Behind Closed Doors

BCCI : THE BIGGEST BANK FRAUD IN HISTORY

FINANCIAL TIMES
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BEHIND CLOSED DOORS

■ The FT's team of journalists has been given access to confidential documents which shed new light on the closure of BCCI. It has conducted hundreds of hours of interviews in Europe, the US, the Cayman Islands, the Middle East and Pakistan.

■ The team, led by **David Lascelles,** Banking Editor for the past five years, included:
❑ **Richard Donkin,** who has followed the story since 1988
❑ **Alan Friedman,** the paper's award-winning US banking correspondent
❑ **Christina Lamb,** the only western reporter to interview Agha Hasan Abedi since the bank's closure
❑ **Richard Tomkins,** in Abu Dhabi
❑ **Bernard Simon,** Cayman Islands
❑ **Chris Tighe,** and **Jimmy Burns,** on the victims
❑ **James Buxton,** the Western Isles
❑ **Stephen Fidler,** Latin America
❑ **Richard Waters,** The City

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A series of special feature articles reprinted from the Financial Times 9 - 16 November 1991

Drawings by James Ferguson


GUILTY!
GOLDEN NUGGET
GAMBLING HALL
COVERED BOTTOM
ferguson

PART ONE

'The biggest bank fraud in history'

The BCCI shutdown is the most dramatic business story in years: it has tainted public figures across the world and raised searching questions about the way banks are run. In a three-month investigation the FT has uncovered compelling new evidence and, for the first time, put the BCCI jigsaw together. From the brothels of Lahore to the remote Scottish islands, the BCCI story offers a unique insight into the secretive world of big money politics.

INSIDE the Bank of England's massive building in the heart of the City of London lies a grassy courtyard, which the sun reaches at mid-morning. Around it stand the elegant parlours of the governor and his top officials, a place of polished mahogany, pink coat-tailed stewards and ticking clocks.

Early on July 2 this summer, the yard was basking in its customary peace. But the silence was not one of a smoothly functioning central bank. It was one of shock.

In an office on the east side of the yard, a dozen men were poring over a 45-page document, prepared by the Bank of Credit and Commerce International's auditors, Price Waterhouse. Entitled 'Report on Sandstorm SA under Section 41 of the Banking Act 1987' it told, in terse auditors' prose, how BCCI, code-named Sandstorm, had perpetrated frauds so large that it was impossible to calculate their size.

The assembled bank regulators, many of whom had flown in secretly only the day before from Luxembourg, the US, the Cayman Islands, France, Spain and Hong Kong, sat in silence for close on an hour as they digested this grisly document.

Whole chunks of BCCI's balance sheet were rotten: many loans were bad, even fictitious, and deposits had been plundered to conceal enormous losses. Brian Quinn, the Bank of England's director of banking supervision – a silver-haired, compact Scot whose job it was to prevent the kind of disaster now staring him in the face – sat at the head of the table. Never, in his 21-year career at the Bank, had he been exposed to fraud of this magnitude.

It was a sickening moment. The scale of the fraud may have come as a shock to them – but not the fact of it. For years BCCI had been tainted by scandal and controversy.

All through that morning and well into the afternoon, the men wrestled with appalling decisions. They could wind the bank down, but that was impractical; the alleged fraudsters would take flight the moment they sensed trouble. They could shut the bank down at a stroke: that would secure the assets, but would cause a political storm.

A third course was considered. Quinn could fly to Abu Dhabi to see the one man in the world who could help: Sheikh Zayed bin Sultan Al Nahyan, the hawk-faced ruler of Abu Dhabi. As the bank's 77-per cent shareholder, the oil-rich emirate was already preparing to refinance BCCI with a $650m capital injection.

Could the ruler be persuaded to cover the much greater losses revealed in the report? No – Quinn had already shut off that option. Abu Dhabi was not to be invited to the meeting.

The reason was simple. Price Waterhouse said it understood that Abu Dhabi officials had known about BCCI's problems for more than a year. The Bank no longer trusted them. 'The report fingered our interlocutors,' said one official present.

At 4pm, the meeting took a vote. It was unanimous: a shutdown, and the sooner the better. They chose the following Friday, only three days away. It left them barely enough time to make arrangements.

At 1pm London time on July 5, the regulators swooped. In an unprecedented operation, within the space of a few hours, they shut down the better part of a bank with $20bn of assets in 69 countries. The following day, Quinn met the deputy governor, Eddie George. 'Brilliant!' said George. But Quinn was more sanguine. 'It'll be all right for the first 24 hours. Everyone will say what a great job we did. After that it'll be downhill all the way.' So it has proved.

The questions come tumbling over each other. How could a bank have become so steeped in crime? How could it have got away with it for so long? Where did all the money go? Why was the bank not shut down years ago as its links with the terrorists, drug dealers and other undesirables became known? The Central Intelligence Agency did business with it. Why didn't it blow the whistle?

The trail uncovered by the FT leads through volumes of documents reaching into the innermost recesses of BCCI's affairs and the ponderous efforts of its auditors and regulators to bring it under control. It depicts a world of utter unreality.

Early BCCI memos contain lists of people the bank wanted on its payroll: they include Paul Volcker, former chairman of the Federal Reserve, John Reed, chairman of Citicorp, the largest US bank, and Sir Kit McMahon, the then chairman of Midland Bank.

At the height of BCCI's crisis, Agha Hasan Abedi, the bank's charismatic president, was struck down by two heart attacks and a stroke in succession. While recuperating from a heart transplant, he struggled on to a plane in his wheelchair and flew to Abu Dhabi to beg the ruler to save his bank.

The nub of the meeting only lasted two-and-a-half minutes, but it was worth nearly $1bn a minute. In that time, the ruler agreed to spend $2.2bn to keep BCCI alive, little knowing that his own accounts at BCCI had already been plundered to finance the bank's frauds.

It is a trail on which money loses all meaning. No sums are significant unless they run into nine figures. All the important fraudulent transactions – the false loans, the stolen deposits, the nominee accounts – amount to several hundred million dollars each.

The final bill for BCCI is enormous. Judging by the Price Waterhouse report, BCCI was engaged in four major frauds.

One was a cover-up of $633m of losses on treasury trading. The second was the illegal acquisition through nominees of several banks in the US, on which it spent $346m.

The third was a complex manipulation of accounts to prop up its largest borrower, the Gulf shipping group of Pakistan, to which it lent more than $725m, which was over the limit set by banking regulations.

The fourth was a fundamental fraud by which BCCI allegedly acquired secret control of 56 per cent of its own shares at a cost of over $500m. BCCI was a serpent eating its own tail.

These sums add up to more than $2bn. But this is a minimum: it omits the enormous cost to BCCI of financing its secret losses. The manipulation to cover up the fraud involved another $2bn, bringing the grand total to well over $4bn.

The scale of the fraud is breathtaking enough. But while most frauds involve the disappearance of real money, BCCI did the exact opposite. It manufactured billions of dollars out of nothing to conceal gaping holes in its balance sheet, like a giant game of 'Double Your Money'. This involved extraordinary financial gymnastics and illegal loans on a huge scale. When BCCI finally came crashing down, it was not with a thud, but in a shower of paper.

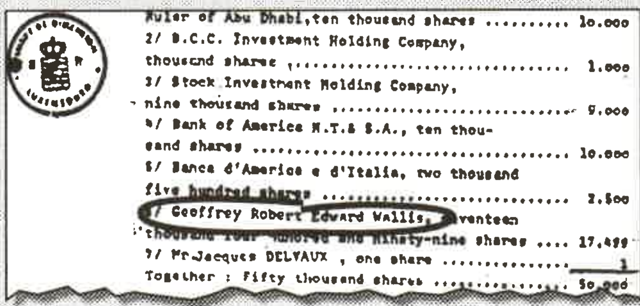
Who benefited from all this? The winners were the recipients of illegal loans, the nominees who received huge fees for their services, and those with whom BCCI was obliged to do business at cut rates in order to get deals done.

But BCCI's own executives, though paid generous incomes and forgiven many of their loans, do not appear to have enriched themselves enormously. Abedi, for example, lived modestly. The head of the bank's internal audit boasted about how long he kept his suits.

The victims include the thousands of depositors and borrowers whose lives were shattered by the shut-down. For these predominantly Asian customers, who had struggled against racial prejudice to succeed, and for the majority of BCCI's 14,000 staff, who were hard-working and honest, the bank offered something different. It understood their needs in a way rarely found in traditional clearing banks.

But the greatest victim, by far, is the tiny Gulf emirate of Abu Dhabi, which is today deeply

Secrecy from the outset


Ruler of Abu Dhabi, ten thousand shares 10.000
2/ B.C.C. Investment Holding Company, thousand shares 1.000
3/ Stock Investment Holding Company, nine thousand shares 9.000
4/ Bank of America N.T.& S.A., ten thousand shares 10.000
5/ Banca d'America e d'Italia, two thousand five hundred shares 2.500
6/ Geoffrey Robert Edward Wallis, seventeen thousand four hundred and ninety-nine shares 17.499
7/ Mr.Jacques DELVAUX , one share 1
Together : Fifty thousand shares 50.000

BCCI engaged in dissimulation from the outset. When the bank was first registered as a company in Luxembourg in 1972, its largest shareholder was an obscure solicitor from the south London suburb of Bromley. Geoffrey Robert Edward Wallis, who has since died, held 17,499 of the 50,000 original shares, giving him a 35 per cent stake.

Wallis was a close friend of BCCI's charismatic president, Agha Hasan Abedi, and acted as his legal adviser. Michael Welchman, senior partner of Wallis's firm, says Wallis was acting as a nominee for other shareholders in BCCI whose identities and sources of finance have never been disclosed.

humiliated and embittered by the whole affair. By the FT's estimate, Abu Dhabi's exposure to BCCI and related entities amounts to $9.4bn. This includes direct investment in BCCI, official deposits placed with the bank and the enormous cost of propping up BCCI as it tottered to its end.

Some of this may be recovered when the bank's remaining assets are liquidated – but most has gone for good. Even this immense sum amounts to only nine months' worth of the $12bn that Abu Dhabi earns from oil sales each year. For Abu Dhabi, the loss of face has been far more wounding.

IT IS EASY to be baffled by the scale and complexity of the BCCI saga. But it is better not to think of BCCI as a bank in the traditional sense. BCCI was an outsider in a business whose rules are set by the large industrial countries of the west.

It came from a country – Pakistan – where banks traditionally involve themselves closely with their customers and play an important part in the political power game. It was fuelled by the enormous but unsophisticated wealth of the Arab oil world.

It was misunderstood by the western authorities, who even today are slow to presume that a bank wilfully engages in major fraud. It operated on – and exploited – the cusp of many ethical and business codes.

BCCI was shaped by a man – Abedi – who was both charismatic and devious. He was able to inspire people with his vision of a wholly new kind of bank that would finance trade with the Third World. But he dealt ruthlessly to achieve his goals.

'Honesty is magic,' he once told his deeply respectful staff. Revealingly, he went on: 'Money is helpful. Participation is power.'

Abedi proclaimed the virtues of Islam, but his bank readily diverted hundreds of millions of dollars of deposits from Islamic institutions to conceal its frauds.

He founded many charities, which earned him a reputation as a great philanthropist. One of them, the ICIC Foundation, was formed to 'work for the relief of poverty, suffering, sickness, disease and distress among human beings in all parts of the world'. More than 99 per cent of the foundation's assets of $34m was invested in shares in BCCI (which paid no cash dividends) and its Swiss affiliate. The foundation accounts were qualified because the auditors disagreed with the valuation placed on the BCCI shares. It appears to be another ploy to sustain BCCI's own share price.

BCCI may not have set out to be a fraudulent or crooked bank. It had blue chip clients, stretching from Wall Street to the UK high street: Pillsbury and Dow Chemical of the US, and in Britain, Taylor Woodrow, Royal Ordnance, Babcock International and Dixons.

But its obsession with power and secrecy, and its amoral leadership made it a natural breeding ground for malpractice. As Abedi's vision soured, the contamination spread.

At that fatal meeting in Threadneedle Street, BCCI seemed ripe for closure. People had suspected it of wrongdoing for years. Here was the damning evidence. But could it have been saved?

Was BCCI, as Robin Leigh-Pemberton, governor of the Bank of England, told the Treasury and Civil Service committee of the House of Commons, a bank with a criminal culture that needed to be cleansed, root and branch? Or could the thousands of depositors have been spared once the chief perpetrators of the fraud had gone? Did the regulators move too slowly, only to jump too soon?

How much did Abu Dhabi know about the fraud and when did it know it?

What is indisputable is that, by shutting BCCI down when they did, the authorities caused enormous damage to depositors and shareholders, while Abedi and his henchmen have yet to face the reckoning.

PART TWO

'This bank would bribe God'

The ruler of Abu Dhabi entrusted his vast personal fortune to BCCI. The bank repaid the compliment by plundering over $2bn of it. This fact is shocking but entirely in keeping with a bank whose founder was a man of breathtaking audacity and cunning.

NOTHING was ever straightforward with Agha Hasan Abedi, a man who insisted on paying bribes in crisp white envelopes.

BCCI executives who managed the biggest bank fraud in history were expected to abstain from liquor, frequenting night clubs or marrying outside the Islamic faith.

Abedi provided prayer rooms at the bank's headquarters in Leadenhall Street for his staff. And yet the same bank lavished sexual favours on its clients, on one occasion commandeering the entire red light district of Lahore to please a party of Gulf Arabs.

There is no simple key to the character of the first president of BCCI, but these aspects of the most unusual bank the world has ever known contain many clues.

The domed forehead with its burning eyes teemed with many different Abedis: the zealous Shia Moslem; the visionary, nurtured on the teachings of a much-loved poet-philosopher uncle; the philanthropist and Third World champion bred in the dying days of the Raj.

But there was also the power-seeker for whom truth and falsehood, charity and influence-peddling were often two sides of the same coin. And there was the man of iron will. Interviewed at his Karachi home earlier this year, Abedi told the Financial Times that 'nothing is vast' – as if anything was possible given enough determination, which he had in abundance.

Overlying this powerful mixture was a legendary ability to charm and mesmerise. Abedi once held up a piece of paper at a conference for BCCI recruits in a Lahore hotel. He told his audience to watch the blob on it get bigger and smaller, which they did, transfixed. The paper was completely blank.

On another occasion, he stood before a hall full of young BCCI officers – Abedi called them 'my children' – about to graduate from the Karachi training school, one of three run by the bank. For more than an hour he philosophised.

At the end of the lecture he asked the sea of faces what they thought. Only one voice spoke out. 'Frankly, sir, I think all this philosophy is geared for one man's ego, and that's yours.' A hush fell across the hall. Abedi walked over to the young officer, held up his hand and declared: 'These are the people I want, people who speak their minds.' The student was unimpressed – he left BCCI soon afterwards for another bank.

