We understand that the background to the principal matters in our draft was known to the Government of Abu Dhabi prior to the assurances of financial support given to the IMI. and yourselves in April 1990.

The draft report has not been discussed with either Sandstorm or the controlling shareholders who are unaware that our draft report has been delivered to you.

Yours faithfully,

Price Waterhouse

DRAFT 22 JUNE 1991

(copy)

REPORT ON SANDSTORM SA UNDER
SECTION 41 OF THE BANKING ACT 1987

XX JUNE 1991

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DRAFT 22 JUNE 199

XX June 1991

RA Barnes Esq
Assistant Director and Head
of Banking Supervision Division
Bank of England
LONDON EC2R 8AH

Dear Sir,

REPORT ON SANDSTORM SA UNDER SECTION 41 OF THE BANKING ACT 1987

In connection with our audit of Sandstorm SA ('the Company') and its related entities, including Sandstorm Holdings ('Holdings') and Sandstorm Overseas ('Overseas'), together the Sandstorm Group ('Sandstorm', 'the Group' or 'the bank'), for the year ended 31 December ~~1990~~ certain irregularities were drawn to our attention and to that of the Bank of England ('the Bank') by the Chief Executive Officer, Mr Zafar Iqbal in January 1991.

In accordance with your letter of instruction of 4 March 1991 we have prepared a report on these irregularities and related matters which have come to our attention during the course of our work. This comprised work in connection with the audit of the financial statements including the review of reports prepared by an investigation team, which included partners and staff of Price Waterhouse, review of correspondence and other files previously held by the former Chief Executive Officer and interviews with senior management.

Many of the findings summarised in this report arise from examination of documentation and interviews with former management by members of the investigation team. Whilst the findings are inevitably based on incomplete information, and certain details have not been corroborated, we believe that the enclosed report provides a fair reflection of what has occurred, although detailed analyses of specific transactions given in this report should be treated with care. Work by the investigation team is continuing and it is expected that many of the matters reported will be refined further as this work progresses.

It should be emphasised that much of the information contained in this report is based on records which have previously been concealed from us, as auditors, and only came to light as a result of our insistence on the files of Mr Naqvi being sealed, such records having been in his personal possession.

The particular matter drawn to the Bank's attention by Mr Iqbal concerned potential deposits of approximately $600 million not recorded in the books of the Company

XX June 1991
FA Barnes Esq
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related entities. The Government of Abu Dhabi has issued to Holdings a comfort letter of $600 million in the event that these liabilities become repayable, as part of a package of financial support arrangements concluded in May 1991.

The accounting records and financial position of the Group have been falsified in relation to the above transactions for a substantial number of years. In fact these transactions represent only a part of a wholesale deception to misrepresent and falsify the financial position of Sandstorm over the last decade through a series of complicated manipulations. These included the use of a related bank (Fork Overseas), which now appears to have been controlled by Sandstorm management, nominee and hold harmless arrangements with a substantial number of prominent Middle Eastern individuals; the fraudulent use of funds placed under management by the Ruler of Abu Dhabi and his family; the formation of a significant number of companies and operation of bank accounts outside the Sandstorm Group used to disguise the nature of transactions and route funds; the creation of a further 70 or so companies to assist in the financing of the Gulf Group; agreements and unrecorded borrowings through third party banks (NCB) and investment institutions (ADIA); and a significant falsification of the accounting records (involving false loans, transactions and confirmations) on such a scale that the true financial history of Sandstorm is unlikely to be able to be recreated.

In order to place the unrecorded deposits in context we have briefly summarised the history of Sandstorm and the manner in which deception on such a scale was achieved with reference to some of the major customers and shareholder arrangements and relationships. Our report is divided into the following sections:

1 History and Current Status of the Problems
2 Shares and Capital Notes
3 Routing arrangements
4 Treasury
5 Gulf Group
6 WXYZ
7 Unrecorded deposits - Tumbleweed and others
8 Unrecorded deposits - Islamic banking

In addition, we have prepared a separate report for the Board in respect of our concerns in relation to Fork and its relationship with Sandstorm which we enclose.

Please let us know if we can be of any further assistance.

Yours faithfully,

ORT ON SANDSTORM SA
DER S 41 OF THE BANKING ACT 1987

CONTENTS

...TION 1: HISTORY AND CURRENT STATUS OF THE PROBLEMS

Background

1.1 The Sandstorm Group was founded in 1972 with capital from Arab investors and with Pakistani management. The driving force behind the bank's achievement was Agha Hass... Abedi who had a grandiose vision of the bank, and the global role it should play. He cultivated people of influence, particularly in the Middle East, and created a culture of unquestioning loyalty among his colleagues and staff.

1.2 Central to his vision was the need for the bank to grow rapidly and become a force in international banking. Whilst the results of the bank were reasonably satisfactory in the 1970's, particularly with increases in oil wealth in the Middle East, the early 1980's were a period of severe economic problems. The fall in oil prices, shipping industry recession, th... Suq Al Manakh crisis in Kuwait all had a severe effect on Sandstorm's business, and wou... also have had a significant impact on reported profitability had Abedi, and his deputy Swa... Naqvi, not manipulated transactions.

