinded the auditors? To what extent were various intelligence agencies, including the CIA, involved? What were BCCI's links to with drug kings and dictators?

According to British authorities, BCCI committed fraud on a grand scale: keeping separate books for a "bank within the bank" that handled illegal transactions, making a \$32 million payoff to silence one of its own managers, using clients' accounts to hide its own losses, and shuffling money among different affiliates to disguise the bank's true financial condition.

One of the pieces of the scheme was Washington-based First American Bankshares Inc. For a fee, prominent Middle Eastern individuals served as fronts for BCCI in

See BCCI, A16, Col. 1

*no reference to publicly reported Reagan White House (Condi  
North) use of BCCI in Iraq - Contra scandal & passing reference only  
to any CIA involvement with it.*

#### BCCI, From A1

gaining control of the Washington bank in 1981. These illegally held shares in First American were then used as collateral a second time by BCCI to raise about \$600 million in new loans, said a source investigating the affair for British authorities. BCCI used that money to cover up losses elsewhere, he said.

On July 5, the Bank of England gave up on efforts to clean up the bank and shut its doors, alleging that the fraud was so "massive" that BCCI could not be reformed. "The culture of the bank is criminal," said Bank of England Governor Robin Leigh-Pemberton.

Among the unsolved mysteries: Where did the estimated \$5 billion hole in the bank's balance sheet go? Even now, it remains unclear whether BCCI executives stole money to enrich themselves or whether they simply tried to keep a crumbling enterprise together by any means.

"It's not clear that the money has gone anywhere at all except to losses and dodgy loans," said one person investigating BCCI for British authorities. "We haven't established that anyone stashed a pot of money elsewhere. . . . The end might have been to keep a bank going when it never made a profit so that its officers could continue to be very important people of great status."

BCCI was founded in 1972 by a Pakistani banker named Agha Hasan Abedi, who had previously been president of the United Bank Ltd. of Pakistan. Bank of America initially had a 25 percent interest; Sheik Zayed bin Sultan al-Nahyan, ruler of Abu Dhabi, and other wealthy individuals from the Persian Gulf also had interests.

A former Pakistani finance minister calls Abedi a "man of tremendous intellect," committed to economic development in the Third World and interested in Sufism, Islamic mysticism.

A former customer says Abedi spoke in a low monotonous tone of voice and that his hair stood up like he had forgotten to brush it after getting out of bed. He occasionally interrupted business talks to discuss social values.

His bank was very profitable in

Pakistan and Abedi became a respected figure. BCCI gave away a tremendous amount of money in Pakistan for health and education.

The bank also curried favor with people of influence, often hiring them or their relatives to be its branch managers. These people in turn could bring large accounts to the bank.

In Jordan, for instance, according to a rival banker, BCCI hired the brother-in-law of the then-army commander and obtained bank accounts of the Jordanian army.

"You really felt these were people with very good connections," said a former customer. "Abedi could walk just in and out of [then-Pakistani president Gen.] Zia's office. They knew how to get to the top in Third

#### World countries.

All this contrasts sharply with BCCI's reputation among bankers.

"We always felt it was a good organization to keep away from," said an executive of another major international bank.

His institution wasn't alone. When BCCI was shut down earlier this month, there was hardly a single major established bank that had any money tied up in BCCI, whereas a normal bank that size would have an entire web of interlocking transactions with other big banks.

In 1980, Bank of America pulled out its investment in BCCI. It never gave a reason, but a source close to Bank of America said that "it just didn't smell right."

#### How the Fraud Worked

Bank of America's withdrawal was the least of BCCI's problems at the time, according to a submission in a London court by the Bank of England. Around that time, BCCI's fraud was growing on a huge scale, British authorities said.

"When the frauds began the management of BCCI was attempting to deal with two principal problems" that could have jeopardized the bank's existence, the Bank of England said.

The first was losses on currency and commodity trading. From 1977 through 1985, the red ink totaled \$849 million. And the losses continued right up to the end.

In 1990, according to the Bank of England submission, losses mounted to a staggering \$495 million. Little is known publicly of these losses, yet they lie at the heart of BCCI's failure.

In addition, BCCI had made bad loans to prominent business people in the Middle East. British authorities and banking sources say that BCCI often failed to obtain the required documentation for major loans. The Bank of England said, "BCCI had lent to debtors whose ability to repay was at least doubtful."