Abedi's mixture of mysticism and homespun ideas did not always impress his own people. One colleague who became increasingly sceptical about Abedi's references to 'cosmic energy' was summoned to London. 'He (Abedi) asked me: 'How many people believe my philosophy?' I said 'three'. He said 'three per cent?' I said, 'No, three.''

When it came down to it, Abedi could also be an outright charlatan. At one of his staff conferences, he delivered a ringing speech about the need for 'involution', a word he invented because it sounded nice.

The lavishness of these conferences was legendary. The bank would take over an entire five-star hotel. There would be two days for shopping and two for conference sessions. There were usually five items on the agenda: humility, submission to God, giving, compassion and love. They were held in places such as Vienna, Luxembourg and Athens, and cost the bank between £4m and £5m apiece.

Despite being branded as an evil genius, Abedi remains revered by many people for his good deeds, particularly in the field of education which he believed to be a fundamental force for reshaping the world outlook. His native Pakistan, in particular, sees Abedi as a Robin Hood figure who provided jobs, scholarships and medical treatment to the poor and enabled impecunious Moslems to make pilgrimages to Mecca. 'Certain people in this country are heroes, and Abedi is one of them,' says Humayun Gauhar, the former editor of South magazine, which BCCI owned. 'No mud will stick to his name.'

Abedi was well known for his long-winded philosophising. This letter to the son of Swaleh Naqvi, the bank's chief executive, captures the flavour.

AGHA HASAN ABEDI
PRESIDENT

BANK OF CREDIT AND COMMERCE INTERNATIONAL S A

Mr. Nadeem Naqvi
Bank of Credit & Commerce International
320 Park Avenue
NEW YORK
NY 10022
USA.

4th June, 1985

Dear Nadeem,

Since I received your letter and the enclosed article, I could not get time to answer it. Time in its full sense does not become one's own time unless it is filled with attention leading to purpose.

You are right in observing that we have, during all these years, been trying to create and manage a 'context' which is nothing but providing a new volume and direction to meaning. We, no doubt, all grow, shape and manage the contents of life and purpose only in the mould of our context and so do societies and organisations. BCC has, as you know, already created a powerful and all pervading context.

I have since used some expressions from the article of Professor Stanley M. Davis in explaining what we have been trying to say in so many words, ways and forms for so long. I admire your comprehension of this article and our context which we are jointly managing. In recognition I give you all my love. I must though, say that the context is just a reflection of quality and meaning and I hope you would never forget that quality and meaning remain short of reality till they become an attribute of your energy, vibrating and flowing – flowing in torrents – overpowering mediocrity and defying defeat.

Release and flow of energy is absolutely necessary to manage the contents of the context and is the only route to success. Life has to be action packed and packed in the material of love and quality. In BCC it is a crime to be either mediocre or fail to succeed. It is even a worse crime if any one of us allows physical, intellectual or psychological lethargy to permeate into our energy system.

I feel no doubt about your innocence, purity, goodness and quality that God has blessed you with. You may need to produce much more action and an ability to create it all around you in order to become a top manager.

May God be always with you.

Yours sincerely,

Agha Hasan Abedi

South magazine, founded to examine Third World issues, frequently flattered leaders of countries to which Abedi sought admittance for BCCI.

Many of Abedi's good works, it is claimed, were done through the BCCI Foundation. But the reality, as with so much to do with Abedi, was rather different. The BCCI Foundation accumulated rather than distributed wealth. Little of its money went to helping people. Only in two of its nine years of operation has the foundation given away more than it made. Even those donations were not all for good works. Its largest single gift – £6.25m – was to a pet project of President Ghulam Ishaq Khan of Pakistan which is now believed to have been linked with that country's covert development of nuclear weapons.

Akhtar Hameed Khan, the founder of a self-help project in a Karachi slum which received foundation money, is now one of Abedi's few critics in Pakistan. He says: 'He was a collector of people. He tried for years to get me in his zoo.'

These many Abedis never merged into a consistent whole. He was many-sided and unpredictable. One day he was the spellbinding leader; the next, his powers deserted him and he rambled incoherently. He founded an institution of which one employee said: 'This bank would bribe God'. He set out to create a new world, but BCCI broke every rule set by God and man to do it.

All these Abedis might have lived out their days quietly behind the teller's window of the Bombay bank where his career began, were it not for the colossal engine of ambition to which he was harnessed.

ABEDI WAS BORN in 1922 in Lucknow, chief city of central northern India. His father was a tax collector on the estate of one of the richest princelings, the Raja of Mahmudabad, and Abedi grew up in an atmosphere of lavish elegance which exerted a lasting influence on him.

Some of Abedi's supporters, such as Humayun Gauhar, believe that his early years in Mahmudabad hold the key to the workings of BCCI. They compare the bank with the kingdom's feudal structure and the rajas' tendency to surround themselves with sycophants. Everyone, even his closest associates, referred to him as 'Mr Abedi' or 'Agha Sahib'. He had many courtiers but no intimates.

Abedi secured unquestioning loyalty from his staff through a mixture of sheer will power, charisma and more devious means, including nepotism. While there is nothing unusual in this for banks in Asia and the Middle East, Abedi's largesse was larger-than-life.

The partition of India in 1947 led Abedi's family to join the flow of Moslem refugees to Karachi. Naseem Saigol, one of Pakistan's richest businessmen, tells how Abedi went to the Saigol family patriarch in 1968. 'Abedi convinced my father that he should have a bank. Dad gave him a cheque for Rs10m (then £1.1m) and appointed my elder brother, Shafiq, as director with Abedi under him.'

It was called United Bank, with the slogan 'Progressive Banking', and it became the launch-pad for Abedi's later exploits.

However, it was the decision of the then President Bhutto to nationalise Pakistan's banks in 1972 that forced the aspiring banker to expand his horizons. Prominent bankers, including Abedi, were placed under house detention.

In his sudden solitude, Abedi began to flesh out his long-nurtured plan for a bank that would act as a bridge between the Third and First worlds. It would also, he told visitors, be 'the biggest bank in the world'.

His first foray for financial backing was as obvious as it was inspired: the newly oil-rich Gulf sheikhs. They had the money Abedi needed and they were Moslems.

The sheikhs came over to the Baluchistan desert each year with their falcons and salukis to hunt and eat the houbara (bustard), the largest game bird in Pakistan. They believe it increases sexual potency.

The hunters and their entourages of about 100 would drive deep in the desert, splitting into separate parties with a jeep each. At dusk they would return to the camp fire and their white tents. Here, they were at their most relaxed and Abedi at his most persuasive.

Abedi had also met a Dutchman, Dick van Oenen, who was the Bank of America's representative in Pakistan with an office in the United Bank building. Through him, Abedi learnt that Bank of America was keen to enlarge its activities in the Middle East. The US bank agreed to put up the relatively small sum of $625,000 as its contribution to BCCI's $2.5m start-up capital. Bank of America also had a subsidiary in the then little-known and loosely-regulated banking centre of Luxembourg, which gave Abedi the idea of locating his bank there.

Thus in September 1972, in the five-star Phoenicia Hotel in pre-civil-war Beirut, BCCI was born. About 100 people met in the ornate ballroom around a rectangular table. They included Swaleh Naqvi, the now-disgraced former chief executive of BCCI, and Zafar Iqbal, who was later to succeed Naqvi. Abedi mingled among them.

Within a year, BCCI had six offices, in London, Luxembourg, Beirut and the Gulf emirates of Dubai, Sharjah and Abu Dhabi. By 1975, it had ballooned into a group with assets of $2.2bn and $113m of capital. It soon had 146 branches in 32 countries – including 45 branches in the UK, where it had become the largest foreign bank.

Phoenicia Hotel, Beirut: BCCI's birthplace, but blasted in war

BCCI split into two companies, one based in Luxembourg, the other in the Cayman Islands, then emerging as an offshore banking haven. Already, the bank was adopting the tactics of deception, fragmenting itself into obscure centres, and ensuring close links with customers who could put large deposits at its disposal.

Abdul Basir, head of the Pakistan operation, says: 'We looked after clients in the most efficient, personalised manner.'

Although Basir refuses to go into details, part of the answer is to be found inside the old city of Lahore. Under the shadow of the great walls, built more than four centuries ago by the Mogul emperor Akbar, lie the remnants of another once-great empire.

The Diamond Market is home to Lahore's famous dancing girls, who for centuries have provided entertainment for emperors and their courtiers – and latterly for politicians, Arab sheikhs and bankers.

Shuttered during the day, the market is almost indistinguishable from Lahore's many narrow streets – but for the occasional glimpse of a pair of sleepy almond eyes peering from a latticed upstairs window. At night it comes alive, the girls, often as young as 12, calling down to customers.

Dressed in gold-embroidered chiffon harem pants and silks, the girls sway to sitar music. The audience are expected to put money inside the girls' clothes (in olden days it was jewels).

BCCI's minions came here to procure the finest girls for the bank's best customers. The girls would be personally inspected by Zafar Iqbal, the local branch manager who married one of their number called Cham Cham.

Muzaffar Zaidi, former director of special operations in London who controlled the European affairs of some of BCCI's richest Gulf clients, says he often received calls in the early hours asking him to send large amounts of cash. 'I knew what it was for,' he says. Zaidi retired from his post because, he says, 'it wasn't the kind of thing I wanted to do.'

BCCI's 'can do' culture could be impressive. One Pakistani businessman was shopping in London one Saturday when he saw a £25,000 car. 'I wanted it immediately, so I called BCCI and a man turned up carrying the money in a plastic bag. That's what I call service.'

'The bank,' said one of its millionaire clients, 'made me feel like a billionaire when I went to London.'

Abedi was never afraid of thinking big. As an outsider he knew he could only act on the world stage if he had the help of world players. He had the skill and self-confidence to seek them out and draw them to him. He did this by identifying their strongest personal desires and then setting out to satisfy them. Abedi stalked his quarry and then spun a web round them through diligent courtship.

He supported Jimmy Carter's campaign to eliminate the guinea worm scourge. The former US president went on a tour of Africa in BCCI's corporate Boeing 727, refitted in 1985 with just 16 seats and a double bedroom. The tour may have checked the advance of the guinea worm, but the sight of Carter disembarking from the BCCI jet did wonders for the bank's local business.

In 1987, Abedi was back in Africa, this time accompanied by James Callaghan, the former British prime minister, in support of a trust to send African students to Cambridge.

Zambia was in severe financial difficulties because the price of copper, its chief export, had plummeted. BCCI made a small loan to tide the country over. When the party landed in Lusaka, it was greeted by a relieved Kenneth Kaunda, then Zambia's president. 'The money arrived just in time,' he told the group.

According to two of Abedi's former executives, payments were made to Zimbabwean politicians in London during the 1979 Lancaster House negotiations on Zimbabwe's independence.

Both sides, said the executives, were 'greased because one would eventually gain power and would decide on a bank licence.' Soon after independence BCCI became the first foreign bank to be awarded a licence in Zimbabwe and the government even bought a minority shareholding in the bank.

Influence-peddling and deception also lay behind one of Abedi's largest strategic moves – into the US market, the ultimate source of political power.

The way he went about it was classic Abedi. He sought the help of key figures in Washington, men like Clark Clifford, former defence secretary and kingmaker of the Democratic party, who acted as his lawyer, and Bert Lance, Jimmy Carter's former budget director.

Having received professional advice that BCCI might have difficulty obtaining permission to buy a bank, he decided on a strategy of subterfuge, involving the use of nominees to act as fronts – a venture in which his flair for secret deals and manipulation found full expression.

BCCI eventually acquired four banks, the largest of which, Financial General, was also the biggest bank in Washington DC, holding many of the personal accounts of the capital's most powerful figures – a fact which must have appealed to Abedi. Shortly afterwards he changed its name – rather misleadingly in the circumstances – to First American.

The nominees, according to a Federal Reserve accusation, included several of BCCI's own shareholders such as Ghaith Pharaon, the flamboyant Saudi businessman and Kemal Adham, the burly, white-maned ex-head of Saudi military intelligence who had recently fallen out with the Saudi royal family.

Both Pharaon and Adham are crucially important figures in the high-stakes poker game which Abedi played. The former provided business connections; the latter an inside track in Washington, where he has been a Middle East power broker of repute for years.

Another reason why Abedi wanted to buy into the US was that BCCI's relationship with Bank of America was not working out. The US bank had been pushed into a back seat role by Abedi's aggressive management. In 1976, Al Rice, Bank of America's executive vice-president, wrote in an internal memo: 'We are just not operating on the basis of mutual trust and co-operation that make the whole effort and exercise worthwhile.'

Tom Clausen, the bank's president and later head of the World Bank, who had never been happy about the deal with BCCI, agreed. B of A eventually sold out in 1980, though it remained BCCI's US clearing bank.

The B of A sale is significant for two reasons. First, the purchaser of B of A's stake – on deferred terms – was none other than ICIC, a shadowy Cayman-based offshoot of BCCI. Second, it suggests that an aura of suspicion was already settling over BCCI by the late 1970s.

WITH HINDSIGHT, it seems extraordinary that Abedi should have succeeded in his subterfuge in a land criss-crossed by regulation. It took the Fed 14 years to uncover the true story, even though it had suspected a connection between some of the acquirers and BCCI from the outset.

The Central Intelligence Agency, which had long been using BCCI to fund some of its agents and covert operations, was one of the first to discover the truth. In 1985, it prepared a report on BCCI that confirmed the bank's secret and illegal control of First American. Mr Richard Kerr, acting CIA director, recently admitted in Senate testimony that the CIA's failure to inform the Fed of this important finding was 'an honest mistake'.

But in the end, Abedi underestimated the US regulatory and law enforcement agencies. They have since turned on him and his bank mercilessly.

In July, after a two-year inquiry by Manhattan district attorney Robert Morgenthau, a New York grand jury brought indictments against the bank, Abedi and Naqvi for fraud, falsifying bank records, money laundering and larceny – the first criminal proceedings against BCCI since the shut-down.

Today, inside his 4,000 square yard compound in the affluent Karachi suburb of Clifton, Abedi cuts a pathetic figure. He sits in a stiff-backed chair in a two-storey house across the manicured lawn from his office, looking out on his beloved gardens, fingers twitching but body rigid.

Rabia, his 47-year-old second wife, and their daughter are constantly at his side, trying to fill his now empty hours. The third building of the compound is a bungalow for Abedi's 90-year-old mother.

The final, desperate struggle to stave off BCCI's collapse has taken a terrible toll. He has suffered two heart attacks and a stroke, which have left him with brain trauma and damaged vocal cords.

These days Rabia finishes his sentences for him. 'Every day,' she says, 'I'm killed a little bit by watching it.'

Abedi will never be extradited from Pakistan. He holds too many political IOUs. But even if he were to co-operate with the world-wide investigations into the bank's collapse, his health is so bad that he is unlikely to provide a coherent account of BCCI's history.