1.3 Given the bank's vulnerability as a result of the absence of a lender of last resort, and its relationship with rest of the banking community, Abedi and Naqvi believed that profitability was essential and it could not show a weak balance sheet or poor operating results: furthermore, such profitability was critical to the maintenance of value in Sandstorm's share price which was itself essential to :

- maintaining the confidence of the Middle East investors some of whom had been provided with guaranteed rates of return

- the sale of shares at $40 per share giving rise to significant premiums.

1.4 Abedi and Naqvi had to find a way of avoiding provisions on poor lending, particularly in respect of loans to the Gulf Group, and also inflating the reported results to create the image of success. They apparently believed that the disclosure of the full extent of the losses at this time would have jeopardised the very existence of the bank. Accordingly, in the early 1980's, and possibly before, they commenced what became a very complicated series of manipulations of loan and deposit accounts, treasury activities and purchases of own shares. Naqvi contends that these were temporary measures particularly to build up the premium within Sandstorm's shares such that through nominees, it could sell the shares and thus generate sufficient profits to cover deficits.

Non-performing loans

1.5 At an early stage in the bank's history it appears that problems developed in the loan portfolio particularly in respect of the Gulf Group which lending had been significant in relation to its capital base since 1976, as illustrated in Appendix I. When in 1978 it became apparent that the Gulf Group was in financial difficulty, Naqvi took direct responsibility for these accounts, and it appears that significant account manipulation began at that time. Over the last decade it appears that Gulf have largely been unable to service their lending and that Naqvi has misappropriated funds under the management of Sandstorm officers through Fork Investments. These funds have been channelled, inter alia, into the Gulf Grou... in order to allow it to repay third party bank borrowings, and to conceal the extent of Sandstorm's exposure.

If these funds are taken into account the real liability of the Gulf Group is significantly less of the amount of $831 million recorded in the books of Sandstorm at 29 December 1990, but this is unlikely to improve recovery prospects.

Apart from the Gulf Group, the bank has a history of poor lending where it now appears that a significant amount of account manipulation has gone on. This has included the utilisation of funds routed through Fork, including funds managed by Fork Investments; the use of fictitious loans drawn down in the names of third parties; and the use of unrecorded deposits, in an attempt to avoid the need to make provisions. This routing of funds has been carried out on a very significant scale, involving a number of related companies, including the Fork Holdings Group, BCP, NBO and KIFCO and third party banks such that it is now difficult for anyone to ascertain the true nature of external exposures recorded in the names of certain major customers.

Fictitious profits/concealed losses

1.8 It now appears that over the period from 1977 to 1985 the Treasury operations of Sandstorm made significant losses. These losses were concealed and at the same time significant profits were manufactured. The precise amount of such losses/fictitious profits cannot now be established but may well have been of the order of $600 - $700 million before funding costs; or approaching $1 billion if funding costs are added.

1.9 These losses were originally funded through unorthodox means at the behest of Z Akbar who controlled Sandstorm's Treasury operations until 1986, when it was discovered that significant losses had been incurred on option trading. When Akbar resigned he left a record of his activities with S Naqvi who brought under his own control the amounts which had been financed by unorthodox means. Naqvi set up a small central team under Mr A Naqvi to review the record left by Akbar, verify the representations made by Akbar and maintain contact with the customers. We understand that whilst Naqvi attempted to establish some control by reinstating customer deposits largely by using funds from Fork, he could not bring himself to make full disclosure, which would almost certainly have brought the bank down.

1.10 Instead as a result of continued pressure for profits and loan servicing he continued to use unrecorded deposits, certain external funds (with Fork Holdings and companies controlled, but not legally owned, by it) and funds drawndown on bogus loan accounts in the name of prominent Middle East investors. These funds were applied to adjust other balances in order to avoid making provision for bad loans and to conceal the past Treasury losses, in an enormous and complex web of fictitious transactions in what is probably one of the most complex deceptions in banking history.

1.11 These losses now form a major part of the current deficit in the bank which has been rectified by the financial support arrangements provided by the Government of Abu Dhabi.

1.12 In summary the losses from Treasury and non-performing loans were concealed and significant profits 'manufactured' by various mechanisms including:

(1) failure to record deposits and other liabilities

(2) the creation of fictitious loan accounts

use of funds from Fork which was controlled by Sandstorm management

(4) use of third party funds placed under management with Fork entities.

(5) routing funds between accounts using both Fork and other affiliates, including SCP, KIFCO and SDCC and also third party banks, in order to disguise the nature of transactions, including the bogus 'refreshing' of delinquent accounts. A substantial number of companies were set up and controlled by the management of Sandstorm and Fork and used to route funds.

(6) agreements with and unrecorded borrowings through third party banks (NCB), and investment institutions (ADIA).

(7) purchase of own shares through nominees: and use of buy - back arrangements;

(8) use of the underlying value of shareholdings in WXYZ to increase loans in the names of nominees.

(9) hold harmless agreements with, and non-recourse loans to, a number of major customers, including many prominent people from the Middle East.

(10) collusion of major customers in supplying false confirmations to the external auditors.

