

# Bank Charges Embarrass the Saudis

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WASHINGTON, Aug. 1 — Early last month, as top officials of the Federal Reserve were about to publicly accuse Saudi Arabia's biggest bank and its manager of violating United States banking laws in connection with a multibillion-dollar fraud, the kingdom's top regulators and their lawyers rushed to contact Fed officials, hoping to settle the matter quietly.

If the Federal Reserve publicly announced its charges, the Saudi Government, the United States' most important ally in the Persian Gulf, would be linked to the growing scandals involving the Bank of Credit and Commerce International, and King Fahd would be personally embarrassed.

What is more, the Saudis said, if regulators shut down the American operations of National Commercial Bank, the kingdom's biggest and most prestigious bank, the Saudi banking system would be jolted even as the economy still reeled from the financial burdens of the Persian Gulf war.

## Entreaties Aren't Heeded

After six days of intense, secret negotiations, the Saudis gave up, going away red-faced and empty-handed. The Fed made the charges public.

The Saudi bank is charged with failing to report purchases of stock in First American Bankshares, the largest bank holding company in Washington, which was illegally and secretly controlled by B.C.C.I. The purchases, made in concert with the bank's former chief executive, Sheik Khalid bin Mahfouz, were made from an affiliate of B.C.C.I. and involved loans from National Commercial Bank to people acting on behalf of B.C.C.I.

American regulators last month ordered National Commercial to close its New York branch. At the same time, the Saudi bank sold off its huge silver holdings in an effort to raise cash

quickly, causing silver prices to drop sharply in markets around the world.

In recent months, the B.C.C.I. scandal has grown from a criminal investigation of a huge fraud by rogue financiers — perhaps the largest financial fraud ever — to envelop some of America's staunchest allies in the Persian Gulf. And the diplomatic ramifications have left the State Department and some other American officials queasy.

In addition to examining the roles in the scandal of some of Saudi Arabia's most prominent businessmen, many of whom have links to the royal family, investigators are now looking at the actions of members of the ruling fam-

## Links to B.C.C.I. are disclosed despite pleas to U.S. officials.

ily of the United Arab Emirates. Family members were the principal owners of B.C.C.I. when it was shut down last year. While the family members have portrayed themselves as the biggest victims of the fraud, some investigators have publicly questioned whether they helped to carry it out.

American officials say they are certain that the royal family is deeply shaken, fearful that a scandal could erode confidence in the kingdom's once-unassailable banking system.

"It is obviously a major banking crisis and a serious problem," said one senior Administration official who closely follows the issue, who spoke on condition of anonymity because of the sensitivity of the issue. "They are concerned about what implications it will have for the Saudi banking system as a

whole. We have told them their concerns have been noted and the best thing to do is to clean up the whole B.C.C.I. mess."

At one point, King Fahd took the highly unusual step of calling in the United States Ambassador, Charles W. Freeman Jr., to express his surprise and dismay that a local prosecutor in New York City had indicted Sheik Khalid, a descendant of the esteemed family that co-founded National Commercial Bank. Until recently, Sheik Khalid was its chief executive.

The King sought to distance himself from Sheik Khalid, saying that it was unfortunate that a Saudi might have run afoul of American banking regulations, but stressing that the banker's actions had nothing to do with the Saudi Government and banking system, said senior Administration officials who were briefed on the meeting.

## Ties to Royal Family

But Sheik Khalid is not just another banker, and National Commercial is not just another bank. Sheik Khalid is viewed as the personal banker to King Fahd; the bank, which is rooted in a decades-old money-changing operation in Mecca, is inextricably linked to the Saudi Arabian economy and its Government.

At one point, King Fahd made an extraordinary request to Mr. Freeman: would United States banking authorities make an official statement attesting to the strength and independence of the Saudi banking system? Mr. Freeman, uncomfortably, had to say no, telling the King that the United States Government could not interfere in a criminal investigation or publicly pass judgment on the strength of another country's banking system.

"The Ambassador said that the individual bank has to be judged on its merits," one senior Administration official said. "You can't give a Good Housekeeping seal of approval to it."

American officials say they have

done nothing to interfere with the investigations of other prominent Saudi businessmen and had nothing to do with negotiations that led to a sudden and dramatic plea agreement on Monday by Sheik Kamal Adham, a former chief of Saudi foreign intelligence.

Dean St. Denis, a spokesman for the Justice Department, said the agency had no discussions with the Central Intelligence Agency or the State Department about its investigations of Saudi businessmen connected to B.C.C.I. Peter Earnest, a spokesman for the C.I.A., would say only that the agency has a policy "of not comment-

ing on the affiliation of any individual or lack thereof with the C.I.A." Through a spokesman, Edwin D. Williamson, the State Department's legal adviser, declined to comment.