Mention of banking still brings a flash to the deep-set eyes behind heavy glasses – but as the conversation continues, he soon begins to ramble. Trapped inside that domed forehead are many of the secrets behind the greatest banking collapse in the post-war era. He will probably take these to his grave.

'The money arrived just in time,' said a relieved Kenneth Kaunda to Agha Hasan Abedi, who visited Zambia with James Callaghan, the former UK Prime Minister.

PART THREE

'The $1bn hole in the heart'

BCCI's treasury was at the centre of a web of fraud and deceit. It made huge losses and covered them up with bogus deals, under the nose of its auditors and the Bank of England. And, for years, it got away with it.

THE TELEX chatters into life in BCCI's Cayman Islands offices. Inside the white, colonial-style building in Georgetown, the Pakistani managers watch as the machine taps out a string of 'recommendations' from the bank's dealing room in the City of London. 'Conditions look favourable for going long on the dollar,' the telex might say. In other words: tell us to buy dollars because they're going up. Faithfully, the Cayman Islands staff re-keys the recommendation into the telex back to Leadenhall Street. 'Go long on the dollar'. Another day's trading is under way.

This little ritual served a useful purpose in BCCI's strategy of deceit: to create the fiction that the treasury's vast ebb and flow of funds was really being managed from the Caymans offshore tax-haven.

When Agha Hasan Abedi, BCCI's founder and moving spirit, incorporated the Caymans into his global operation, he chose well. The buccaneers and privateers who first settled there in 1670 would have recognised a kindred spirit.

The Caymans are a banker's dream. There are more companies registered on the island than there are people, with one bank for every 31 men, women and children. Discretion is guaranteed.

The Caymans suited BCCI for two reasons. As a banking haven it attracted large amounts of private deposits from clients who preferred to keep their money away from the prying eyes of their governments. This also enabled BCCI to engage in one of its favourite manipulations: mingling other people's money with its own.

The second advantage of the Caymans was its low tax rates. Abedi was keen to book as much of the bank's business as possible in the Caymans rather than under the hostile tax regimes of many of the Third World countries in which BCCI operated. BCCI's auditors were worried about this ploy and advised it to set some money aside in case it got a tax demand from the UK's Inland Revenue for the treasury's profits.

Unfortunately, the treasury's profits were also a fiction – though few inside the bank realised it at the time. The treasury made enormous losses. This required fraudulent manipulation on a colossal scale to prevent them coming to light and bringing the bank down.

The story of those losses, how they were concealed and how they came to light, is a crucial chapter in the bank's history. It led, slowly but inevitably, to the crisis that engulfed BCCI in 1990 and 1991.

A bank's treasury plays a key role in managing its financial affairs by trading large amounts of money and currencies. Some of this dealing is done on behalf of clients. But bank treasuries also speculate on whether currencies will rise or fall, using their own money. BCCI was no exception. According to Price Waterhouse, the bank combined these two activities by trading huge amounts of clients' money – but in its own name, and without their knowledge.

Punting on currencies can be a major source of profit but it can also prove disastrous, as turned out to be the case with BCCI.

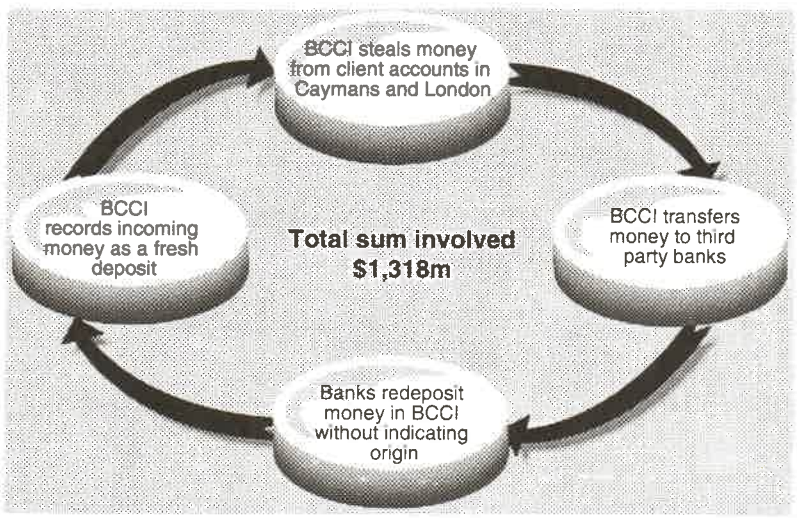
The bank set up a central treasury in 1982 to bring together and put to work the pools of cash that lay around its 69-country network, now holding $10bn of assets. It had to keep a large stock of liquid money because of its homeless status.

Much of this money was held by ICIC, its shadowy affiliate, based in the Caymans. ICIC acted as an international private bank for BCCI's super-rich customers, including the ruling family of Abu Dhabi.

The exact relationship between BCCI and ICIC is still unclear. Although BCCI seemed to control it, ICIC's ultimate owner is a Cayman company whose memorandum of association states – in classic Abedi style – that on dissolution its assets must be distributed for the good of mankind. The likelihood is that ICIC in fact owned BCCI. It appears to have played a central role in the secretive arrangements by which BCCI used nominees or frontmen to finance acquisitions of its own shares.

There was, in fact, not much to show for BCCI's presence in the Caymans, partly because it was only a booking centre: two office buildings, a few dozen staff and a warehouse near the airport, bearing the number 007.

The Pakistani managers and their families lived in modest but comfortable townhouses, but kept very much to themselves. They were prompt and polite in their dealings with regulators and other banks on the islands. Every January, they would host a lavish buffet, washed down with fine wines, for local



The money-go-round

Not the only means used by BCCI to cover up its massive treasury losses. Others included booking fictitious loans to clients and using the cash itself; and accepting deposits from customers without recording them on the books. Price Waterhouse says the total sums involved amounted to $1.3bn.

political, business and banking leaders. 'The tables really groaned,' recalls one prominent banker.

The London treasury was a more substantial operation. It was run by Syed Ziuddin Ali Akbar, an Indian-born banker in his early 40s who had joined BCCI in Oman in 1975 and moved to London a year later. His glowering look, neatly cropped beard and curt conversation made him a remote, intense figure.

Akbar was told by BCCI's board to limit his speculative activity to a maximum loss exposure of $100m. But this limit soon became meaningless. According to Price Waterhouse, Akbar's team were spectacularly unsuccessful traders; they lost large sums from the outset. It was a time of sudden and large swings in interest rates which made trading difficult. Within a year the traders were forced to resort to manipulation to cover up mounting losses.

They used two techniques. One was to sell enormous quantities of options contracts. These give the buyer the 'option' to purchase currency or securities at a set price at a later date.

Akbar would book the proceeds of these sales as profit, even though he retained a liability to the buyer at a future date. As these liabilities materialised, he was forced to sell even more contracts to keep cash flowing in. The losses snowballed and Akbar found himself in the path of an avalanche.

As a trader of interest rate options, BCCI was in a league of its own with outstanding positions of $11bn in 1985. By comparison, one of the biggest local operators in this market at the time, a leading London merchant bank, had positions of only £3bn.

The second cover-up technique was to split the treasury into two sets of accounts. One consisted of normal treasury operations. The other, the so-called 'Number Two' accounts, were run by dealers at a different set of desks, ostensibly trading on behalf of BCCI's private clients. In reality, they were plundering clients' accounts and using the money to trade on BCCI's behalf. As one part of the edifice collapsed, they rushed other parts of it across to shore it up, thus weakening the entire structure.

When they lost that money too, they tried to make good the clients' accounts by manufacturing artificial loans to them, or by taking in other deposits without recording them on the books.

One victim of these manipulations was the Faisal Islamic Bank of Egypt, which placed large sums of money with BCCI in the belief that they were being handled on an Islamic basis (that is, earning an investment return rather than interest). But Faisal's money went into the treasury's black hole like everyone else's. Price Waterhouse puts the Cairo bank's exposure at nearly $400m.

According to Price Waterhouse, Akbar managed to conceal his losses from the auditors and even from Abedi and Swaleh Naqvi, BCCI's chief executive, for three years. By his own admission, the treasury had accumulated a loss of $633m by 1985. But Price Waterhouse estimate that his treasury was obliged to divert as much as $1.3bn in order to plug this enormous hole and pay the interest accruing on the loss.

Akbar has a house in Golders Green, north London, and claims to be a simple and devout Moslem. He recently said in an interview with the FT that he was merely a junior at BCCI, not a top executive. BCCI's treasury division had no control over client accounts, he claims, and so could not move cash or operate the secret pool as Price Waterhouse alleges.

All his decisions, he says, were monitored by other divisions and committees within the bank: he was following orders. There is nothing he could have done that was not known and sanctioned – indeed, that was not directed – by senior executives and ultimately by Abedi and Naqvi themselves.

'I was simply a co-ordinator among several divisions. I never originated any deals,' he says. 'It's all a cover up. I was silent, so everyone wanted to blame it on me.'

The treasury's trading binge did not go completely unnoticed at the time, however. The financial markets have sensitive antennae, and the huge volume of trading generated from BCCI's dealing room and its obvious exposure sent out signals which other banks quickly picked up. Rather than pass their concerns on to the authorities, many of them took advantage to make profits at BCCI's expense.

Word reached the Institut Monétaire Luxembourgeois, the regulator of banks in Luxembourg where BCCI was based. In 1985, the Institut asked BCCI to conduct a review of its treasury. The investigation got under way in late January 1986 under Price Waterhouse, the auditors of the Cayman operation. Price Waterhouse's investigators uncovered the treasury's first cover-up technique: the use of options contracts to roll losses over from one year to the next. They did not uncover the enormous iceberg of 'Number Two' accounts.

THE Price Waterhouse team made a relatively mild judgment on what they had discovered: they decided BCCI had accounted for its options contracts in a sloppy way and wiped $225m off BCCI's profits for 1984 and 1985. But Price Waterhouse put the error down to management incompetence.

Price Waterhouse had failed to spot the accounting error the previous year, when it was present but on a smaller scale. Whether or not the error could realistically have been spotted sooner, there is a more serious issue at stake.

With hindsight, this appears to have been a moment at which BCCI's wrongdoing might have been brought to light. Price Waterhouse audited both the treasury and some Cayman-based accounts which were being robbed to fund the losses; it was therefore theoretically in a position to detect both sides of the manipulation. Was this a missed opportunity to unmask BCCI's activities half a decade before they came to light?

Price Waterhouse has said there was no evidence at the time to suggest that the treasury losses had a more sinister cause. Other banks, it says, have suffered from dealers running up loss-making positions outside authorised limits; there was no evidence that this was anything more than a bad case of the same.

Even now, the full truth of the treasury fraud is unclear, with an investigation by another firm of accountants still unfinished. Most of the available evidence is based on Akbar's own account.

Although the true scale of the treasury disaster remained hidden, it was still a spectacular piece of bad banking which caused uproar within BCCI. Akbar left abruptly, and a clean-up got under way, with Price Waterhouse advising.

In the confusion, Abedi failed to tell the Bank of England what had happened – a sin not lightly forgiven. The Bank, however, got to hear about it from the Institut Monétaire Luxembourgeois and Brian Quinn, director in charge of banking supervision, summoned Abedi. 'How can we trust you if you don't even tell us what's going on?' the supervisors asked him.

This was typical of BCCI's poor relations with the authorities. Yet what followed was also typical of Abedi's ability to escape from tricky situations. He came clean, apologised profusely and made lavish promises of better practices.

This was another fork in the road at which the BCCI story might have taken a different route. Faced with this clear evidence of (at best) incompetence and dissimulation, the Bank of England might have tried to impose stronger management on BCCI. Instead, Abedi suggested that he move the treasury to Abu Dhabi, because that was where his main shareholders lived; the Bank agreed. (Luxembourg, BCCI's official European home, did not want it either).

But the treasury fiasco left Abedi with a large hole in his balance sheet, the precise size of which he learnt from a memo which Akbar left behind, detailing the scale of his manipulations. Abedi tried to put a brave face on it. 'Some people will think it's a great deal of money, but we'll get over it', he told a colleague.

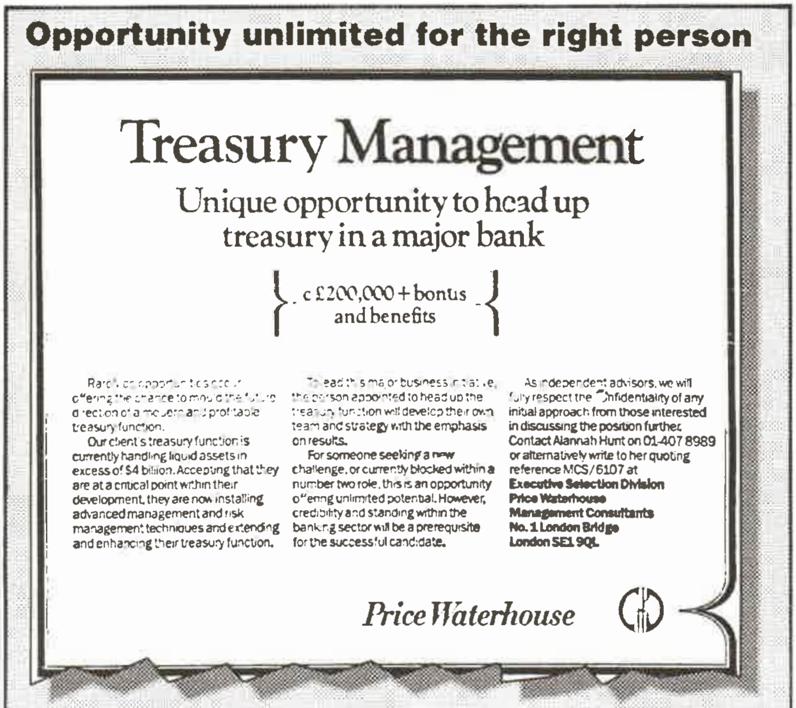
How, though? Abedi turned to his friends in the Gulf for help, but they were so shaken by the losses that they refused to put up fresh cash. In desperation, Abedi extracted $150m from the bank's own staff fund as a 'gift', though staff were not immediately told.

One of the fund's trustees, Akhtar Annis, who has since died, reputedly used to remove his glasses before signing documents so that he could not read their contents.

Abedi told banking regulators that the money was contributed voluntarily by the staff fund. They chose to accept this as further evidence that BCCI was indeed, as Abedi claimed, a bank run on Third World principles of mutual self-help.

This 'gift' reinforced Abedi's image as a banker whose business methods could not be judged by western standards. It gave him another lease of life – but also strengthened the regulators' determination to keep a closer watch on him.

Though BCCI survived the treasury disaster, steps towards tighter control followed. They led, through a painfully slow process, to the revelations that brought the bank down in 1991.



This anonymous advertisement offering the then record salary of £200,000 plus bonus and benefits appeared in the UK press in August 1987. It was BCCI seeking a new person to head the treasury after the disastrous losses. The advertisement promised the successful candidate 'unlimited potential'.