1.13 In recent years these activities have continued on a significant scale in an attempt to conceal total losses of several billions of dollars. The total amount cannot be established both because of the problems of untangling the complex web of deception and because we have had no access to the losses of funds under management within Fork.

1.14 The history of the bank's results since its foundation is shown at Appendix II (outstanding). There is insufficient information available with which to recreate the bank's accounts with the knowledge that is now available but on the basis of the losses which have been concealed. It would appear that the bank has generated significant losses over the last decade and may never have been profitable in its entire history.

Current status

1 In our report to the Directors of 28 March 1991 which was provided to the Bank as background for a meeting with the College of Banking Supervisors, we discussed a portfolio of problem loans of some $4 billion which it was proposed would be dealt with under Financial Support Arrangements to be concluded with the Government of Abu Dhabi.

- 3 -

Financial Support Arrangements

The Financial Support Arrangements were signed on 22 May 1991 such that the problem loans were transferred at book value to new companies for realisation, either owned directly by the Government of Abu Dhabi or, if not, largely guaranteed by it. In return for the loan assets transferred Sandstorm received promissory notes denominated in US dollars and UAE dirhams, equivalent in face value to $3,061 million, issued by the Government. The residual risk to Sandstorm in respect of these loans transferred is twofold:

(1) the legal agreements for the transfer of loan assets to companies A, A1, and B provide that the loan assets can be reassigned to the appropriate Sandstorm entity in the event of any breach of the warranty that the loan assets do not involve any activity which is criminal or illegal and which, if revealed, might be expected to damage the international reputation of the Abu Dhabi Government. The Abu Dhabi Government has confirmed that it is not its intention to reassign the loan assets in question on the basis of the circumstances known to it at present.

(2) insofar as the loan assets transferred to Company B of $1,016 million exceed the amount of the guarantee of $750 million of the Government of Abu Dhabi, the Sandstorm Group would bear any additional losses on realisation. On the basis of current information the amount of $266 million is considered to be recoverable.

Problem loans

1.17 Investigation work to date has confirmed that there are irregularities surrounding many of the loan assets in question, and in particular all of the major advances which have given concern over recent years. These are discussed in more detail in the appropriate sections of the report but are summarised below:

		Exposure at 29.12.1990 $ m	Estimated losses $ m
Company A			
WXYZ	loans in names of apparent nominees, with no liability for repayment. Loan accounts include certain transactions not in any way connected to WXYZ or the named borrowers. Recoverability depends on value of 58% of shares in WXYZ which, given the current likelihood of a distress sale and legal difficulties, is likely to be heavily discounted.	1,450	Unquantifiable
Total Company A		1,450	Unquantifiable

		Exposure at 29.12.1990 $ m	Estimated loss $
Company A1			
Mahfouz Family	• fictitious loans set up in connection with repurchase of shares	213	21
Sh Mohammed	• extensive account manipulation resulted in misappropriation of deposits. When these had to be made good, fictitious loans were created.	135	135
Sh AA Ibrahim	• in 1985 Ibrahim deposited $100 million to be invested in Sandstorm shares on a guaranteed return basis. No shares were transferred and the deposit was misappropriated. On 'disposal' and repayment the bank created these fictitious loans.	154	154
Attock Oil	• owned by Fork through nominee shareholdings. Whilst Attock had certain operative accounts, these accounts are non-operative and contain fictitious transactions and charges.	92	92
		594	594
Pharaon	• most of lending is non recourse. Significant nominee arrangements and hold harmless letters, including arrangements of uncertain legality in relation to purchase of Independence Bank Inc and National Bank of Georgia. Significant use of non recourse accounts for debt servicing; routing of internal and external funds; and share transactions.	442	412 (highly uncertain)

		Exposure at 29.12.1990 $ m	Estimated losses $ m
Acram	• appears to have acted in a nominee capacity in respect of SDCC, ATB (a UK bank) and FIIL as well as WXYZ	249	199 (highly uncertain)
KIFCO	• a non consolidated affiliate. Exposure relates to parked loans to avoid provisioning and fictitious loans for debt servicing.	125	125
Other	• largely accounts of no commercial substance set up for debt servicing.	201	201
		1,017	937
Total Company A1		1,611	1,531

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Company B

		Exposure at 29.12.1990 $ m	Estimated losses $ m
Pharaon		21	15
Gulf	• exposure significantly understated due to use of external funding.	783 (200) Provisions	
		583	513
Other	• miscellaneous bad lending and accounts that have been manipulated. Some recovery prospects.	548 (136) Provisions	
		412	222
Total Company B		1,016	750

Unrecorded deposit liabilities

1.18 As alleged by Z Iqbal there appear to be material deposit liabilities not recorded in the books of any of the Sandstorm entities. At 31 December 1990 these totalled approximately [$569] million] and it is clear that there have been significant 'out of book' deposits of fluctuating material amounts for the last ten years.

These unrecorded deposit liabilities fall into three categories:

		$ m
(1)	Unrecorded deposits which can be linked back to treasury activities in the early 1980's (Tumbleweed and Al Harthy)	442
(2)	Unrecorded deposits arising from account manipulation in Islamic Business Unit (IBU) in UK Region during 1990	85
(3)	Unrecorded miscellaneous deposits	42
		569

1.20 The Government of Abu Dhabi has issued a comfort letter to the Bank indicating that it will reimburse Sandstorm to the extent that these liabilities are proven to be liabilities of Sandstorm.