BCCI's problem loan portfolio is now \$3.1 billion, according to the international accounting firm Touche Ross. This includes a net of \$1.1 billion of bad loans that have been transferred to the government of Abu Dhabi following Sheik Zayed's

# BANK OF CREDIT AND COMMERCE INTERNATIONAL CHRONOLOGY

**1972**

BCCI is founded in Luxembourg by a group of Pakistani bankers led by Agna Hasan Abedi.



**AGNA HASAN ABEDI**

**1977**

BCCI suffers first in a series of losses speculating in financial markets. Losses total \$849 million by 1985 and trigger fraudulent coverage by BCCI.

**1981**



Arab investors, some with a stake in BCCI, acquire First American Bankshares Inc. of Washington, insisting it will be operated separately from BCCI. Clark M. Clifford, who represented the investors, is named First American's chairman.

**CLARK CLIFFORD**

**1983**

First American acquires two Manhattan bank branches from Bankers Trust.

**1985**

BCCI, acting through Ghaiith R. Pharaon, a Saudi financier, acquires secret control of Independence Bank of Encino, Calif.



**GHAITH PHARAON**

**1986**

First American purchases National Bank of Georgia from Pharaon, who acquired it from former Carter administration official Bert Lance.

**1990**

Jan.: Two BCCI subsidiaries plead guilty in federal court in Tampa to money-laundering charges.

April: Abu Dhabi and its ruler, Sheikh Zayed al-Nahyan, purchase majority stake in BCCI.

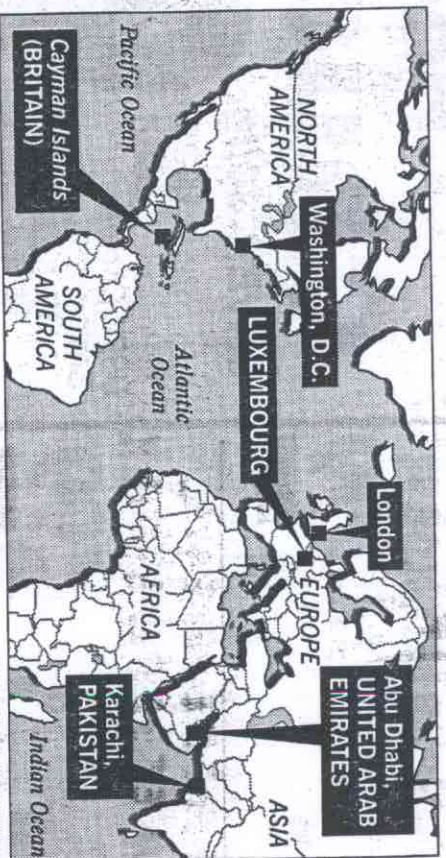
July: Five BCCI officials and a Colombian businessman are convicted of conspiracy to launder \$32 million in cocaine profits.

Oct.: Price Waterhouse gives the Bank of England a report exposing millions of dollars worth of bad loans and improper accounting procedures.

**1991**

March: BCCI agrees to give up its stake in First American Bankshares after reports that BCCI misled federal regulators. Chairman Clifford says he never knew BCCI owned the bank.

May: The Washington Post reports that



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Clifford and his law partner, First American President Robert Altman, earned \$9.8 million on First American stock in a deal financed by BCCI.



**ROBERT ALTMAN**

June: Price Waterhouse gives Bank of England more negative reports on BCCI, alleging widespread fraud in the bank's operations.

July 5: Regulators in the United States, Britain, Luxembourg, the Cayman Islands and other nations seize BCCI. Many of BCCI's depositors around the world suffer losses. First American Bankshares is not affected.

July 8: A court in Luxembourg discloses BCCI lost more than its entire net worth in 1990.

July 17: Wall Street Journal reports that a few senior executives at BCCI received \$50 million in hush money.

July 21: London Sunday Times reports that Abu Nidal's terrorist group used accounts at BCCI in England. Time

magazine claims that BCCI maintained a "black network" of employees who engaged in smuggling and money laundering and collaborated with the CIA.

July 22: British officials reveal that BCCI used First American Bankshares stock as collateral for loans used to cover up fraud to BCCI and that BCCI probably was never profitable.



**SHEIKH ZAYED**

July 23: Robin Leigh-Pemberton, governor of the Bank of England, places blame for the fraud at BCCI on the bank's top executives, and asks BCCI owner Sheikh Zayed to protect depositors.