The C.I.A. has acknowledged that it used B.C.C.I., but has insisted that its involvement with the shadowy bank was confined to legitimate banking activities. Agency officials have declined to discuss details of the involvement, asserting that public disclosure could jeopardize intelligence operations. The C.I.A. first received information in the 1980's about B.C.C.I.'s illegal control of First American.

#### Baker Said to Avoid Issue

And senior Administration officials and people close to the Saudi Government say both sides are eager to play down the impact of the banking scandal on American-Saudi relations. They note that the issue was not raised when Secretary of State James A. Baker 3d met privately with King Fahd or when he dined with Prince Saud al-Faisal during a visit to Saudi Arabia in July.

And, these officials say, Prince Bandar bin Sultan, the Saudi Ambassador to Washington, has not made an issue of the matter in meetings with the State Department and White House.

Other officials and people close to the Saudi Government say the issue is so embarrassing to King Fahd that it would be out of character for him to raise it in a one-on-one meeting with the Secretary of State. Family connections may have inhibited the two princes from speaking out. One defendant in the case, Sheik Kamal, is the uncle of Prince Saud and of Prince Bandar's wife.

As a measure of the close relationship between the King and the people involved in the case, the lawyers for Sheik Kamal warned American prosecutors that their client would have to get the King's permission before cooperating with an investigation, one law enforcement official said. The prosecutors were unmoved, and the sheik pleaded guilty to fraud charges and agreed to pay \$105 million in fines.

B.C.C.I., which was chartered in Luxembourg and the Cayman Islands and had branches in 70 countries, was closed in July 1991 by banking regulators of various nations, who accused it of worldwide fraud. Liquidators have been unable to find much of the bank's assets, which were reported to be \$20 billion shortly before the shutdown.

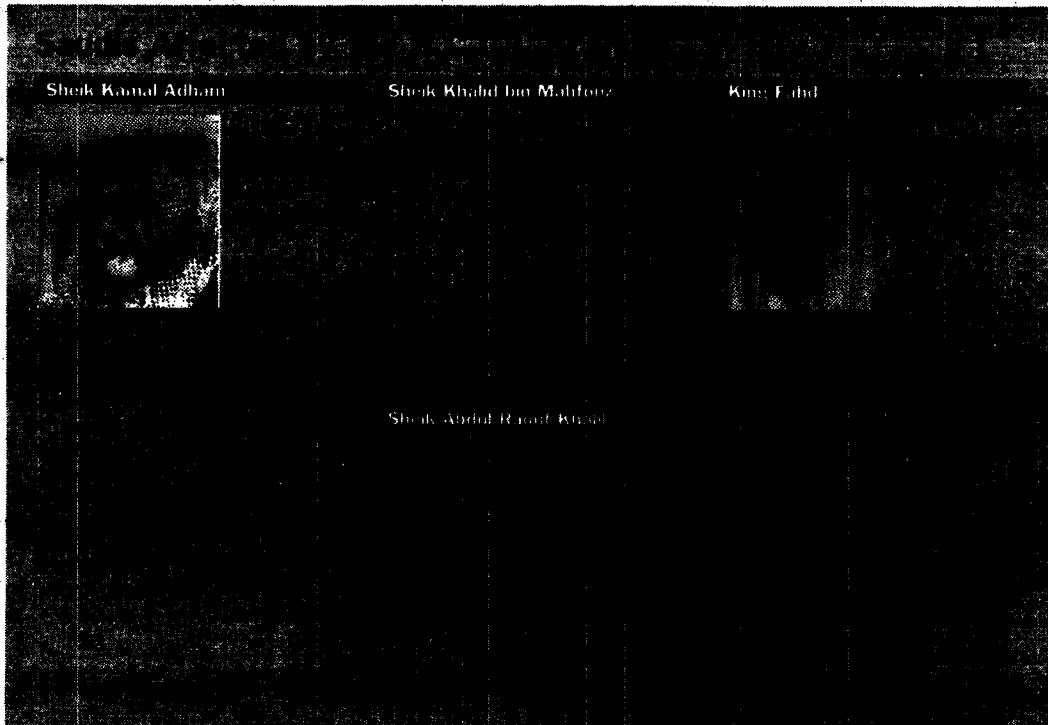
#### U.S. Lawyers Indicted

On Wednesday, the bank's principal American lawyers, former Defense Secretary Clark M. Clifford and his partner, Robert A. Altman, were indicted on charges of helping B.C.C.I. gain control of First American, and of accepting bribes from B.C.C.I. Both men pleaded not guilty.

Law enforcement officials say the next phase of the B.C.C.I. investigation will focus on other Saudis, including Sheik Abdul Raouf Khalil, an obscure businessman who worked in Saudi intelligence under Sheik Kamal and went on to become a senior member of Saudi intelligence, according to past and present Western intelligence officials.

The Fed has accused both sheiks of helping B.C.C.I. secretly purchase First American. State charges were filed in New York because First American owned a bank there.

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Sheik Kamal Adham

Sheik Khalid bin Mahfouz

King Fahd

Sheik Abdul Raouf Wazir

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