1.21 These matters are discussed in Sections 7 and 8 of our report, where with the exception of the miscellaneous items, we conclude that these items appear to be genuine liabilities of the bank.

Fork

1.22 We have reported to the directors of Sandstorm our concerns about the relationship between Sandstorm and Fork and about the involvement of Fork in transactions which have financial implications for Sandstorm. A copy of our report of 16 June 1991 is enclosed as an attachment to this report and includes examples of such transactions initiated by Sandstorm management. The information in the report is derived from a review of correspondence and other files previously held by the former Chief Executive Officer of Sandstorm and from interviews with him and Mr H M Kazmi. We have also had preliminary discussions with members of the investigation team who have recently visited Grand Cayman as part of the Sandstorm investigations.

Responsibility for and knowledge of the irregularities

Management

1.23 From the investigation work it is apparent that the senior management of Sandstorm have abused their responsibilities to depositors, shareholders, investors, regulators and to the bank itself. The strategic decisions to manipulate accounts, and in particular how to make use of the Fork relationship, the funds placed with Fork and the value within the shares of WXYZ are clearly those of Abedi and Naqvi.

1.24 The inflation of Treasury profits and use of unrecorded deposits is represented by Mr Naqvi to have been the sole responsibility of Ziauddin Akbar, however, it seems more likely that Akbar was responding to the expectations of Abedi and Naqvi, particularly as in other areas, eg the Gulf Group, there is evidence that Naqvi was instrumental in account manipulation as far back as the late 1970's.

Naqvi surrounded himself with a core team who were largely responsible for the creation falsification of documentation and fraudulent account entries and funds flows as follows:

* SM Akbar	(General Manager of Grand Cayman from 1986)
* Imran Imam	(account officer for WXYZ and Dr Pharaon)
* Ahmad Naqvi	(account officer for Tumbleweed)
* N Habib - Ullah	
M Azmatullah	(account officer for major customer accounts)
H Sheikh	(account officer of Gulf Group until he left in 1988; pa $1.7 million by Naqvi).
D Rizvi	(responsible for the banks relationship with the Virani Group - left the bank in 1990).
J Khan	(account officer for Acham and Jawhary, now left the bank and received $0.3 million).
Z Akbar	(Head of treasury and General Manager of Grand Cayman up to 1986)
A Abbas	(General Manager of Bahrain until 1990)

* Currently employed by Sandstorm as part of the 'Advisors' office, the purpose of which is to assist the investigation team with its enquiries.

126 From the scale and complexity of the deception it is clear that most of the senior management of the bank, who as noted were (and remain) extremely loyal to Abedi and Naqvi, were or should have been aware of certain elements of the fraud. Many simply followed instructions they should have questioned. Failure to do so appears to have arisen from a blind loyalty to Abedi and Naqvi brought about by the cultural background where it was unthinkable to question either the President or the Chief Executive. It is also noteworthy that most of the senior management have been provided with significant loans from the bank which on the basis of previous experience are not necessarily repayable on leaving employment.

127 We have particular questions concerning the existing senior management of Sandstorm as listed below. We have not yet, however, interviewed all of them to obtain their version of events. Many of these senior executives have followed instructions from Naqvi apparently without question and many others are likely to be similarly implicated:

Zafar Iqbal	- CEO	(1)	There is evidence of his approval of certain questionable transactions booked through the accounts of the Crown Prince of Abu Dhabi and used to repurchase Sandstorm's shares from Sh Khalid Bin Mahfouz although his knowledge of the transactions concerned is uncertain. Iqbal appears

			to have accepted instructions in respect of this matter from Naqvi without question.
		(2)	Over the period from April 1990 to December 1990 we believe that local had substantial, if not full, knowledge of all of the matters dealt with in this report yet did not disclose them, even in response to direct questions, until much later.
		(3)	Over the last year he has given additional responsibilities to various individuals, including some of those listed below, who appear to have been involved in fraudulent transactions.
Bashir Tahir	General Manager BCC Emirates		Involvement in questionable transactions including nominee shareholdings, Fork loans and false confirmations.
Qaiser Raza	Joint executive for Asia/Middle East, formerly general manager for NEO		False accounting for loans subsequently found to be part of the Gulf Group exposure.
A Hafeez	Company Secretary	(1)	Appears to have controlled nominee share transactions particularly in the name of W Pharaon booked in Fork.
		(2)	Involvement in side agreements under which Sandstorm capital notes are repayable on demand.
A Chaudhry	General Manager Europe		Was the General Manager of BCP for the period (1984) to 1990 when routing of funds was most significant.
M M Haque	UK Region		Property transactions with Virani booked in the name of nominees. Misrepresentation with respect to beneficial ownership.
B Chowdry	General Manager UK Region	(1)	On instructions from S Naqvi created fictitious customer loans to cover up misappropriated funds in 1990.
		(2)	Responsible for the Virani Group and account officer for Attock Oil and Sh AA Ibrahim.