Sources: The Washington Post News Research Center; Associated Press

purchase of controlling interest in the bank in 1990. Many were big loans given to individuals with close ties to BCCI or its executives.

As much as \$1 billion may have gone to just three borrowers, according to the Wall Street Journal: Saudi financier Ghaith Pharaon, former Saudi intelligence chief Kamal Adham and the Gulf Group, a shipping and trading conglomerate controlled by three brothers, Abbas, Mustafa and Murtaza Gokal.

Thus, in effect, the bank that allegedly was intended to help the poor was taking deposits from the poor and giving big loans to the rich, without much collateral. In some cases, British authorities say, no payments had been made on the loans for years.

To cope with these setbacks, BCCI increasingly resorted to deceptive banking practices. It was, Price Waterhouse said, "a full time occupation which involved the manufacture of documentation, inflation of account turnover, concealment of funds flow etc. and involved some 750 accounts over a fifteen year period."

BCCI concealed deposits to bring its accounts into balance. Altogether, BCCI hid more than \$600 million in deposits, the Bank of England asserts.

The biggest chunk, \$358 million, came from an institution identified only as "Tumbleweed" by the Bank of England. BCCI then loaned money to depositors against the unrecorded deposits.

At least three other institutions were involved in the scheme. An institution identified by the Bank of England with the code name "Fork" helped set up accounts for BCCI to rout funds. Sources said Fork was the Cayman Islands-based bank known as International Credit and Investment Corp. (ICIC) Overseas Ltd.

In a more carefully regulated environment such as the United States, BCCI's actions presumably would have attracted attention. But for many years, BCCI operated almost without regulatory oversight.

BCCI's official bases were in Luxembourg and the Cayman Islands, but the operation there was "relatively nominal," according to Touche Ross. Its main office was in London.

"It wasn't until 1987 that this

very amorphous worldwide group had a single group auditor," said Leigh-Pemberton in testimony to a committee of the British House of Commons.

The Byzantine internal workings that would confuse outside auditors also became too difficult for the bank itself to fathom and soon the scheme spiraled out of control.

"The solutions to the initial problems had to be solved using the same deception but on an ever-increasing scale," the Bank of England lawyers said to the court. "Unrecorded deposits and fictitious loans had to be repaid and funds under Fork's management had to be replaced. To do that further unrecorded deposits, fictitious loans and funds under Fork's management had to be used."

Aside from banking fraud, there was more to the dark side of BCCI.

Perhaps it was BCCI's thirst for new deposits. Perhaps it was the convenience of BCCI's multinational network. Perhaps it was that BCCI appears never to have asked its clients too many unpleasant questions.

But it seems clear that BCCI was at least a frequent conduit, if not an outright collaborator in questionable activities.

An investigation of BCCI by the U.S. Customs Service in 1988 showed that the bank's representatives in Florida were happy to do business with an undercover agent posing as a drug operative anxious to launder millions of dollars in drug money through bank accounts to conceal its origin.

BCCI was quite active in South America, with offices in Argentina, Brazil, Uruguay, Paraguay, Peru, Venezuela and Colombia.

According to one BCCI source, by far the largest operation was in Colombia, where BCCI ran essentially a full-service bank, with branches in the centers of drug production. The bank developed a reputation for asking no questions, dealing in large amounts of cash and generating a lot of wire transfers of the kind that can be used to launder money, sources said.

Ghaith Pharaon, the Saudi financier and BCCI client, said in April that his bank and others were involved in money laundering. Testifying in his libel suit against an Argen-

tine journalist, Pharaon said, "Everyone launders drug money, everyone is a criminal, but only the Arab bank is attacked," he said. "There is a campaign against the Arab bank." He later clarified his remarks, saying he did not personally know of BCCI money-laundering and was merely stating what he thought was obvious.

Also in 1988, BCCI employees alerted Bank of England officials that Palestinian terrorist Abu Nidal was using an account at a BCCI branch in London.

The wave of newspaper articles about BCCI in the past month have embellished such views of BCCI.

The London Sunday Times reported a week ago that the Nidal accounts had "helped fund a decade-long terrorist campaign. Tens of millions of pounds passed through the accounts in 1990. . . ."

Time magazine built a cover story around the claims of an unnamed source they called "Mustafa" who insisted he was part of a 1,500-man "black network" of BCCI thugs who collaborated with the CIA.