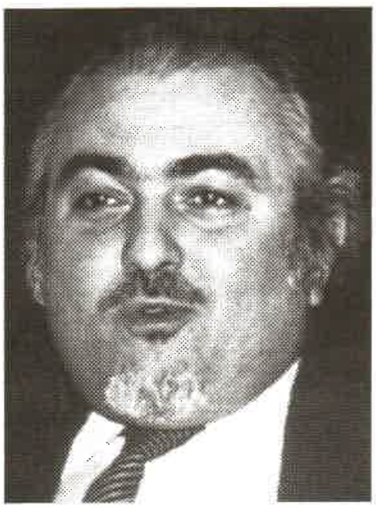
According to Price Waterhouse, Akbar later managed to blackmail BCCI for $32m to keep quiet about the treasury fiasco. In 1988 he was convicted of drug money laundering, and was recently re-arrested on fresh BCCI-related charges. He denies every aspect of Price Waterhouse's allegations – including receipt of the $32m.

Whether Akbar was really controlling the treasury, or merely acting as a lieutenant for his superiors, his team made a lasting mark on BCCI. When it departed from London, the treasury left behind a $1.3bn hole which Abedi had either to expose – with the certain risk that it would destroy his bank – or cover up.

Since his life's work was at stake, he did not have much choice.

Ghaith Pharaon – Money in a hurry

Day or night, Ghaith Pharaon was always in a hurry for money. Sometimes the Saudi entrepreneur would ring up after business hours demanding a loan for an urgent deal the next morning. It always arrived – part of the BCCI service.



Pharaon: $537m in BCCI loans

All it needed was a nod from Swaleh Naqvi, BCCI's chief executive, with whom Pharaon preferred to deal directly. The account officer would then disburse the money into whichever bank the globe-trotting Pharaon wanted.

Pharaon was one of the bank's largest customers, for a time a shareholder and one of the small band of well-connected Saudi Arabian power-brokers whose affairs became intertwined with those of BCCI during the 1970s.

Former BCCI officers say Pharaon first met Abedi in 1975, although Pharaon has said the relationship started in 1977-78.

According to a list seen by the FT, Pharaon's world-wide holdings in 1986 encompassed 156 separate companies, ranging from film production, cement and aggregates, oil, hotels, shipping and property, to commodities, agriculture, banking, finance and insurance. He has recently taken an interest in cable TV in the US and at one stage he had a $9m stake in Eurotunnel, which he offered as security for part of his BCCI debt.

Pharaon's father was personal physician and confidant to the late King Faisal. Educated in Paris, Beirut and at the Colorado School of Mines, he graduated from Harvard Business School in 1965.

A bearded man with a slightly podgy face, he pursues an unashamedly flashy lifestyle with a fleet of Mercedes, a yacht and a private Boeing 727 with his initials painted on the tail.

His connections have become the stuff of US corporate legend. One story says he hired a Nile barge with David Paul, the US real estate developer and partner in CenTrust, a Miami savings bank. The barge became stuck on a sand bank. Pharaon rang up Egyptian President Hosni Mubarak to ask a favour. Minutes later, the gates of the Aswan Dam were opened to raise the water level.

According to Federal Reserve allegations, Pharaon acted as a front for BCCI's illegal acquisitions of US banks. If so, many of the loans made to him would be fraudulent or fictitious.

For BCCI's staff, Pharaon was a 'big name' customer whose relationship with Abedi meant that normal procedures could be bypassed.

According to a file seen by the FT, BCCI's loans to Pharaon last March amounted to \$537m – more than double the \$264m ceiling set by BCCI's own internal controls. It is not clear what proportion of these loans might be fictitious.

But BCCI's controls had little force because loans were debited to the account on verbal instructions from Naqvi. According to BCCI staff familiar with the Pharaon account, the paperwork only came later. The account officer went round collecting signatures from members of the credit committee individually; the committee itself seldom met. The board often approved the largest loans afterwards. If anyone queried them, they were told: 'It was urgent'.

The management of the Pharaon accounts also shows how the fraudulent arrangements were managed by Naqvi.

Basic details of the loans went into the Pharaon file, held by the account officer. But sensitive documents went into a separate, 'balance confirmation' file, kept by Naqvi himself. This would include documentation covering Pharaon's role as a nominee as alleged by the Federal Reserve.

Naqvi's separate files on his key clients were to play a central role in the fraud because they contained, according to Price Waterhouse, documents like 'hold harmless' letters and promises of indemnification which exposed the true nature of BCCI's dealings.

In September, the US district court in New York froze Pharaon's US assets after the Fed announced that it was fining him \$37m for illegal dealings with BCCI. The Fed is now seeking to ban him from the US banking industry.

Meanwhile his white-painted column-fronted mansion on a large Savannah plantation deep in the US cotton belt, once the home of Henry Ford, awaits his return.

PART FOUR

'Bank of Crooks and Cocaine International'

BCCI's conventional sources of cash were drying up. So it turned to men such as General Noriega and Colombia's Medellin cocaine cartel, who had a plentiful supply of spare money from drug dealing.

IN THE LAWLESS strip of land between Pakistan and Afghanistan, Pathan tribesmen do a brisk trade: drugs for guns, cash for both, most currencies accepted.

It was from here that the Central Intelligence Agency waged a nine-year secret war to topple Moscow's puppet government in Kabul. The stakes were high: Afghanistan itself, the stability of Pakistan but, above all, US pride and billions of dollars for the war sanctioned by the White House.

The CIA needed a secure channel to protect its investment and to finance the everyday needs of the rebel army. It needed BCCI.

Throughout the Soviet occupation from 1979, lethal caravans burdened with US military hardware snaked across the dozens of tracks which criss-cross the soaring mountains of the North-West Frontier. Despatched by sections of Pakistan's Inter-Services Intelligence, under the protective gaze of CIA agents, the caravans were the life-blood of the resistance.

A telex dated January 23 1987, which went from BCCI Pakistan to Panama, reads:

> 'HV A FIRM ENQUIRY FOR 1000 MULES YES MULES. WE INSPECTORATE R CONTRACTORS FOR A US AID PROJECT IN PAKISTAN FOR THE AFGHAN MUJAHIDEEN. THESE MULES ARE NEEDED FOR TRANSPORTATION IN THE MOUNTAINS. PLS EITHER RECOMMEND A PARTY FM S. AMERICA OR GIVE US NAMES N TLX NO OF PARTIES WHO MAYBE INTERESTED. IF QUOTING PLS QT CNF AIR N SEA KARACHI. RUSH REPLY ASAP.'

General Noriega's binge in Las Vegas lasted several days.

BCCI's world-wide network and no-questions-asked approach made it the natural choice for clients who had something to hide.

Its founder, Agha Hasan Abedi, thrived on conspiracy. Not surprisingly, his bank attracted conspirators. The bank's customer list reads like a cloak-and-dagger Who's Who: Oliver North, the man at the centre of the Iran-Contra affair; Manuel Noriega, the deposed Panamanian dictator; Abu Nidal, the notorious Palestinian terrorist; Gerardo 'Don Chepe' Moncada, a leader of Colombia's Medellin cocaine cartel.

In Washington, Jonathan Winer, an aide to Senator John Kerry who is investigating BCCI, sits in a cubicle in his Senate office, surrounded by thousands of BCCI documents.

Winer stares at his cartons of papers. 'Whenever there is a criminal activity, we in the US are always looking for a smoking gun. In the case of BCCI there seems to be a smoking arsenal.

'BCCI's approach was really "Let's make a deal". Anybody who wanted to do business with BCCI could do so.'

How all this affected the majority of the bank's staff is hard to judge. Most of them were honest, oblivious to the bank's darker side. When BCCI opened a branch in Panama City in 1980, it threw a reception in a flower-decked hall large enough for a band at both ends. The dark-suited BCCI executives recoiled in horror when the local women invited them on to the dance floor. 'You can't do that,' the girls were told. 'These men don't even touch their wives.'

Many of BCCI's staff were propelled from modest Asian origins into a world of high salaries and chauffeur-driven cars, trained to be cautious bankers only to be exhorted by their charismatic leader to change the world. One official of the Indian central bank left a job where he was paid the equivalent of £250 a year for a post at BCCI where he received £60,000.

This combination of a corrupt culture with traditional banking prudence is captured in a campaign contribution to a Venezuelan politician in 1988: he would only get it if he was elected.

As the grey area around BCCI sloped away, the moral incline became rapidly steeper. Yet BCCI's more unsavoury activities never seemed to bother Abedi. Once, when a colleague expressed concern about the source of some of BCCI's funds, he had a ready answer: 'Don't worry. Once this money crosses our threshold, it becomes God's money.'

In 1985, Pakistan's security services, which also had close links with the bank, were so concerned that BCCI was being bugged by other intelligence services that they had the Leadenhall Street head office in London swept for eavesdropping devices.

The CIA began compiling intelligence reports on BCCI in 1983, when it claims it made the bank 'a target'. The first CIA report on BCCI's terrorist links was prepared in 1986. BCCI's narcotics connection, according to CIA documents, was first reported on in 1984.

Ghassem Qassem, the former manager of the Sloane Street branch in London, who handled the Abu Nidal account, told the FT how he liaised with British intelligence. Wringing his hands with worry after losing his job, Qassem, one of the few Arabs in managerial positions at BCCI, explained how he had regular meetings to pass on information. 'They have deserted me now,' he said. 'I helped them for years and now I have nothing'.

Yet none of these activities prompted regulators in the UK or the US to move against BCCI. The Bank of England is privileged to weekly reports from the government's Joint Intelligence Committee. The CIA is part of a similar flow of information which, theoretically, reaches the White House and the US Treasury.

The Bank of England now says that it was only told about the Abu Nidal account in 1990 – a year before the shutdown – by BCCI itself, which had only just discovered its existence and promised to conduct an investigation. This explanation appears to have satisfied the regulators.

At his recent US Senate hearings, Senator Kerry sat forward and stared the 20 feet across to the witness table, at Richard Kerr, acting CIA director. 'The fact that you were generating reports on narcotics, illegal arms deals and terrorism didn't ring any alarm bells for you? Didn't it occur to you to stop using BCCI for the CIA?' the senator asked. Kerr's reply was less than illuminating.

The reasons for the lack of action in the US are still unclear. Perhaps the CIA did not feel it was its business to pass on suspicions to the regulators. Perhaps it hoped to keep tabs on whatever BCCI was up to. Perhaps there was an element of mutual dependence. Kemal Adham, for example, former head of Saudi intelligence, allegedly acted as one of BCCI's frontmen. To have such a man linked to a bank whose customers included some of the world's most wanted men might have come in useful.

Adham was among a group of Middle East investors and political power brokers whose stealthy foray into US banking acquisitions, allegedly on BCCI's behalf, included stakes in several American banks.

Turkish-born Adham, half-brother of Iffat, King Faisal's favourite wife, is perhaps the most enigmatic figure in the BCCI affair. He was one of the most powerful figures in the Middle East, with close ties to the CIA which had trained him at its headquarters in Langley, Virginia.

A number of former bank officers believe the CIA may have been the original catalyst that formed a successful bond between Adham and Abedi. The exact relationship between Abedi and the CIA remains uncertain, although the late prime minister of Pakistan, Zulfiqar Ali Bhutto, seemed in no doubt. According to more than one account he publicly accused Abedi of working for the CIA.

The CIA categorically denies any relationship with Abedi or with any other BCCI 'official' or 'employee'. But it has belatedly admitted to using the bank for the transfer of funds to covert operatives at the same time as supposedly investigating the bank.

The bank also exploited a lucrative relationship with another CIA alumnus, General Noriega, who faces charges in the US for laundering drug money.

DEPOSITS were the oxygen which enabled the BCCI organism to grow. Conventional money markets, where banks lend money to each other, were already being closed off to BCCI because of its dubious reputation. Men like Noriega and BCCI's Colombian customers, on the other hand, had a plentiful supply of spare cash from drug dealing. And they needed a safe haven for it.

There was also a practical explanation for BCCI's attraction to 'funny money'. BCCI was one of the few banks which had the facilities to transmit large amounts of private cash from Panama to Switzerland, for example, or from the US to Pakistan.

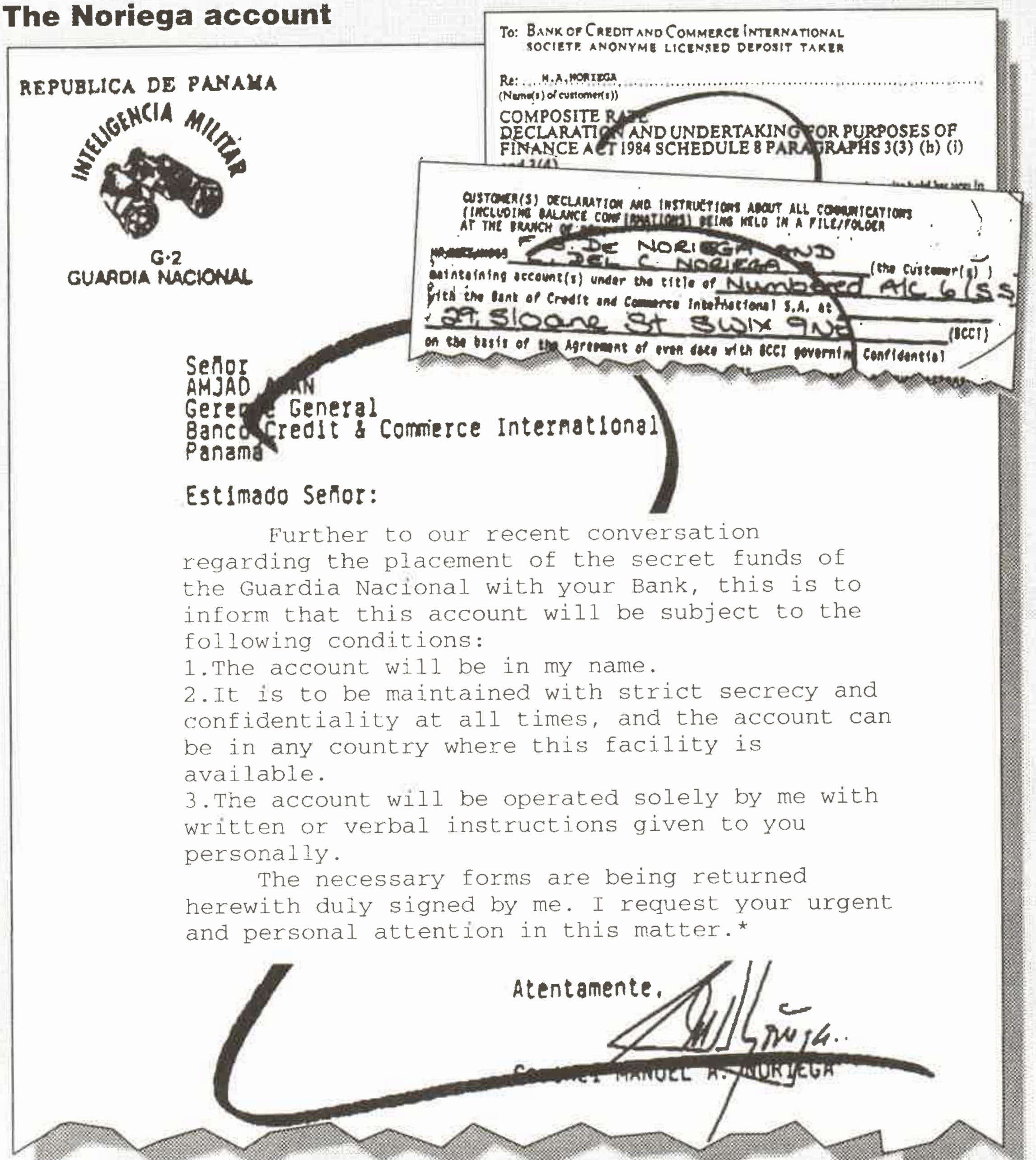
The key to Panama's vast illicit funds was Noriega, and BCCI won him over with a lavish shopping trip and dinner in London in 1980.