S Dara (now left)	Manager IBU UK Region	Now with Al Rajhi in London. Falsified audit confirmations.
T Jamil	General Manager Hong Kong	Creation of fictitious loans to finance nominee shareholdings in an affiliated company in Thailand during July 1990.
A Siddiki	Central Office	Booking transactions in Fork.
[H Mota	Legal Department UK Region	Drafting of fraudulent agreements.]

1.28 The management of Fork, notably Mr Kazmi, have also been integrally involved in the improper transactions and nominee arrangements: [redacted] us that everything they did was at the request of Abedi and Naqvi.

Directors

1.29 In the light of the scale and complexity of the deception it is difficult not to conclude that Board failed to discharge its responsibilities properly. Nevertheless there is no indication, with the possible exception of HE GF Mazrui, that the present Board of Directors was awa of the major irregularities within the bank, and it is clear that it has been consistently provided with misleading and inaccurate financial and other information. The Board had n been informed of the hold harmless or nominee arrangements, or the bank's and its management's true relationship with a number of major customers and shareholders.

1.30 Sh Khalid Bin Mahfouz was a director from 1986 to 1988 and is implicated in irregular transactions relating to the purchase of his own shares in Sandstorm and CCAH.

1.31 All major loans had to be approved by the Board, but it appears that a significant number drawdowns went to the Board for approval after disbursement of funds and thus effectively avoiding its control. However, there is little evidence that the Board took any effective actio to limit or reduce the exposure to individual customer groups, or monitor the implementation of the Credit Policy. Limits were often increased after the event without insistence on effective recovery action.

1.32 Overall the Board appear to have been taken in by and trusted, dominant and deceitful management in the form of Abedi and Naqvi.

Shareholders

1.33 The relationship between Abedi, and latterly Naqvi, with the major shareholders, being the Ruling family of Abu Dhabi, goes back a substantial number of years, and has been a very close one. Abedi and subsequently Naqvi acted as the Ruler's personal investment advisor and had his power of attorney. The extent to which the major shareholders, and in particular their Board representative, HE GF Mazrui, was aware of the matters discussed in this report cannot be established. We are, however, informed that HE GF Mazrui and the Government were briefed fully on all the problems in April 1990, notwithstanding that they allowed the 1989 accounts to be finalised in discussions with ourselves and the Regulators without disclosing this information. In addition, up until discussion of our Report to the

...ctors and Regulators of 3 October 1990. HE GF Mazrui contended that the loans for ...ection by the shareholders' which have now been proven to be totally fictitious, were ...coverable.

We have discussed with HE GF Mazrui his own accounts with Fork which show that he received funds in 1986 and earlier from transactions purporting to be dealing in Sandstorm shares where it now is apparent that he had no risk of loss. He has confirmed that he has benefited from such transactions arranged by Mr Abedi and that in April 1990 he informed other senior government officials of his involvement. We are unable to establish the extent to which his position in relation to Abedi and Naqvi may have been compromised as a result of these transactions but we have become aware of his confirmation of what has now been revealed to be a fictitious loan in the name of the Crown Prince of Abu Dhabi. He could not recollect signing the confirmation that was presented to him by Iqbal and suggested to us that his signature might have been forged.

We have also seen circumstantial evidence of a proposed share transaction with ADIA in 1981 on a guaranteed return basis; and an 'out of book' loan from ADIA in 1988 to finance the (unauthorised) buy-back of shares from Sh Khalid Bin Mahfouz.

[illegible]TION 2: SHARES AND CAPITAL NOTES

[illegible] Sandstorm was established in 1972 with an original share capital of $2.5 million. Through a number of scrip and rights issues this had increased to $845 million at 31 December 1990. It appears that over the bank's history extensive use has been made of nominee arrangements to finance these increases in share capital. Shareholdings appear to have been financed both directly by loans from Sandstorm and Fork, and also from accounts and companies under the control of Abedi and Naqvi. The use of nominee arrangements through Fork entities has enabled Sandstorm to disguise the beneficial ownership of shares and has also provided a pool of shares for settling guaranteed yield obligations and other adjustments, including the generation of funds from share trading.

2.2 Some shareholders, including members of the Ruling Family of Abu Dhabi, acquired shares on the basis of guaranteed rates of return and others acquired their shares on the basis of buyback arrangements. These seemed to have been a practice to gain the favour of influential people in the Middle East. There is a risk that remaining shareholders may make claims in respect of losses incurred on Sandstorm shares which were purchased by them on the basis of buyback or guaranteed rate of return, and to date one such claim has been made by a former shareholder.

2.3 Investigation work continues in this area but as at 31 December 1990 some four million shares ($40 million nominal) are effectively owned by Sandstorm or Fork through a number of nominees, including Sheikh Kamal Adham, Wael Pharaon and Faisal Fulaij. We are informed that other nominee shares were purchased by Sheikh Khalifa and the Government of Abu Dhabi during 1990. If all these purchases were those of nominees, which may well have been the case, it would appear that some 45% of the share capital of Sandstorm was in the hands of nominees at 31 December 1989, whilst a further 11% was owned by Fork entities.

