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 Tank 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 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, including drug money and money laundering, to hide its own losses, and shuffling money among different affiliates to hide 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 the U.S., bank records show, and it looked like a classic case of money laundering. But it was all a facade, according to British authorities, who revealed that BCCI had used the bank's name to attract customers and hide their illegal activities.
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 it left 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 $485 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
AGHA HASAN ABEDI
BCCI is founded in Luxembourg by a group of Pakistani bankers led by Agha Hasen Abedi.

1977
BCCI suffers first in a series of losses speculating in financial markets. Losses total $849 million by 1985 and trigger fraudulent coverup 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.

1983
First American acquires two Manhattan bank branches from Bankers Trust.

1985
BCCI, acting through Ghaith R. Pharaoh, a Saudi financier, secretly acquires control of Independence Bank of Encino, Calif.

1986
First American purchases National Bank of Georgia from Pharaoh, 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, Sheik 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.

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

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 17
A court in Luxembourg discloses BCCI lost more than its entire net worth in 1990.

July 21
The Wall Street Journal reports that a few senior executives at BCCI received $50 million in hush money.

July 22
The London Sunday Times reports that Abu Nidars 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.

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, ac-
cording to the Wall Street Journal:
loans given to individuals with close
ties to BCCI or its executives.
Saudi financier Ghaith Pharaon, for-
purchase of controlling interest in
Adham and the Gulf Group, a ship-
trolled by three brothers, Abbas,
mer Saudi intelligence chief Kamal
poor was taking deposits from the
ceptive banking practices. It was,
cases, British authorities say, no
without much collateral. In some
occupation which involved the
payments had been made on the
rnetwork. Perhaps it was that BCCI
development a reputation for ask-
ning no questions, dealing in large
sums of money, sometimes commi-
acts of violence; but the source said
Mustafa appears to be speculating
on the claims of an unnamed
source they called "Mustafa" who in-
isted he was part of a 1,500-man
black network" of BCCI thugs who
ontributed the CIA.
An investigation of BCCI by the
U.S. Customs Service in 1988
showed that the bank's representa-
tives 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 Co-
lombia, where BCCI ran essentially a
full-service bank, with branches in
the centers of drug production. The
bank developed a reputation for ask-
ing 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 finan-
cier and BCCI client, said in April
that his bank and others were in-
volved in money laundering. Testify-
ing in his libel suit against an Argen-
tine journalist, Pharaon said,
"Everyone launders drug money, ev-
everyone is a criminal, but only the Ar-
av 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 re-
ported a week ago that the Nidal ac-
counts had "helped fund a decade-
long terrorist campaign. Tens of mil-
ions 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 in-
isted he was part of a 1,500-man
black network" of BCCI thugs who
ontributed 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. in-
telligence agencies routinely make
use of foreign companies overseas,
including banks.
BCCI had a wide network in the
Middle East and Africa and was es-
specially 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 to testify before a federal grand jury badly as the British and American regulators.

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 over time? What did BCCI stand to gain from being the secret owner of an American bank that never paid 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.