Amjad Awan, BCCI's Panama branch manager, whose father had been head of Pakistan's secret police, became Noriega's personal banker, channelling the general's profits to his accounts at BCCI's Sloane Street branch in London. Awan accompanied Noriega on many of his trips, and on one occasion organised a Las Vegas binge lasting several days.

BCCI's insatiable pursuit of cash stretched across the five continents. For a while, Nigeria satisfied the appetite, then Egypt and even communist China, which may have lost up to $450m when BCCI closed, according to US investigators.

The Asian communities expelled from East Africa provided another fast-growing market as they resettled in the UK in the 1970s. But more was required.

The Noriega account



To: BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME LICENSED DEPOSIT TAKER

Re: M.A.NORIEGA
(Name(s) of customer(s))

COMPOSITE RATE
DECLARATION AND UNDERTAKING FOR PURPOSES OF FINANCE ACT 1984 SCHEDULE 8 PARAGRAPHS 3(3) (b) (i) and 3(4)

CUSTOMER(S) DECLARATION AND INSTRUCTIONS ABOUT ALL COMMUNICATIONS (INCLUDING BALANCE CONFIRMATIONS) BEING HELD IN A FILE/FOLDER AT THE BRANCH OF

F. DE NORIEGA AND F. DEL C. NORIEGA (the Customer(s))
maintaining account(s) under the title of Numbered A/C 6/SS
with the Bank of Credit and Commerce International S.A. at
29 Sloane St SW1X 9NE (BCCI)
on the basis of the Agreement of even date with BCCI governing Confidential

REPUBLICA DE PANAMA

INTELIGENCIA MILITAR

G-2
GUARDIA NACIONAL

Señor
AMJAD AWAN
Gerente General
Banco Credit & Commerce International
Panama

Estimado Señor:

Further to our recent conversation regarding the placement of the secret funds of the Guardia Nacional with your Bank, this is to inform that this account will be subject to the following conditions:

1.The account will be in my name.
2.It is to be maintained with strict secrecy and confidentiality at all times, and the account can be in any country where this facility is available.
3.The account will be operated solely by me with written or verbal instructions given to you personally.

The necessary forms are being returned herewith duly signed by me. I request your urgent and personal attention in this matter.*

Atentamente,

MANUEL A. NORIEGA

* Translation

By the early 1980s, BCCI had turned its attention to the Latin American market, and in particular, to drug money. In 1984, Swaleh Naqvi, then chief executive, visited Colombia to explore the possibilities. His mission culminated in the acquisition of a Colombian bank, Banco Mercantil.

This was a strange place to buy a bank, and it required special dispensation from Colombian president Belisario Betancourt. Some BCCI executives who feared the impact that news of the purchase would have on BCCI's image were personally overruled by Abedi.

One of BCCI's prize catches in Colombia was Pablo Escobar, the biggest drug baron of them all, who kept his accounts in the Cannon Street branch of BCCI just inside the precincts of the City of London. Daniel Gonzalez, the deputy manager of BCCI in Panama between 1980 and 1986, describes avalanches of money being deposited with BCCI by drug barons such as Escobar.

Gonzalez once attended a party at Noriega's beach house where Panamanian army officers and BCCI clients swam naked with prostitutes in the general's pool. BCCI's clients were nothing if not exotic. Escobar's palatial hacienda outside Medellin housed an exotic zoo which included two black cockatoos, valued at $14,000 each, and a kangaroo that played soccer.

According to a recent indictment by a Florida Grand Jury, BCCI laundered millions of dollars from the Medellin cocaine cartel over the three years that followed the Banco Mercantil acquisition. The bank supplied other services to the drug barons. On one occasion, BCCI provided references to a group of Israeli arms dealers, working out of the Caribbean island of Antigua, which wanted to sell machine guns to the cartel.

Inevitably, however, BCCI's luck began to run out. Early in 1986, US customs agents infiltrated one of the world's largest drug smuggling operations. They had been on the trail of Gerardo Moncada, one of Medellin's godfathers whose responsibilities included supervising and directing the distribution of cocaine into North America.

They never caught Moncada. Instead they netted BCCI, a fish they hadn't even realised existed. It took months of investigations by undercover agent Robert Mazur to discover the scope and sophistication of the laundering operation provided by the bank.

THE BANK'S system of providing untraceable back-to-back loans did not just launder money – it gave a full rinse and spin, throwing out sparkling new dollars in the country of your choice.

In a belated acknowledgement of his role in the scheme, the Tampa authorities said Moncada, also known as 'Don Chepe', 'Kiko' and 'Arturo', was responsible for placing millions of dollars of cocaine profits in the world-wide banking system. He was charged with racketeering and money laundering in early September 1991 in a scheme which is also alleged to have involved Swaleh Naqvi.

Operation C-Chase, which tracked Moncada's activities, culminated in October 1988 with an elaborate 'sting' organised around a fake wedding.

The bankers were in the mood for a stag party when they were taken to a downtown Tampa building. They had been promised a swinging time. The bankers stepped into the lift expecting to be whisked to the penthouse suite. Instead, it stopped on the seventh floor where the guests were greeted by smiling customs officers with handcuffs. 'Welcome to Tampa,' said one of the officers. 'You're under arrest'. The betrothed couple were undercover agents.

According to the indictment, one of BCCI's general managers was also invited. But, in a move typical of BCCI's double standards, Naqvi forbade him to go 'because BCCI staff should not associate themselves too conspicuously with these sorts of accounts.'

Nonetheless, nine of BCCI's US employees and two of the bank's subsidiaries were charged with laundering $14m. Naqvi personally decided not to contest the charges – a decision which shocked many of the bank's staff elsewhere in the world who had been oblivious to BCCI's darker side.

The outcome of the laundering trial caused a furore in the US, where the fine was denounced in Congress as 'a rap on the knuckles'. It was less than half the fine that had been levelled on the bank by Kenya a year earlier for breaches in foreign exchange regulations over coffee exports.

Indeed, the US authorities had missed another big fish. Even as the sting was moving towards its climax, BCCI was going that extra mile for its prize depositor, Manuel Noriega.

Some months earlier, in February 1988, Noriega had been charged in the US with drug trafficking, which raised questions in his mind about the safety of the $23m he had on deposit with BCCI in London. On August 1, a worried Noriega rang BCCI to discuss shifting his money out of the bank altogether. But to where?

According to the Tampa allegations, Syed Ziuddin Ali Akbar, the man responsible for the treasury disaster in 1985, had told BCCI that accounts with Capcom, a broking company of which he was at times a shareholder and a director, could be made available for drug money. This seemed a practical solution. Noriega's millions were laundered through three other banks into a Capcom account in New York – whence they later vanished.

If this is correct, the choice of Akbar's Capcom to handle this manoeuvre is strange in light of the grief which Akbar had earlier caused BCCI. But this reinforces the suspicion that there was more to the relationship between BCCI and Capcom than has so far become apparent. Akbar was later convicted of money laundering in the UK, and last September he was charged in the US with fresh money laundering offences, along with Naqvi, Capcom and two others.

For years BCCI and its criminal activities managed to stay one jump ahead of the regulators. Even when they did find out, they chose not to act.

In 1990, following the Tampa case, the Bank of England ordered a report on BCCI's controls against money laundering in the UK. This concluded that these were no worse than those of any other bank. The Bank wanted a reason to push BCCI out of the UK altogether; to its annoyance, the report on laundering controls did not provide it.

At the time, this was taken to be an indication of BCCI's cunning ability to keep its more shady activities away from strongly regulated centres. But subsequent evidence suggests that the key decisions were being taken in London all the time. Furthermore, the Bank says it only learnt in March 1990 that BCCI was running accounts for terrorists, nine years after the Abu Nidal gang opened their account in Mayfair.

But by then, BCCI was so close to collapse that its criminal connections seemed almost irrelevant. A month later the Bank and other regulators approved a bail-out for BCCI by Abu Dhabi.

Sheikh Zayed is said to feel a deep sense of betrayal and fury at the fraud engineered by men he trusted with his money – and, as he sees it, with his honour.

PART FIVE

'In the Court of the Sheikh'

The BCCI affair has been an unqualified disaster for Abu Dhabi. Sheikh Zayed came to the bank's rescue time and again. It repaid him by stealing over $2bn from his personal fortune.

IN A MILITARY AREA near Abu Dhabi's international airport, 18 of the most senior executives of BCCI are being held in the police officers' club without trial and without charges. The austere concrete exterior of the building conceals what is, in reality, a comfortable hotel with terraces, fountains and lawns.

The bankers are out of sight, but not out of mind, for Sheikh Zayed bin Sultan Al Nahyan, the ruler of Abu Dhabi for whom the BCCI affair has been the worst humiliation of his 75-year life.

The sheikh is a private man at the best of times. But since the BCCI shutdown he has been totally silent in his palace. Decked with bougainvillea and palms, it is set away from prying eyes in a corner of this garden city on the edge of the Gulf.

The sense of grievance must be doubly acute, since this is not the first time he has been robbed by close advisers. In the wake of the 1973 OPEC oil price rises, which saw a wave of carpet baggers descending on the Gulf offering 'get rich quick' schemes, Sheikh Zayed committed his wealth to speculation in the copper market – with disastrous results.

In 1980, two officials, including the man then in charge of his personal fortune, were convicted of fraud. Sheikh Zayed lost nearly $100m. But it was not the financial loss which rankled so much as the loss of trust.

More galling, it was this very incident which persuaded Sheikh Zayed to entrust the bulk of his financial affairs to BCCI instead, the bank run by his long-standing friend, Agha Hasan Abedi. For the next several years, he channelled much of his entire share of Abu Dhabi's oil revenues – several hundred million dollars a year – directly into BCCI. Zayed effectively handed the key to his personal fortune to Abedi.

It was a fatal error. Zayed's exalted position did not earn him special treatment. Like so much else at BCCI, his money – more than $2bn of it, according to investigators – vanished into the black hole of fraud.

BCCI would not have survived as long as it did – or have perpetrated fraud on such a scale – had it not had access to Abu Dhabi's enormous financial resources. The FT estimates that the emirate has an exposure to BCCI of a staggering $9.4bn – a figure its representatives have not challenged. Some may be recouped as the bank is wound up. But most of it has gone.

On the face of it, Abu Dhabi's involvement with

BCCI is one of the hardest aspects of the saga to understand. Much of the answer lies in the character of the ruler.

Zayed is an austere-looking figure with a lean face and deep set eyes. He had no formal education, and spent much of his early life in the desert, where his outlook was shaped by the pride and rivalries of the Arabian tribes. It was a culture where 'face' was all important, where awkward problems got brushed under the carpet.

Sheikh Zayed was surrounded by a small army of sycophants who were often fearful of telling him the truth and who managed to create confusion and indecision over BCCI. In the bank's final stages, when billions of dollars were at stake and evidence of fraud was spilling out, Abu Dhabi was more worried about the embarrassment than the financial loss. This greatly complicated the efforts of western watchdogs to control BCCI.

As a true Bedouin, Zayed loves to gossip and tell stories over a cup of bitter coffee. He does not drink. His passions are falcons, hunting, camel racing and his flower gardens which he tends to personally.

He is not an ascetic. He owns at least a dozen properties in five countries and a jet. But for a man whose oil royalties earn him $3.8m a day, Zayed leads a relatively simple and dignified life. He shuns ostentation and his habit of standing with half-closed eyelids conveys a false sense of frailty. He displays an intuitive recognition of his own power. 'Zayed's word is law,' said one of Abu Dhabi's British expatriates who, like many others in the sheikhdom, reveres the man.

Zayed came to power in 1966 when, with Britain's discreet help, he edged out his brother Shakhbut. A benevolent autocrat who runs his emirate like a medieval court, Zayed used Abu Dhabi's enormous wealth to transform his arid territory into a garden city where the air is moist with sprinklers.

Part of the answer to Abu Dhabi's involvement with BCCI also lies in a belief by Abu Dhabi's ruling family that oil, mixed with western values, had contaminated the Gulf. Zayed decided that Abu Dhabi would not follow the example of Saudi Arabia and other Gulf states and rely on western expertise. It would chart its own course.

Many Gulf Arabs find it difficult to deal with established institutions – big banks, estate agents or brokerage houses – all of whom descended on them like vultures after the first oil boom. The sheikhs favoured the 'little man they can trust'.

They also believed that the oil which sprang from the ground belonged to them, literally, and that huge personal fortunes were part of their natural right. Many lost a proper perspective of what was a lot of money and what constituted a fair rate of return on that money. Thus they became easy prey for the Abedis.

Abu Dhabi's oil wealth is, literally, fabulous. In a good year, it earns $12bn to spread around only 722,000 people. This not only buys flashy cars, grand mansions and untold luxury but it stokes people's expectations sky high. At its best, Abu Dhabi is a jewel in the desert; at its worst, a wasteland of extravagance and greed.

Despite his huge wealth, Zayed shows little interest in finance. He was born into a family which kept all its money under the bed. But he supported BCCI from the start. This was partly out of personal friendship for Abedi. Following his lead many members of the ruling family and senior officials became BCCI shareholders or customers, or both.

(The neighbouring kingdom of Saudi Arabia never succumbed to BCCI's blandishments. Abedi's repeated requests to open a bank there were unsuccessful.)

Zayed placed formal responsibility for his 35 per cent stake in the bank with his crown prince, Khalifa, and a small group of officials looking after it day-to-day. For 13 years, everything went fine. Abedi frequently asked his patrons to subscribe new capital to fund BCCI's explosive growth. But thanks to his astute manipulations their investments rose sufficiently to meet even the exaggerated expectations of the oil-rich sheikhs.