2.4 There is evidence that holders of capital notes entered into side agreements with Fork which provided for repayment on demand instead of in accordance with the terms of the capital note issue. There exists the possibility that the remaining note holders have entered into similar arrangements.

SECTION 3: ROUTING ARRANGEMENTS

Mr Naqvi's office in London was the source of instructions for the movement of funds in order to cover the exposures on loan accounts. These routings transactions were effected by the "special duties" department on the instructions of Mr H M Sheikh, Mr I Imam and Mr A Naqvi through a number of bank accounts including those controlled by Mr Kazmi of For

From the routing bank accounts already identified it is possible to see that the initial transactions took place on a small scale in 1981 and remained fairly insignificant until 1984. Transactions appear to have ceased by 1990, with the exception of some accounts at NCB controlled by Mr Kazmi of Fork which were used until (September 1990).

The level of activity reached its peak in 1986 when some $1.6 billion was passed through bank accounts on the instructions of members of the special duties department. This seem to coincide with the disclosure of the increasing difficulties on the Treasury activities.

The end of the year 1986 also appears to have been a turning point in the method of operation of routing accounts with a significant reduction in activity passed through affiliated banks.

Funds were needed to manipulate the records of the Gulf Group loan accounts as well as to make good the deficiencies of the treasury operations and it seems that to some degree these two problems were separately managed. A close relationship with Gulf Group Companies enabled the "special duties" department to open accounts in customers names at a number of banks including BCP Luxembourg, Security Pacific, French American, Habib Bank and Royal Bank of Scotland, Singapore. To date eleven such accounts have been identified but available documentation remains patchy and further accounts may well exist. Proper account opening forms and confirmatory letters of payment instructions were procured from the Gulf Group in order to avoid any suspicion about the purpose and nature of the transactions.

3.6 Aside from these Gulf Group bank accounts, the 'special duties' department also needed to generate transactions for other customer loan accounts. Relationships were established with BCCI executives at other locations who would pass payments across their nostro accounts apparently without the need for a full customer mandate. These transactions were generally effected by tested telexes using the BCCI London test key or on the basis of personal telephone calls from members of the department. These arrangements with BCP Zurich, BCCI Spain - Madrid, KIFCO and National Bank of Oman and SOCC were made possible by the knowledge that they originated from the highest levels within the Bank and no doubt the staff felt that they were providing an essential service to the President's office. The recording of these transactions appears to have been irregular and they were either not entered in the ledgers or effected by single sided, but compensating entries.

3.7 Transactions passing through Spain, Kuwait and Oman all appear to have been identifiable to the ultimate beneficiary of the funds, however, transactions through BCP were marked "PAY WITHOUT MENTIONING OUR NAME" with the result that the recipient was unable to identify the source of funds.

Accounts operated by management of Forx add a further dimension to these routing arrangements. Accounts were opened at BCP Luxembourg, Credit Suisse and National Commercial Bank in the name of Forx 'client accounts' or in the name of companies wh had come under the control of Forx management. It appears that almost all transaction were sourced by memo's or telephone calls from the 'special duties' department to Mr Kazmi who would instruct payments to be made by Forx staff in Cayman, or on the basi telephone calls to the branch managers. Mr Kazmi would, if needed, then visit Switzerla to sign confirmatory letters covering the execution of transactions.

9 The ability of the 'special duties' department to undertake transactions of this nature was undoubtedly facilitated by the corporate culture of the Group, and a general belief expres by a number of those involved that whatever was being undertaken by the Presidents on had to be in the best interests of the Bank.

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SECTION 4: TREASURY

Background

4.1 Central Treasury was a division of the Head Office of Sandstorm Overseas. It was set up in London in 1982 to provide a centralised and coordinated vehicle for the investment of surplus funds generated by Sandstorm worldwide. On a day to day basis investment and liquidity management services were rendered within prescribed guidelines to Treasury by central support office in London.

4.2 Treasury activities fell into two distinct functions:

- The investment function which traded in CDs, treasury bonds and various dealing activities; and

- The liquidity management function which utilised surplus liquidity generated by the BCCI group. Any funds in excess of the investment requirements were placed on the inter bank market. The liquidity management functions were performed through the London Branch of SA under the overall direction of a manager within Treasury.

4.3 Treasury activities were managed up until 1985 by Ziauddin Akbar who was also responsible for the Grand Cayman branch of Sandstorm Overseas, which managed the accounts of a number of significant customers and shareholders. A Treasury Committee including PC Twitchin, A Gillani, M Rahman, S Jamil, S Samad, Z Akbar, S Naqvi and A Hafeez was set up to monitor treasury activities. The effectiveness of the treasury committee appears to have been compromised since these activities continued to be accounted for as part of the Grand Cayman branch and Akbar was never called to account for treasury results separately. Because he appeared to be generating significant profit his activities continued in an uncontrolled manner, and he was given increased responsibilities in the use of all surplus Sandstorm funds for trading and investment purposes.