A source who is familiar with "Mustafa's" assertions said that there apparently was a group of thugs and fixers in BCCI's employ who smuggled currency, arms and drugs, and sometimes committed acts of violence; but the source said Mustafa appears to be speculating about any links to the CIA.

A CIA spokesman denounced the claim as "absurd," and CIA Director William Webster ordered an internal investigation. Informed sources ar-

gue that the CIA and other U.S. intelligence agencies routinely make use of foreign companies overseas, including banks.

BCCI had a wide network in the Middle East and Africa and was especially dominant in Pakistan. It was the favored bank under the regime of former Pakistani president Zia, for instance, the deceased U.S. ally whose government was assisting the CIA's funding of the Afghan rebels. "Abedi could walk just in and out of Zia's office," said a former customer. "They knew how to get to the top in Third World countries."

### First American's Role

A key piece of the BCCI puzzle was First American Bankshares, the

"You not only have a chairman and a board that want to look into this closely, you have a staff that is livid," said one official.

Both Clifford and Altman have testified before a federal grand jury and given extensive depositions before the Fed. Their lawyers stress that both men were duped just as badly as the British and American regulators.

As recently as May 23, William Taylor, the Fed's chief regulator, testified, "Continuing reviews and examinations of First American and its banks failed to provide, and continues to fail to provide evidence that would substantiate involvement in their operations by BCCI." Officials stress, however, that the various investigations involving Clifford and Altman are far from complete.

Recent action by the Fed reveals its expanding knowledge of BCCI's relationship with a number of U.S. banks, in addition to First American.

On July 12, the Fed issued a notice seeking to bar Saudi financier Ghaith Pharaon, Abedi and former BCCI chief executive Swaleh Naqvi from banking in the United States. The Fed claimed in the notice that they concealed BCCI's ownership of the Independence Bank in Encino, Calif.

The notice described incriminating memos, telltale bank transfers and transactions with ICIC, the Cayman Islands "bank within a bank" controlled by Abedi and some close associates.

ICIC has come up at least once in the various First American investigations. As first reported by the Wall Street Journal, \$74 million of First American's capital was for a brief period placed into certificates of deposit at ICIC.

The money was eventually repaid with interest, but a key question is why the First American funds were placed with the BCCI-controlled entity when safer investment vehicles were readily available? Lawyers for Clifford and Altman said the transaction was perfectly legal and consistent with sound banking practices.

The list of unanswered questions about First American seem endless. Was the secret ownership planned from the beginning, or did it evolve over time? What did BCCI stand to gain from being the secret owner of an American bank that never paid

Washington-based company with 294 branches in Virginia, Maryland and the District. For a fee, regulators allege, prominent Middle Eastern individuals served as fronts for BCCI in gaining control of First American.

BCCI kept those shares, which conferred illegal control, and then used those shares as collateral a second time to raise about \$600 million in new loans, according to a source investigating the affair for British authorities. The proceeds concealed losses and bad loans elsewhere in the BCCI empire, he said.

Lawyers representing First American Chairman Clark M. Clifford and President Robert A. Altman question whether BCCI's alleged control of First American has been established, but investigators say the evidence is overwhelming.

Poring through the files of BCCI in Abu Dhabi, Federal Reserve investigators have reportedly discovered documents that confirm the BCCI's secret First American ownership.

Clifford, one of the capital's most prominent Democratic lawyers, and Altman, his law partner, have said they did not know about any secret BCCI investment in First American. Both men themselves acquired valuable shares in First American with BCCI loans, describing this as compensation for their services to the bank.

Knowledgeable official sources said in recent interviews there still is no conclusive evidence that First American was harmed, although there is circumstantial evidence that First American was used as a "pass-through" institution for BCCI's money laundering.

Carl S. Rauh, a lawyer representing Clifford and Altman, said last week that First American "has been operated honestly and in compliance with all U.S. laws, and did not participate in any way in any fraudulent activities with BCCI."

To Federal Reserve officials, the cardinal sin is not that First American was damaged but that regulators were deceived about BCCI's secret ownership.

When the foreign investors purchased First American in 1981, it was Clifford, the bank company's new chairman, who assured the Fed that BCCI would exercise no control over the Washington bank.