The first sign of trouble was the treasury disaster in 1985 when, according to Price Waterhouse, the bank's trading losses were over $1bn.

This shook Zayed badly. For the first time, he refused Abedi's request for fresh capital. This was the moment, according to one Abu Dhabi source, when he stopped pouring his own money into the bank. But by then, Abu Dhabi's fatal fascination with BCCI had already entwined it so tightly that there was no turning back. Unfolding events showed that it was now in Abu Dhabi's vital interests to keep BCCI going.

The next shock came in March 1988 when Abedi, labouring under the strain of managing frauds now amounting to billions of dollars, was struck down by a heart attack while at dinner at a hotel in Lahore. Shortly afterwards he suffered a second heart attack, and a stroke.

Zayed, alarmed by the news, sent his medically equipped private plane to fetch him, and Abedi was whisked to the Cromwell Hospital in London. He was

Princely sums: BCCI's loan book

MIS System BCCI US$000's
Report No: MIS303 - ADVANCES SUMMARY REPORT AS ON 31 March 1991

REPORT AMOUNT: 7.50 Million and Over

CUS-CODE	CUSTOMER NAME	LIMITS CASH Max.	LIMITS CONT Max.	LIMITS CASH	LIMITS CONT	LIMITS TOTAL	OUTSTANDING CASH	OUTSTANDING Cont	OUTSTANDING Total	COLLATERALS
1800	H.H.SH ZAYED BIN S. AL-NAHYAN	200,684	0	200,684	0	200.684	60,461	11	60,472	Clean
1220	ROYAL ORDNANCE PLC	0	8,700	0	8,700	8,700	0	4,946	4,946	Corporate Guarantee
1200	H.H.SH KHALIFA BIN Z/AL-NAHYAN	122,582	0	122,582	0	122,582	89,305	0	89,305	Clean
1750	H.E.SH.MOHD B. ZAYED AL NAHYAN	19,068	0	19,068	0	19,068	22,066	0	22,066	Clean
1760	H.E.SH.MUBARAK B.MOHD ALNAHYAN	40,588	0	40,588	0	40,588	32,755	0	32,755	Assignment of rental income

Customers

Loan limit

Outstanding balance

Many members of the ruling Al-Nahyan family of Abu Dhabi were customers of BCCI, including the ruler himself. This print-out of the bank's biggest borrowers last March shows the ruler as customer number 1800 with a loan balance of $60.5m, and the crown prince Sheikh Khalifa as customer 1200 with $89.3m. They appear alongside other borrowers such as the UK armaments manufacturer Royal Ordnance. Abu Dhabi has said, however, that the ruling family did not borrow from BCCI and that loans recorded here are fictitious.

later transferred to Harefield Hospital in Middlesex for major heart surgery. During that time he lost three stone.

Aged 66, it was remarkable that Abedi recovered at all. But the crisis marked the end of his active involvement with the bank. He retreated to his Karachi home, and passed the baton to Swaleh Naqvi, his chief executive officer.

Naqvi could hardly have been more different from the man he replaced. He had none of Abedi's vision or charisma. He was a worrier who toiled nearly 20 hours a day, and had constant bags under his bespectacled eyes. When things got on top of him, he burst into tears. He carefully wrote down everything he heard, even speeches for which he had the text.

Naqvi worshipped Abedi and may even have tried to spare him the full truth. He managed the frauds, day-to-day. He kept thousands of files, some in his suburban west London home. Like many of those implicated in BCCI's manipulations, he had little to show for it.

FROM ABU DHABI'S point of view, the departure of Abedi marked a big shift in the relationship. Naqvi had never enjoyed Abedi's close links with Zayed, or his personal access to the ruler's court. With Abedi gone, Zayed's personal interest in the bank began to wane, and Naqvi must have sensed that BCCI was on its own.

Nonetheless, he threw himself into the job of keeping BCCI afloat. He ordered the branches to make a fresh drive for deposits and loans. What BCCI needed was bread-and-butter business to generate real profits and create an aura of acceptability.

John Hillbery, one of the most senior Europeans in the bank and its newly appointed head of the international division, toured the world to drum up correspondent relationships with other banks.

He and his team visited 400 with little success. Many big banks like Citibank and Bankers Trust refused to have anything to do with BCCI. They asked Hillbery hard questions about BCCI's ownership and finances, about drug money and the rumours that constantly surrounded it. Hillbery later resigned because of his own doubts.

But BCCI's gaping holes could never be plugged by legitimate revenues. By the end of 1989 Price Waterhouse were also asking awkward questions about BCCI's large loans to its own shareholders, and its lack of provisions against bad debts. Naqvi knew that he was going to have to do something drastic to obtain approval for the 1989 accounts.

Early in 1990 he suddenly embarked on a rapid succession of shuttle trips to the Gulf and Pakistan. Nobody in London seemed to know where he was. Often the only clue to his whereabouts was the flight plan of BCCI's private Boeing. Naqvi seems to have called on all his contacts in this time – but without success. In the end, desperate, he landed up in Abu Dhabi.

At this crucial juncture, the narrative versions conflict sharply.

In an account given to western sources, Naqvi was at his wits' end. In an emotional scene, he 'made a clean breast of it' and laid out all BCCI's problems before Abu Dhabi officials. He begged for their help. This version of events lays the basis for the later suspicion of the auditors, conveyed to the Bank of England, that Abu Dhabi knew far more about BCCI's frauds than it was prepared to admit. This suspicion was key to the regulators' decision to exclude Abu Dhabi from the climatic decision to shut BCCI down.

According to Abu Dhabi sources, however, Naqvi never confessed to fraud. He only discussed BCCI's problems with them, and in such a generalised and rambling way that it would be wrong to conclude that they were 'briefed fully' as later alleged by Price Waterhouse.

Whichever version is correct, Naqvi's message came as a bombshell to Abu Dhabi. This required a top level decision – and that meant involving the ruler. But none of the officials could bring themselves to present Zayed with the awful truth and Naqvi himself lacked the clout to open the palace doors.

There was only one man who could – Abedi. Naqvi got back on his plane and flew to Karachi where he implored Abedi – then crippled in a wheelchair – to come back with him and intercede with the ruler. If there was one person capable of understanding the gravity of the situation it was BCCI's founder. Summoning his depleted energies, Abedi struggled on board the Boeing and flew to the Gulf.

Abedi did manage to open the necessary doors. In one version of events that followed, he told Zayed hoarsely that his bank was in terrible trouble, and that without his help it would surely go under. He begged Zayed's forgiveness, and blamed misfortune and mismanagement.

Deeply moved, Zayed reportedly said: 'You look after your health. I'll look after your bank.' Then, turning to his aides, he said: 'Do whatever is necessary'.

Aside from any feelings Zayed, who is also president of the United Arab Emirates, may have had for Abedi there were too many Gulf interests at stake to allow BCCI to go down: the Abu Dhabi establishment, BCCI's highly placed Arab clients – all would be deeply embarrassed by BCCI's collapse.

The details of the rescue were worked out by Zayed's advisers. These included Ghanem Faris Al Mazrui, the zealously religious head of Zayed's private department who represented Abu Dhabi on the BCCI board.

Everything now focused on April 20 1990, the day on which a crisis meeting had been scheduled in Luxembourg with the regulators and auditors to decide BCCI's future. It did not augur well. While Naqvi was on his travels, Price Waterhouse had come upon the secret arrangements BCCI used to conceal some of the Gulf group loans, and reported their suspicion that these were 'false or deceitful'.

The supervisors were uneasy too. BCCI's financial condition was precarious. The bank's capital was running low, and there were not enough reserves to cushion the bank against bad loans. At the back of everyone's mind lurked the suspicion that the huge web of ill-documented insider loans might conceal fraud. No one had yet put such fears down on paper.

The meeting, on the top floor of the Institut Monétaire Luxembourgeois' building in Luxembourg, began after lunch in a tense atmosphere.

As well as the regulators and Mazrui and Naqvi, those present included two directors, Yves Lamarche and Alfred Hartmann, BCCI's representative in Abu Dhabi Zafar Iqbal, and Tim Hoult and Chris Cowan, the Price Waterhouse partners on the BCCI account.

All eyes were on Mazrui who held the key to whatever happened next.

After a delay, Mazrui produced a letter and began to read. Abu Dhabi, he announced, was prepared to take steps to secure BCCI's future. It would inject $400m to make BCCI solvent again. It would also buy out the doubtful shareholder loans at a cost of $800m, supply necessary working capital, and support a reorganisation of the bank.

The meeting paused to absorb this momentous news. Abu Dhabi was committing itself to an outlay of well over a billion dollars. Should the offer be accepted, or was it too late?

The day Clausen drove right by

IT WAS TOTALLY surrounded by desert. Some of the bank's tiny staff worked out of Flat No 8 in the Sheikh Zayed Building, as it was called.

Tom Clausen: his visit caused frisson in 1974

Those were the days when BCCI was growing up with Abu Dhabi. In the early 1970s – shortly after the emirate's independence – the bank was housed on the ground floor of the nondescript six-floor concrete residential building.

'There were no pavements and only strips of temporary tarmac when we stepped outside. I watched the sidewalks being built around us,' recalls one of BCCI's former top executives.

'Life was very bleak then. There was no shopping, just sand dunes and desert, with strips of tarmac road, a few foot paths. If ever you wanted to go from Abu Dhabi to Dubai you needed a four-wheel drive vehicle for the six-hour trip across the sand and some tarmac. People got stuck and had to be dug out. Sometimes they got lost altogether.'

In the summer of 1974 a frisson went through the little BCCI headquarters when it was learned that Tom Clausen, president of Bank of America, was coming to Abu Dhabi for his first visit with officials of the bank in which Bank of America held a 30 per cent stake.

'The night before Clausen arrived there were many labourers busy painting the sidewalks,' said the executive.

'Abedi wanted everything to be perfect. But the next day Clausen just drove straight past our headquarters. He decided to hold his talks at the Abu Dhabi Hilton instead with Abedi, Naqvi and some of the rest of us. It was all for nought.'

In those early days Abedi also played the Muslim card to some effect. 'He used to tell Sheikh Zayed that the top BCCI people were all Muslims,' said one of his former aides.

'He would tell the sheikh that the bank was the best bridge to help the world of Islam and the best way to fight the evil influence of Zionists. We were fed this all the time so that it seemed everywhere we looked we would trip across a Zionist plot.'

PART SIX

'Watchdogs who did not bark'

The line-up of watchdogs looks impressive, the regulators, an experienced board of BCCI directors and two top-rank firms of accountants. So how did they fail for so long to tame a bank which had earned the nickname of the Bank of Crooks and Cocaine International?

THE TOP CRICKET competition in the City of London's calendar is the Sir Cyril Hawker Trophy, which is open to any bank in London. In 1984, as luck would have it, the Bank of England and BCCI were drawn against each other. The fixture came at a time when the Bank was resisting BCCI's efforts to obtain a full UK banking licence. The Bank, aware of BCCI's reputation even then, had only granted it the lower status of a deposit-taker.

The game took place at the Bank's elegant grounds in Roehampton, a middle class London suburb close to the River Thames. BCCI fielded its formidable Pakistani talent and thrashed the Bank by eight wickets.

As the sides came off the field a losing player muttered: 'That's not how you set about trying to get a banking licence'.

The episode typifies BCCI's relationship with banking regulators around the world – a match played by an arcane set of rules in which, for years, the visitors beat the home team hollow and left them feeling cheated, frustrated and helpless.

To BCCI's unsuspecting customers, the Bank of England must have seemed the safest of watchdogs to guard their interests. But there were two other watchdogs: a distinguished board of directors, with experienced non-executives apparently in a strong position to oversee management; and two – later one – leading firms of accountants as auditors.

How did these watchdogs fail, for so long, to tame a bank which had left a trail of tell-tale signs?

In the public world, shaped by newspaper headlines, rumour and bankers' instincts, BCCI was the bank that smelt bad, and few cared to touch it. In the tightly-drawn regulatory world, where reality is shaped by hard fact and small print, BCCI was seen as a bank with a knack for disaster, but through incompetence rather than fraud.

Time and again the regulators had opportunities to check BCCI's advance. Some they took – but many more they did not.

Agha Hasan Abedi, the bank's founder and president, went to great lengths to complicate the regulators' task: splitting the bank, amoeba-like, into dozens of small, slippery components. He also took trouble to disguise its true ownership.

BCCI's regulators could not claim to have been unaware of its dubious reputation. In the 1970s, US watchdogs made strenuous efforts to prevent BCCI buying a US bank (unsuccessfully, as it proved, because of BCCI's resort to subterfuge). European officials queried its lack of a home base and the mystery surrounding its shareholders.

They made repeated attempts to get BCCI to reshape itself so that its activities could be controlled in one place or, at least, in one piece. Abedi never came up with workable proposals, and the regulators could not force him to – there was no law that said he had to.

In 1980, BCCI tried to move up in the London scene by negotiating a lease on one of the City's most prestigious buildings, on the corner of Lombard Street directly opposite the Bank of England. Gordon Richardson, the governor at the time, heard of the plan and was appalled. By twitching his eyebrows in the right direction, he ensured that the lease did not go through.

But the stand-offish attitude of the regulators also worked in BCCI's favour. While only three countries – Australia, Portugal and Saudi Arabia – refused it entry, dozens of others let it in. This enabled BCCI to claim that it was one of the most heavily regulated banks in the world. In reality, no single country was ready to take full responsibility for it, and BCCI became like a giant game of pass-the-parcel.

Officially, Luxembourg was in charge, because BCCI was registered there. But the tiny Institut Monétaire Luxembourgeois could not cope with a bank of BCCI's size. The Bank of England, whether it liked it or not, was in the supervisory front line. BCCI did its biggest business in the UK and the Bank had a large supervision department to handle it. Abedi also gave out to the world at large that BCCI was a UK bank, even though this was not technically correct.

In 1985, Pierre Jaans, the Luxembourg regulator, suggested that BCCI set up a company in the UK so that the Bank could become its chief supervisor. But the Bank, alarmed by the recent treasury fiasco in which BCCI lost at least \$633m, discouraged the idea.

The result was that no single central bank authority had overall control of BCCI.

As for the board, the regulators – like everyone else – drew comfort from the fact that it included four experienced western bankers: Yves Lamarche from Bank of America; Cliff Twitchin, who prided himself on being the youngest branch manager of his day at Martins Bank; Dick van Oenen, a Dutchman, also from Bank of America; and Alfred Hartmann, a leading Swiss banker who holds many positions, including vice-president of the Rothschild Bank in Zurich and president of the Swiss arm of the Royal Bank of Scotland.

But they were, at best, remarkably unquestioning about BCCI's affairs. Board minutes show that they frequently and unanimously approved many of the bank's largest questionable loans – sometimes, it seems, after they had been made.