4.4 Akbar appears to have developed close links with a major customer of the bank, AR Khalil. It appears that Khalil made funds available to Akbar for trading purposes on a profit share basis, in return for which he allowed Akbar to use his name and that of his companies (Razat Associates Inc and Maram Trading Co) to be used for trading for the account of Sandstorm. Akbar traded in a number of markets, including commodities, futures and options, and to disguise the nature of his activities, he split Treasury into two as follows:

- Normal treasury activities, as described above

- Number two account activities, which appear to have been carried out in the name of particular clients. These activities were physically segregated, performed by different staff and outside the scope of external audit on the basis that they were for the account of private clients. In actual fact, Akbar appears to have been trading in the name of private clients but for the account of Sandstorm. In so doing he exposed Sandstorm to significant risks and lost considerable sums of money.

4.5 Through false accounting using number two account funds, Akbar supplemented profits reported by the normal trading activities. In order to satisfy profit targets, Akbar created a number of pool accounts in the name of AR Khalil which used deposits credited to clients' accounts, loans drawn down in the name of AR Khalil and other prominent customers, unrecorded deposits and certain external funds. No attempt was made to segregate the funds from those of Sandstorm.

4.6 Akbar reported increasing profits, particularly in the early 1980s, but in reality probably incurred significant losses on option and futures trading. From investigation work to date it appears that Akbar wrote options towards month ends and incorrectly accounted for the premium income. As the level of realised losses increased, Treasury staff appear to have written further options to conceal these losses and generate fictitious profits. When losses were incurred on closing out the positions they were not booked against the profit and loss account, but instead against client accounts, bogus loans or the other unorthodox sources of funding noted above. This activity appears to have been particularly prevalent in the years 1982 to 1985.

4.7 In late 1985 the IML requested a review of central treasury activities by the auditors. Management requested PW Cayman to carry out this work who in turn called on us for assistance. We discovered that significant losses were being incurred on option and futures trading but were not properly recorded. The exposure on open contracts was considerable and significant losses were incurred in closing out the positions. We had formed the conclusion that the accounting methods adopted were due to incompetence. However, with the benefit of hindsight, it appears more sinister in that it now seems to have been a deliberate way to fictitiously inflate income. As part of the review we did not examine the accounting for closed contracts of previous years since no significant losses appeared to have occurred - again with hindsight we now know that such losses were being concealed as noted above.

Methods of concealment of treasury losses

4.8 Investigation work to date has indicated that Akbar used a variety of techniques to fund and conceal the true nature of the transactions undertaken. These included:

- misappropriation of deposits without depositors' knowledge to provide funds to adjust non-performing and bogus loan accounts, and Treasury losses.

- misappropriation of external funds deposited under trust with Sandstorm and Fork to be managed on behalf of a few prominent people who are also shareholders of Holdings.

- the creation of loans with no commercial substance in the names of people without their knowledge.

- selling certificates of deposit placed with the Central Treasury (without informing the depositor), and using the proceeds to fund adjustments.

- routing funds through Fork, BCP, KIFCO, SDCC and other affiliates and third parties to make adjustments prior to accounting reference dates and audit confirmation dates, which were often reversed at a later date.

- maintaining a pool of funds in the private named accounts of Khalil which were used freely by Z Akbar to fund adjustments. The funds were never those of Khalil alone; his name appears to have been used only to classify the accounts as being for the general funding activities of the Treasury Division.

Akbar left Sandstorm in 1986, shortly after the discovery of losses on cotton trading. He subsequently provided S Naqvi with a statement in which he set out the losses he had apparently incurred in earlier years from treasury trading activities which he had effectively hidden from Sandstorm management, together with a significant inflation of the profits of Treasury activities.' The inflation of profits was particularly significant in 1982, 1983 and 1 when fictitious profits were supposedly $108 million, $ 136 million and $234 million respectively. The full statement is attached as Appendix III. For the period 1977 to 31 December 1985 Akbar claimed that the total amount of these losses/fictitious profits was $633 million but this is before adjustment for losses of $225 million booked in the 1985 accounts as a result of our treasury review.

4.10 Whilst the details of Akbar's statement are incapable of confirmation because the records from these earlier years are sparse and incomplete, it is clear that there was a major misappropriation of funds and falsification of accounting records in the early 1980s..

4.11 Akbar took certain documents relating to his management of Treasury with him when he le In 1988 he used this information to blackmail Sandstorm, which paid $32 million to preven him disclosing the true nature of the activities of Treasury Division. We have had no acce to Akbar, who is currently in jail in connection with the money laundering case in Tampa, any of the executives involved in the day-to-day management of Treasury under him.

Funding of treasury losses

4.12 On the basis of Akbar's own calculation of the accumulated losses concealed by him (including his assessment of the funding costs), of $849 million his fraudulent activities up early 1986 appear to have been financed as follows. This analysis should be treated with caution because we have not been able to identify a number of the components.

Funds utilised

				$ m
Unrecorded deposits				400
Fork managed funds				250
WXYZ secured loans				125
BCC Emirates	:	deposits	80	
		CD's	78	
				158
Fork loans				94
Other loans	:	AR Khalil	80	
		Others	110	
				190
State Bank of Indi-				50
BCP Luxembourg deposits				35
Other				15
				1,318

Funds applied

Losses/fictitious profits	349
Loans adjusted	348
SDCC	562
Properties	38
Other	21
	1,318

Unrecorded deposits

4.13 In part Akbar funded his activities through 'out of book' deposits (which as explained in Section 7, form the basis of the unrecorded deposits at 31 December 1990).