Now the regulators feel betrayed.

dividends? Was it a way of bypassing the resistance of bank regulators? Or was BCCI looking to gain political influence in the nation's capital?

"That's one of the mysteries here," said a senior official. "It's hard to see where this type of ownership was of any great use to BCCI... the whole thing doesn't make sense."

### Where Were Regulators?

Looking back, the dramatic unraveling of BCCI seems almost inevitable, but various sources argue that authorities waited too long to act. A 1988 federal money-laundering prosecution in Tampa established that BCCI was a full-service center for drug dealers with cash to hide. The Federal Reserve did extensive audits of BCCI's operations in the

United States and entered into a consent agreement with BCCI in 1989. A Senate report in 1990 drew attention to allegations that BCCI was involved with First American, as did published reports.

New York District Attorney Robert Morgenthau seized upon the BCCI allegations in 1990 and pursued information published in the U.S. press.

Eventually his office joined forces with the Fed and together they established that BCCI controlled First American's stock.

By contrast, the Justice Department, according to critics, chose to let its investigation in Tampa languish, providing few, if any, resources to the complex case until the scandal unfolded in public. Last week Assistant Attorney General Robert Mueller, the head of the department's criminal division, undertook an unusual media blitz to declare that the federal government had been investigating BCCI since 1986 when a federal money-laundering prosecution ensnared BCCI.

Sen. John Kerry (D-Mass.) argues that much more was ignored. During 1989, Jack Blum, then a special counsel to the Senate Foreign Relations Committee, interviewed BCCI officials.

Hoping to help the Tampa agents, Blum debriefed his sources in hotel rooms equipped with government tape recorders. The Justice Department was left, Blum says, with hours of tapes containing detailed descrip-

tions of BCCI's relationship with American banks.

Blum says he eventually conveyed the same information to Morgenthau.

"What happened to Tampa and the tape recordings we made?" Blum said. "All of that was in their [the Justice Department's] hands in 1989, and instead of following up on the leads and talking to the people, they restricted the investigative authority of the agents and entered a plea agreement. And that's inexplicable. It was the same evidence, essentially, that led Morgenthau to the point he's at today."

In effect, no authorities seem to have taken full responsibility for a bank that spanned 69 countries.

Most financiers in London blame Bank of England governor Leigh-Pemberton because BCCI was run from London for most of its lifetime. "The buck's got to stop somewhere," said one London banker. "The simple questions were never asked."

In the view of Leigh-Pemberton "evidence of poor banking . . . emerged" only at the beginning of 1990. But bank closings are very rare in Britain, and the Bank of England still did not see sufficient evidence of fraud to close down BCCI.

It was only at the beginning of this year that the Bank of England ordered a more detailed audit from Price Waterhouse, which finally prompted the British authorities to close down BCCI, Leigh-Pemberton said.

"This showed evidence of massive and widespread fraud going back over a number of years," he said. It implicated board members, still active executives and representatives of Sheik Zayed.

In less than two weeks, BCCI was closed down.

### The Next Step

Officials and bankers following the evolving BCCI scandal now say that the Bank of England, other regulators responsible for banking fraud in the United States and elsewhere and

Sheik Zayed will all try to restore their damaged honor.

Regulators, especially in the United States and Great Britain, have referred evidence of wrongdoing to prosecutors.

Meanwhile, Sheik Zayed must decide before a Tuesday court hearing in London whether he wants to rescue BCCI or cut his losses. As one of the richest men in the world, he could write off his losses and walk away. A banker who was to have joined a restructured BCCI before the Bank of England closed it down says the sheik might try to salvage the Middle East operations and allow branches in Asia and Europe to be shut down.

Last week, Leigh-Pemberton went to Abu Dhabi and tried to soothe the angry monarch while at the same time asking him to cough up even more money to protect depositors.

Leigh-Pemberton is an English aristocrat, former chairman of National Westminster Bank, a British Tory, and lieutenant governor of Kent—"all the pedigree required from a prominent Englishman," says one banker. The sheik, by comparison, grew up in a Bedouin family before oil was discovered in his desert realm and has used his oil wealth to transform Abu Dhabi into a city state with modern amenities and lush gardens.

But the sheik did not show up. He let his advisers deal with the British central bank governor. And the coming days will tell whether the sheik is any more forthcoming with BCCI.

*Mufson reported this story from Washington and McGee from Washington. Correspondent Eugene Robinson contributed from Buenos Aires.*