Insofar as the minutes are a reliable witness, there is little evidence that they asked tough questions about lending practices. At a notable meeting on August 25 1988, when BCCI was in a perilous state after Abedi had suffered a heart attack and the bank's auditors were becoming concerned about problem loans, the minutes state simply: 'The board reviewed the balance sheet, and the queries raised were suitably answered'.

Later, in October 1990, when those same loans had reached crisis proportions and Price Waterhouse said the bank would need \$1.5bn just to survive, the directors merely 'expressed concern and puzzlement' and proposed writing to Price Waterhouse 'seeking further clarification', the minutes say.

Asked by the FT how senior BCCI executives managed to keep their financial manipulations from the board for so long, Dr Hartmann said: 'They were a very close management group who were all together before they started BCCI.' He said he could not explain how the manipulations escaped the audit. 'The figures they produced for the board always looked right, they looked very good; as they had been audited by a prime company we always relied on those figures.'

IF THERE WAS a moment when BCCI's ultimate fate might first have been glimpsed, it was in 1987, when two events led to its being brought under closer scrutiny.

One was the decision by BCCI's regulators from eight countries to pool their efforts in a 'college'. It was a well-intentioned move which finally brought under a single regulatory eye all the bits of the BCCI empire which Abedi had carefully tucked away in dark corners.

But the college was mainly concerned with technical questions and ultimately proved ineffective. At a meeting shortly after the Tampa money laundering indictment in October 1988, the college was told that 72 major banks had suspended credit lines, cutting BCCI off from vital flows of cash. This was clearly a serious threat to BCCI's existence, and the regulators examined it closely. But there was no discussion about whether BCCI was fit to be a bank if it tangled with drug pedlars.

That was left to national regulators. The college also did nothing to bring BCCI under tighter central control. If anything, it did the opposite by ensuring that each college member felt only one-eighth responsible.

Another important event which put BCCI under scrutiny was its switch to a single auditor. The auditor's job is to prepare company accounts and vouch for their truth and fairness. This does not include an obligation to hunt for fraud, though the accounting institutes require them to report serious examples.

Until 1987, the firm of Ernst & Young had audited the Luxembourg holding company, Price Waterhouse the Caymans offshoot. This was conveniently confusing from Abedi's point of view. But Ernst & Young were unhappy about the opaqueness it caused. In 1986, they also wrote to Abedi listing a raft of serious concerns: the directors were not scrutinising management closely enough, power was concentrated in too few hands, management skills were deficient, and systems and controls were poor.

Ernst & Young told Abedi that it would decline to be re-appointed unless it was given the whole group to audit and BCCI did something about its management style and systems. This forced Abedi to change policy and choose between the two firms.

Price Waterhouse got the job. It celebrated this soon-to-be bitter victory on the front page of its house journal, the Reporter, under the headline 'Bank Gain'.

'This is a major appointment and we see BCCI as a highly prestigious client which will provide exciting and challenging opportunities to many offices throughout the Price Waterhouse world,' the Reporter said. Price Waterhouse was to earn $4.7m in fees from BCCI world-wide in 1988, its first full year as sole auditor.

Price Waterhouse went into the job with its eyes open. It had seen Ernst & Young's letter to Abedi. But it also knew from its own experience that BCCI would be a tough assignment.

In the past, its recommendations to the board had been ignored. And it had been fed lies by the management. For example, in May 1986 Naqvi told Price Waterhouse that BCCI's loans to the Gulf group amounted to $172m when, as we now know, they totalled more than double that at the time. Price Waterhouse was also prevented by local bank secrecy laws from obtaining details of accounts in BCCI's subsidiaries in places like Switzerland and Kuwait which, it later transpired, were major channels for fraud.

In 1988, Abedi's heart attack and BCCI's involvement in the Tampa drug money case created further distractions. But as late as April 1989, Price Waterhouse was still some distance from the truth. It still took the view that BCCI's problems were confined to a few large accounts, mainly the loans to the Gulf group and to the people who were acting as fronts for BCCI's illicit US acquisitions (though Price Waterhouse did not know this at the time).

When, a year later, the truth about the loans began to emerge, Tim Hoult, the partner on the BCCI audit, told the board that Price Waterhouse had been unable to assess the full scope of the problem earlier 'because of a lack of information'.

That began to change towards the end of 1989. By then, Price Waterhouse had been group auditors for two years, and started to get a grip. A new note of aggressiveness now appears in its dealings with the bank. Naqvi's evasiveness and his conspicuous failure to deal with the problem accounts produced a growing atmosphere of mistrust.

At the end of 1989 it was clear that BCCI was in dire financial straits. Chris Cowan, another partner on the audit, told Naqvi in February 1990 that he would not sign off the 1989 accounts until a long list of questions had been answered. 'I am concerned about the number of outstanding issues on major accounts', he wrote in a letter.

IT WAS AROUND this time that Price Waterhouse also made its first big breakthrough. Probing into the stack of ill-documented and dubious accounts, Price Waterhouse came across evidence which suggested that loans to the Gulf group had been manipulated in the Caymans and elsewhere. But what happened next is not clear because of sharply conflicting versions of events – perhaps unsurprisingly, since this is the moment when the suspicions that led to the discovery of fraud first surfaced.

Masihur Rahman, the chief financial officer who was in charge of BCCI's accounts, says he received an urgent telephone call from Cowan in early March 1990, seeking a meeting the next day. Here, Cowan and two colleagues told him they had found, according to Rahman, 'illegal activities as well other major irregularities, false documentation and false accounting'. Price Waterhouse's whole emphasis, he says, 'was that it was no longer a question of our provisions being too little. It was that fraudulent transactions had been found.'

Rahman says that the senior partners present said that losses ran into 'hundreds of millions of dollars, possibly up to one billion.'

However, another authoritative version of this meeting – and another the next day – portrays them as less highly charged. By this version, Price Waterhouse told Naqvi and Rahman that they had concerns about various sets of accounts. But no loss figures were attached to them.

The main result of the meeting was an agreement that the bank would set up a special task force to look into Price Waterhouse's points of concern. This task force consisted of a number of BCCI executives, including Rahman. It was told to get to the bottom of BCCI's bad debt problems and report back as soon as possible. Until they did, the 1989 accounts could not be closed.

Price Waterhouse prepared a briefing paper for this investigation summarising its concerns.

Although this document carefully avoids outright suggestions of wrongdoing, it is dotted with signs of questionable practices – all relating to billions of dollars of BCCI's biggest problem loans: critical information missing on problem credits, loans presented for board approval only after they had been made, misleading information from management and

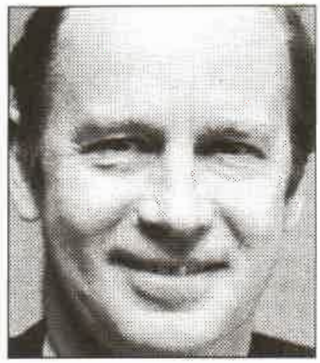
Who said what, when . . .

Gordon Richardson

● Governor of the Bank of England until 1983, he was uneasy about BCCI's dubious background and reputation. In 1980 he refused to grant BCCI a full UK banking licence and later blocked its attempt to lease a prestigious City of London office building.

Masihur Rahman

● A career banker with BCCI and chief financial officer, Rahman says he was kept in the dark about fraud. But he maintains that the auditors failed to pursue the evidence aggressively enough. In early 1990, he claims Price Waterhouse presented him with signs of fraud and illegal activities on a large scale.



E W (Tim) Hoult

● Price Waterhouse's partner in charge of the BCCI audit, he gives "lack of information" as the reason why his firm was prevented from tracking problem loans earlier. But from March 1990 onwards, PW had evidence pointing to the first of BCCI's four major frauds.

Robin Leigh-Pemberton

● Bank of England Governor from 1983, he made several attempts to bring BCCI under tighter regulatory control. He believed the early evidence of fraud pointed to an isolated incident but in the end, was responsible for initiating the inquiry which led to BCCI's shutdown last July.

Pierre Jaans

● The banking regulator in Luxembourg, where BCCI was officially based, lacked the means to supervise the bank and tried unsuccessfully to get it to incorporate in a country like the UK with stronger supervisory machinery. Eventually he told BCCI to leave altogether.

evidence that loans were being 'parked' with other banks to conceal their existence.

Two recorded borrowers with $270m denied having any loans at all. Price Waterhouse also asked the task force to assess 'the genuineness of transactions', a clear sign that it suspected that some of them might be fake.

But the task force turned out to be a pointless exercise. It concluded that there were indeed problems, but recommended the relatively minor (in light of what was to follow) provisions of $229m, and described the rest of the bank as 'very normal'.

Price Waterhouse debated long and hard about how it should proceed next. Was the wise watchdog one that barked – but frightened off the crooks in the process? Or was it one that crept to the telephone and dialled for the police?

Price Waterhouse decided on the second course. It produced a report for the board which spoke of 'false or deceitful' transactions, but stopped short of using the word fraud. Officially, Price Waterhouse continued to take the view that BCCI's basic problems were due to poor management rather than wrongdoing. Indeed, this was probably its genuine view as well, because at this point Price Waterhouse had found pointers to only one of four substantial frauds that lurked in BCCI's murky depths.

However, under UK banking law auditors are permitted to go behind their clients' backs to share information with the regulators, and Price Waterhouse used this right. The FT has ascertained that Price Waterhouse passed on its suspicions to the Bank of England in March or April, (although Price Waterhouse's partners went to some lengths to avoid being seen in Threadneedle Street, to avoid alerting BCCI).

The Bank was already, at this stage, deeply alarmed by BCCI's fast-worsening financial state. Bad loans were soaring, the capital strength of the bank was weakening, and management was displaying signs of great imprudence. Brian Quinn, director of banking supervision, had seen reports which suggested drastic action would be needed to prevent a catastrophe.

Price Waterhouse's information raised the question whether it warranted regulatory action. 'It was like seeing two dead fish floating down a river,' said one official who was closely involved. 'You did not know how serious a problem you were looking at.'

AFTER CONSIDERING the evidence, the Bank of England took the view that BCCI's fraud was not fundamental to the bank but was only an 'isolated incident', according to a later statement by the governor, Robin Leigh-Pemberton. It was not enough to warrant pressing the 'nuclear button' and closing the bank for good.

The regulators might have taken a different view if they had not been far more worried at the time about the danger of BCCI collapsing altogether. 'The bank was like a lorry careering out of control, about to hit the rocks,' said an official. 'What Price Waterhouse told us was a red light on the dashboard telling us something was wrong.'

So, when Abu Dhabi offered to bail out BCCI with a $2.2bn package at the end of April, the regulators heaved a great sigh of relief and approved the deal.

As part of the arrangements, Abu Dhabi said it would reorganise BCCI and transfer its headquarters to the Gulf. It also promised a detailed investigation into BCCI to get to the bottom of its loan problems and clear up the irregularities identified by Price Waterhouse.

The transfer, on BCCI's private jet with the knowledge of its auditors, included the shipment to Abu Dhabi of BCCI's voluminous files, at the heart of which lay the vital evidence which was eventually to lead auditors to the fraud.

At this point, it looked as if BCCI might finally be embarking on a new existence. In reality, it had only 14 months to live.

Action – and the lack of it

1976
New York regulators turn down BCCI's attempt to buy a New York bank.

1978
A US court affidavit shows that Bank of America, a 30 per cent shareholder of BCCI, is critical of BCCI's lending. This is one of the earliest documented signs that all is not well at BCCI.

1980
Bank of England turns down BCCI's request for a full UK banking licence.

1983
International banking supervisors in Basle are so concerned about BCCI that they make special arrangements for dealing with anomalies in a new responsibility-sharing agreement.

1985
Treasury fiasco. Auditors fail to uncover fraud, and Bank of England approves BCCI's decision to transfer its treasury from London to Abu Dhabi.

1986
Ernst & Young, auditors of BCCI's holding company, write to Abedi complaining about excessive management power, and weakness of BCCI's systems and controls.

1987
Basle supervisors from eight countries form a college to oversee BCCI. BCCI board forced to appoint a single auditor.

1988
BCCI is indicted for money laundering in Florida.

1990
Price Waterhouse uncovers false or deceitful practices. Tells Bank of England. Regulators approve a bail-out by Abu Dhabi to save BCCI from what they consider to be the graver threat of collapse. No specific fraud inquiry launched. US and Luxembourg give BCCI deadlines to move its operations.

March: Bank of England told Palestinian terrorist accounts held by BCCI.

November: Auditors seize Naqvi's private files detailing fraud.

1991
January: Bank of England is told of $600m of unrecorded deposits.

March 4: Bank commissions Price Waterhouse report which leads to the shutdown in July.

July 5: Shutdown.

PART SEVEN

'The final hours'

The truth at last began to unfold. BCCI was a giant hall of mirrors; money that didn't exist, customers who didn't exist, money that went round in circles, money that vanished, and money that simply popped up out of nowhere.

IT CAME TO BE KNOWN as Kew: an anonymous apartment block in the Gulf emirate of Abu Dhabi. An armed guard stood at the door. Anyone entering had to identify themselves and sign a book.

Here, BCCI's files which held the key to the biggest bank fraud in history were stored after the bank transferred its headquarters from London in mid-1990. These included the secret files of Swaleh Naqvi, BCCI's chief executive, which concealed damning evidence of BCCI's four major frauds.

The files – more than 6,000 of them – were flown out in the first week of October in two special flights by BCCI's private Boeing. BCCI's auditors, Price Waterhouse, had been persuaded that investigation of the problem accounts could best be centralised in Abu Dhabi. The last files arrived just as Naqvi was forced to resign in a management purge initiated by Abu Dhabi.

The investigation was part of the deal in which the regulators agreed to a $2.2bn bail-out of BCCI by Abu Dhabi in April 1990. It was launched in the strictest secrecy. Codewords were invented. BCCI itself was called Sandstorm. Other companies in the BCCI group were given the names of gardening tools (spade, fork). BCCI's clients were called after birds (blackbird, chaffinch).

The problem loan accounts were named after flowers (azalea, pansy). These were the accounts stored in the apartment block – hence the name Kew, after London's famous botanical gardens.

The final chapter of the BCCI story concerns how the damning information in those files came to light. Although Price Waterhouse had found the first evidence of manipulation in March 1990, it was not thought sufficient to stand in the way of Abu Dhabi's rescue. Abu Dhabi promised to look into the bank and clean it up.

The investigation began badly. The regulators and auditors had hoped Abu Dhabi would start work soon after the rescue was signed in May. But for months, little happened, and the promised restructuring kept on being delayed. 'It was like trying to get blood out of a turnip', said one official.

This was partly due to the upheaval caused by the transfer of the headquarters and the outbreak of the Gulf war in August. The task of cleaning up a $20bn bank was also immense for the small Gulf emirate with its almost total lack of financial expertise. But Abu Dhabi seemed to be dragging its feet, creating doubts among western officials about its readiness to get to grips with BCCI.

