

Audit: BCCI Used D.C. Bank Funds

Transfers From First American Disguised Losses, Report Says

By Mark Potts
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The Bank of Credit and Commerce International took advantage of its secret ownership of Washington's First American Bank to inflate BCCI's profits and to raise hundreds of millions of dollars through bookkeeping tricks to cover massive trading losses at the international banking company during the past decade, according to an auditor's report.

The details of the money transfers are contained in an audit of the bank given to the Bank of England in late June by the accounting firm Price Waterhouse and obtained in London by The Washington Post. They describe how BCCI used its hidden holdings in the parent corporation of First American to improve BCCI's finances through a series of sophisticated bookkeeping maneuvers.

The Price Waterhouse report was the basis for the seizure and shutdown of BCCI by the Bank of England and other authorities around the world on July 5.

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At the same time, the report appears to offer some support for First American Chairman Clark M. Clifford's contention that BCCI never interfered with the management of First American.

The report describes BCCI as a "sleeping partner" in Credit and Commerce American Holdings, First American's parent company. BCCI "at no time" exercised "any controlling interest over the management

of First American," the report said. This appears to have generally been the case"—although the report also notes that Clifford consulted a top BCCI executive about some First American personnel matters, including the recruitment of one senior official for the bank.

In its report, Price Waterhouse said BCCI listed on its books more than \$1.4 billion in nonexistent loans allegedly made to a group of Arab businessmen to buy CCAH, on

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BCCI's behalf. Then, as the value of CCAH increased, BCCI siphoned off hundreds of millions of dollars through additional "unauthorized loans" that BCCI then used to prop up its operations elsewhere.

The bank also counted as profit \$573 million from interest payments

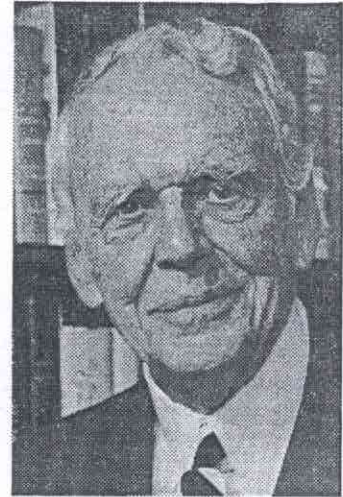
on the CCAH loans that it had not really collected, allowing BCCI to make itself look much healthier than it actually was.

The audit report indicates that First American was far from the only BCCI subsidiary whose operations were used surreptitiously and improperly to pump money into the perennially cash-strapped BCCI. BCCI began suffering losses from bad loans and investments in the mid-1970s and the problems became acute by the mid-'80s, according to the audit report. The Bank of England has said it is possible BCCI, founded in 1972, never made a profit.

"It now appears that a significant amount of account manipulation has gone on," Price Waterhouse said in the report. Among the ways that BCCI shuffled its books to make it appear that the bank had much more capital and profits than it actually did were fictitious loans and the constant shifting of money through BCCI's far-flung operations, according to the report. Price Waterhouse described the scheme as "probably one of the most complex deceptions in banking history."

According to the report, BCCI used its holding in CCAH to financial advantage in two ways, both of them related to the roughly \$1.4 billion in "loans" that BCCI had made to the eight nominal owners of First American's parent.

The first involved the "unauthorized loans," under which BCCI listed on its books additional money supposedly borrowed over the past decade by the front men for the bank in the CCAH takeover. In fact, BCCI kept this money for itself, through "drawdowns" of the loan accounts, and used it to adjust the balances of other, unrelated accounts.



CLARK M. CLIFFORD
...report appears to back chairman

In part, the audit report says, this scheme took advantage of the fact that over time, the value of CCAH's privately traded stock rose—in part because of apparent manipulation by BCCI—and additional shares of stock in the company were issued periodically. That increased the value of the nominal owners' "holdings" in the company, making them eligible for additional loans without providing more collateral.

One such transaction occurred in June 1985, at a time when CCAH stock went on a roller-coaster ride from \$5,000 to \$2,200 and then back up to more than \$6,000 a share in a five-day period through a series of apparently manipulated transactions. During this time, BCCI drew down a total of \$231 million from the accounts of several of the nominal owners of First American's parent. This money was pumped into a variety of other accounts at BCCI that had become delinquent.

In another case, last fall, BCCI took out four loans totaling \$404 million in the names of CCAH's nominal owners and used the money to pay off four previous unauthorized loans that had been made between June 1986 and April 1989.

All told, Price Waterhouse estimated, BCCI's secured loans to CCAH's nominal owners and the \$573 million listed as interest income from those loans adds up to \$1.45 billion worth of problem loans on the company's books, Price Waterhouse said. With BCCI's affairs in disarray and First American up for sale on orders from the Federal Reserve, Price Waterhouse said, the potential loss from those loan liabilities now is "unquantifiable."

Staff writer Stuart Auerbach contributed to this report from London.

No BCCI Wrongdoing Found on Iran Arms

Investigators who examined the sales of arms to Iran in 1985 and 1986 found no evidence of wrongdoing by the Bank of Credit and Commerce International, according to a spokesman for Lawrence E. Walsh, the Iran-contra independent counsel.

Walsh's investigators determined that BCCI did nothing more than handle several money

transfers at its branch in Monte Carlo.

A key participant in the weapons sales, Adnan Khashoggi, maintained a regular account at the Monte Carlo branch and used it to loan money to Iranian middleman Manucher Ghorbanifar, according to Walsh's spokesman.

Ghorbanifar borrowed money

from Khashoggi and two other BCCI account-holders to finance the arms transactions.

The money went into Swiss accounts maintained by Lake Resources, a company secretly used by White House National Security Council aide Lt. Col. Oliver L. North to handle arms transactions with Iran and with the Nicaraguan contras.