Rumours began to circulate in Abu Dhabi that Naqvi had briefed the ruler's officials on the extent of BCCI's problems several months before, causing Price Waterhouse to wonder whether there might be a cover-up. So in November, with the agreement of Abu Dhabi, it sealed the Naqvi files in Kew to ensure that it controlled the evidence.

BY THIS TIME, Price Waterhouse was increasingly convinced of fraud in the bank. During the summer it had discovered that BCCI was using other banks and nominees as fronts for some of its questionable loans. Price Waterhouse wrote to Alfred Hartmann, chair-man of BCCI's audit committee: '. . . we now believe that the previous management may have colluded with some of its major customers to mis-state or disguise the underlying purpose of significant transactions.'

The auditors also suspected that Abu Dhabi's representative on the BCCI board, Ghanem Faris Al Mazrui, head of the ruler's personal finance department, had approved new loans to the problem accounts since the bail-out. But Mazrui, through his representatives, has denied this to the FT.

In addition, the auditors had assessed BCCI's known bad loan problems. They concluded that it would take yet another chunk of Abu Dhabi money – this time $1.5bn – to put them right.

Abu Dhabi's investigation was headed by Jauan Salem Al Dhaheri, the under-secretary in the Finance Department, who had a reputation as an inquisitor. One of the leading members was David Youngman, a former Middle East partner of Ernst & Young and long-standing contact of Mazrui's. Tall, silver-haired, he had also won Zayed's trust by helping to clean up a scandal at the Arab Monetary Fund. Now retired, he sports a Sussex county cricket club tie, of which he is treasurer. Another member was Neil Blair, an expert on problem loans from the Midland Bank. Also on the team were Chris Cowan and his colleagues from Price Waterhouse, and auditors from Ernst & Young. All had to sign strict confidentiality agreements, though Cowan had a let-out clause so that he could talk to the Bank of England.

The breakthrough came with the seizure of the Kew files. Price Waterhouse and Ernst & Young poured in teams of auditors to comb the documents. The truth began to unfold.

Price Waterhouse had known for some time that Naqvi kept special files because he always referred to them when asked for information. Cowan had mentioned them in a letter to Naqvi the previous February. But the auditors had not seen them because Naqvi kept many of them himself. They did not consider it their job to sift the chief executive's papers.

Many of the files were routine. But a few contained the key to the whole structure of fraud.

The vital documents completed loops of manipulation. They showed, for example, that what appeared as a loan on BCCI's books was really a cover-up for something else. Private letters from Naqvi promised not to hold borrowers liable for loans and to indemnify them against costs and losses. Documents showed that deposits had been diverted, fictitious loans created, and transactions laundered through other banks to conceal their origin, carrying the instruction: 'Pay without mentioning our name'.

Others held the key to BCCI's secret acquisition of US banks through nominees. One letter, cited by the Federal Reserve in its accusation, shows Naqvi promising an alleged nominee that his investment has been 'so structured and financed that you shall have no liability whatsoever as to any loans, costs or expenses ... In the unlikely event of any claims or demands made on you, we guarantee on behalf of the other investors, that we shall ensure that you would have no financial liability towards such claims.'

Piecing this incredible story together was a gruelling job for the teams toiling in Kew. A deposit in the Cayman Islands might pass through BCCI's Kuwait subsidiary, a London clearing bank, and a private Swiss bank before landing in one of BCCI's front accounts.

At the peak, the auditors had about 300 people around the world trying to reassemble 32,000 separate transactions going back over 10 years. It was a giant hall of mirrors; money that didn't exist, money that did exist but was stolen, customers who didn't exist, customers who did exist but denied their loans, money that went round in circles, money that vanished and money that popped up out of nowhere.

One vital clue was the fact that BCCI had taken $600m of deposits and not entered them on its books so that they could be diverted to plug holes in the balance sheet.

Zafar Iqbal, who became chief executive in October, knew of the existence of these deposits and, after consulting with the Abu Dhabi side, informed Price Waterhouse, who in turn advised him to inform the Bank of England.

THUS IT WAS, on January 4 1991, that Iqbal laid the smoking gun before Roger Barnes, the Bank of England's head of supervision.

But it cannot have come as a surprise. Price Waterhouse's regular briefings would have alerted Bank officials to the contents of the Kew treasure trove, though it would still be weeks before its files were put into any clear shape.

However, Iqbal's visit put the regulators in a dilemma. Abu Dhabi was now working on a second rescue to deal with the new loan problems identified by Price Waterhouse. This foresaw another huge capital injection and the partition of BCCI into three bits: Europe, Middle East and Hong Kong. The regulators did not want to scupper these efforts, so they decided on a two-track policy. They encouraged Abu Dhabi to keep working on its plan; they even wrote saying that the three-bank plan 'appeared to constitute an acceptable basis for a restructuring'.

But at the same time, the Bank of England at last turned the full force of its statutory powers on BCCI. On March 4, it asked Price Waterhouse to prepare a special report under section 41 of the Banking Act, which permits probes of banks whose depositors might be at risk. The Bank decided not to call in the Serious Fraud Office until it saw what Price Waterhouse had to say.

Shortly afterwards, Mazrui, the main contact for the Bank and the auditors on the Abu Dhabi side, disappeared. This caused enormous anxiety, given the suspicions which still lurked in officials' minds as to whether Abu Dhabi was serious about sorting BCCI out. They soon learnt what had happened.

Mazrui had taken to religion in a big way during the 1980s, growing a scraggy beard and shortening his robe in Islamic fundamentalist style. He was well-known for interrupting meetings to go to the mosque. Now, he had departed on a 40-day prayer mission to a remote corner of Pakistan, where he was virtually uncontactable.

When Mazrui eventually returned to Abu Dhabi, he insisted on remaining in solitude for another week, even though all connected with BCCI were clamouring to see him and his wife had just borne him a son. The incident underlined the cultural gap between western officials and BCCI's Arab shareholders.

Also in April, Abu Dhabi's investigators made a progress report which laid out, for the first time, the scale of BCCI's fraud. Normally, a bank would immediately pass such a report on to its regulators. Abu Dhabi decided to sit tight, assuming that Cowan would communicate its contents to the Bank. This was a mistake. Had it thought to discuss the report's contents with the Bank of England, it would have helped narrow the gap of mistrust.

Instead, when Price Waterhouse completed the first draft of its own report on June 22, the scale, if not the fact, of BCCI's fraud came as a shock to Brian Quinn, the Bank's director of supervision.

The report said it had information that Mazrui and Mohammed Habroush Al Suweidi, head of the ruler's finance department, had been briefed on the full extent of BCCI's problems 15 months earlier, in April 1990, but had said nothing to the auditors. Mazrui was also alleged by Price Waterhouse to have benefited from a no-risk share deal from Naqvi (though Mazrui has subsequently denied this). This confirmed the Bank's sense of unease about Abu Dhabi. In any case, the Bank now had serious doubts that Sheikh Zayed would bail BCCI out.

Meanwhile, in the US, separate investigations by the Fed and the New York District Attorney were reaching the point where they would publicly indict most of BCCI's main executives and several shareholders – which might kill the bank.

On July 1, Quinn went to see Barbara Mills, head of the Serious Fraud Office and later gave her the Price Waterhouse report. Quinn then summoned the other members of the eight-nation regulatory 'college' to the crucial meeting on July 2, where BCCI's fate was settled without Abu Dhabi's knowledge.

When told of this, Price Waterhouse was shocked. As far as it was concerned, the report was still only a draft. The auditors told the Bank in a covering letter that 'findings are inevitably based on incomplete information' and certain details 'have not been corroborated'.

Although the Bank had agreed to indemnify the firm against any claims, Price Waterhouse knew it could still face a blizzard of lawsuits. In an affidavit filed after the shutdown, Cowan stressed that Price Waterhouse 'cannot give unqualified support to the detail provided in the Draft Report'.

Abu Dhabi, already at odds with Price Waterhouse, was later to launch a scathing attack on the firm for preparing the report while still acting as BCCI's auditor and adviser on the restructuring.

The timing of the shutdown was dictated by the supervisors' keenness to avoid disrupting the dollar markets (as BCCI was a dollar-based bank). Gerald Corrigan, the president of the New York Fed, made a secret trip to London a few days before to check arrangements.

The closure was set for 5pm New York time – 11pm Luxembourg time – on Friday July 5. This was just after Wall Street closed, giving the authorities a full weekend to handle the fall-out. It also coincided with a meeting which Mazrui was due to have with the Luxembourg authorities about the rescue, which would give the officials a chance to explain their action.

On Thursday, Quinn flew to Luxembourg, only to discover that companies there must be put into liquidation during business hours. The shutdown had to be brought forward by several hours. All that night, Quinn was on the 'phone to the dozens of regulators standing by around the world.

Finally, in agreement with Corrigan, Quinn set a deadline of 2pm Luxembourg time – or 8am New York time, just before Wall Street opened. From his hotel, Quinn could see lights winking in BCCI's headquarters across the street.

At 9.30am, Mazrui came to the Institut Monétaire Luxembourgeois as planned. Because there were still several hours before the deadline, Quinn and Pierre Jaans, the IML supervisor, had to filibuster. They knew that Abu Dhabi agencies had hundreds of millions of dollars of demand deposits with BCCI. If Mazrui got wind of the shutdown, Abu Dhabi could order it all to be withdrawn, throwing the bank into chaos.

Eventually, around mid-day, the officials gave him the news. Mazrui was dumbstruck. But why? he asked. Because of fraud, they told him. 'But we've known about that for a long time,' Mazrui said. 'We thought you did too.'

Although the timescale Mazrui was referring to in this remark was unclear, it was taken by the regulators as confirming their suspicions that Abu Dhabi knew of BCCI's manipulations – although Mazrui's representatives have denied it, pointing out that the Bank must have had its suspicions for many months as well.

Mazrui pointed to a file on the table. This, he said, contained authority from the crown prince Khalifa to commit a large sum of money to BCCI. If they postponed the closure, Abu Dhabi would rescue BCCI. The regulators stood firm. Mazrui quietly shook hands and left.

Jaans went to obtain a court liquidation order, only to learn that it was the day of the Luxembourg judiciary's annual picnic. There was no judge to be found, and it was well after mid-day. He finally located one, obtained the order and gave the go-ahead by mobile phone to Quinn, who was sweltering in the IML's unventilated offices.

At 12.45pm London time, Mairi Macmillan, senior accountant in the remote Scottish community of the Western Isles, was tidying up the local council's finances before going on holiday. In line with council policy of using BCCI because of its solid backing from Abu Dhabi, she placed another £1.6m with the bank, bringing the council's total deposits to £23m. Fifteen minutes later, the regulators swooped. BCCI became history.

Victims left to pick up the pieces

THE HOLLOW HEART of BCCI still beats, faintly, in a high-rise office block on Hamdan Street in Abu Dhabi.

Repercussions of the July 5 closure continue to be felt around the world. Years may elapse before some victims of the collapse know how much compensation they may receive.

Some 14,000 former employees of the bank worldwide are coming to terms with life without BCCI. The handful who have been retained by Touche Ross the provisional liquidators await the end with resignation. The hopes and aspirations of Agha Hasan Abedi, its founder, evaporated with the shutdown. Asked whether he was among the latest redundancies, a BCCI executive there at the beginning said: 'Unfortunately not.'

The fall of BCCI touched many lives:

- For British poll tax payers the loss of nearly £78m by local authorities which invested in BCCI could mean increased contributions. For Western Isles council, which had almost £23m in the bank, two hundred jobs are likely to go and the islanders' poll tax of £77 a head may rise to £200.
- For the Chinese government, BCCI has meant a $400m loss and brief misery for many of its diplomatic staff who received their pay cheques through BCCI.
- For the Cameroons, Zimbabwe and many other Third World countries which entrusted their reserves to BCCI, it meant shoring these up.
- For a number of politicians in the UK, the US and elsewhere, including some whose names have not yet hit the press, it heralded a period of embarrassment about their involvement with BCCI.
- Countless depositors have lost their savings, though many were hiding money from the tax authorities and the Inland Revenue is likely to take an interest in UK accounts in the long term.

DIRE WARNINGS of a new secondary banking crisis and capital flight have failed to materialise, but the affair shook people's confidence in banks around the world.

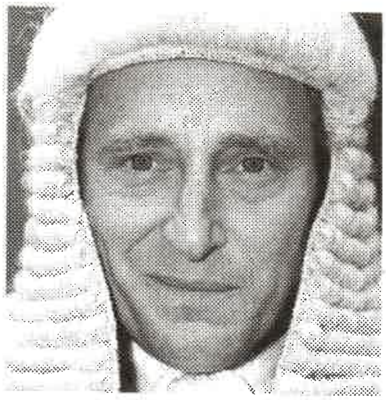
Robert Morgenthau, the crusading district attorney from New York, is pursuing Agha Hasan Abedi, the founder of the bank and Swaleh Naqvi, BCCI's former chief operating officer who is in custody in Abu Dhabi. He claims that, through fraud, they obtained more than $20bn from depositors.

The Serious Fraud Office, which was only told about the Bank of England's concerns on July 1 and handed documents on July 4, the day before the shutdown, pursues its inquiries in the UK.

Neither Abedi nor Naqvi are likely to face trial in the west.

The full story of BCCI's intelligence links may never be told. But the FT's investigation has thrown up a number of questions about the Central Intelligence Agency's long involvement with BCCI and the role of Britain's secret services in the affair.

The Federal Reserve has frozen $37m of assets belonging to Ghaith Pharaon, the Saudi Arabian financier and BCCI shareholder, as it pursues an action to ban him from holding a US banking licence. Meanwhile, Brian Smouha, the Touche Ross provisional liquidator for BCCI's holding company, is conducting secret negotiations with Abu Dhabi to strike a deal that would secure a once-and-for-all compensation payment from its government.



Lord Justice Bingham: questions for the Bank

Hopes that lessons will be learnt in the UK from the affair would seem to rest with Lord Justice Bingham, commissioned by Norman Lamont, the chancellor of the exchequer, to undertake an inquiry into the supervision of BCCI and whether the action taken by all the UK authorities was 'appropriate and timely'.

Bingham is one of Britain's most competent lawyers, tipped as a possible future Master of the Rolls. With a brilliant career at the bar behind him, he has a reputation as something of a giant-killer. He investigated big oil companies accused of breaking sanctions against Rhodesia in 1977. A fine-featured man with a beaky nose, he has derided what he calls the 'anachronistic conventions and privileges' of the legal profession and has a reputation for rigorously pursuing the facts. The Bank of England's inner struggle between the need to safeguard the interests of depositors and the need to winkle out fraudsters will come under his scrutiny.

Mr Robin Leigh-Pemberton, the governor of the Bank of England, told the House of Commons Treasury select committee in July: 'If we closed down a bank every time we found an incidence of fraud, we would have rather fewer banks than we do at the moment.' It was a telling comment which is sure to have been noted.

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