4.14 Review of the Treasury pool accounts has indicated that certain deposits placed with Sandstorm and its affiliates, were routed into these accounts without being recorded as deposits by Sandstorm. Treasury appear to have used these deposits as free funds, with repayments and interest funded principally from the pool accounts themselves. The level of these unrecorded deposits appears to have fluctuated from $32 million in 1982 to over $800 million in 1984. The reduction to $400 million at February 1986 was achieved through the increased use of external funds under management of Fork entities made available by HM Kazmi.

4.15 The make up of such unrecorded deposits at this time as summarised by Akbar was:

	$ m
Tumbleweed	248
Government of Cameroon	61
Al Harthy	45
Dossary	24
SAFCO	18
Sh Hamdan	6
	400

4.16 The Tumbleweed and Al Harthy deposits, remain as unrecorded liabilities at 31 December 1990 and to the current date, as discussed more fully in Section 7. The other deposits have since been reinstated and repaid.

WXYZ secured loans

4.17 By June 1985 the level of fictitious profits funded by Z Akbar's adjustments was ... be over $500 million. There also appears to have been a need to service delinqu... in the books of Sandstorm (and Fork) at this time. As a result loans of $225 millio... subsequently secured on the shares in WXYZ were drawn down in June 1985 in the... of:

	$ m
Khalil	47
Fulaij	31
Shorafa	37
Fujeiran	10
Fujeiran - numbered A/C	68
Ajman	8
Dubai	11
Dubai - Crescent	14
	225

4.18 These funds were applied in part to refinance the accumulated losses of the Treasu... division ($125 million) with the remainder being applied to certain borrower accounts, including Gulf Group ($50 million) and Ghaith Pharaon's account at Fork ($11 million). ... same time (25 June 1985) an amount of $60 million was paid by [Treasury] to Brench Limited, a subsidiary of Capcom, a company [subsequently] controlled by Z Akbar: fo... unknown purpose.

Other utilisations

4.19 From 1983 to 1986 Sandstorm appears to have had an informal agreement with State of India (SBI) to secure loans given by the latter to Sandstorm nominees. Such funds used by Treasury to service loans in an attempt to reduce the need for year end provisioning against delinquent accounts.

4.20 The Fork managed funds have not been capable of identification by us, while the Fork ... were drawn down in early 1985 by arrangement with HM Kazmi. We have been unabl... identify Fork loans of $190 million. The deposits and CD's placed by Emirates and BC... were utilised by Akbar without authorisation, but, we are informed, have subsequently b... repaid.

Applications

We have been unable to analyse the $348 million application of funds used to service loans and make investments in early 1986 as noted above. From certain records that do exist at 31 December 1984 the principal application of funds appears to have been as follows:

	$m
provide cash to fund WXYZ share acquisitions, often in the name of nominees, particularly Shorafa, Khalil and Kamal Adham.	82
provide cash to fund share acquisitions in Sandstorm Holdings in the name of nominees, particularly Kamal Adham, Khalil and GR Pharaon.	115
provide cash to fund purchase of capital notes in the name of Khalil.	8
Investments in Credit and Commerce Insurance, SOCC and others.	25
Other adjustments of bad loans.	120
Unidentified	18
	368
Unidentified changes between 31 December 1984 and 1986	(20)
	348

Brokers

4.22 The main brokers used by Treasury division were:

- Relco
- Capital Commodity Dealers Ltd ('Capcom')
- Rudolf Wolff
- Bear Stearns

4.23 The investigation team has seen circumstantial evidence that these brokers did not always trade with Treasury at arms length, and may have facilitated Akbar in manipulating profits. In particular Rudolf Wolff had a separate office to deal with Sandstorm and appears to have allowed Sandstorm to have a significant overdrawn balance at 31 December 1984 ($40 million), which was possibly used to conceal losses/'park' liabilities at the 1984 year end.

4.24 Capcom was established in 1984 and rapidly became one of the most significant of the brokers used by Treasury. Its initial shareholders were dominated by major customers of Sandstorm, including Khalil and Kamal Adham; and some 70% of its share capital was registered in the names of people for whom Z Akbar was retained as adviser. Akbar joined Capcom on leaving Sandstorm in 1986, as did his deputy M Saghir, and subsequently became a shareholder and director. Despite an apparent cessation of trading links with Capcom at the instigation of S Naqvi apparently on the advice from the then group auditors, two payments of $50 million were made to Capcom in March 1986 out of [external funds] for which no liability for repayment was recorded.

[illegible]ION 5: GULF GROUP

Background

5.1 We understand that the Group's banking relationship with the Gulf Group began in 1972 when [they] placed relatively large deposits with Sandstorm in Luxembourg and London. There is little tangible evidence of other business until 1976 at which time trade finance lines and shipping loans were opened by the Group. Even at this time the scale of the bank's lending to the G[ulf] Group was significant in relation to its capital base, and the relationship became one of interdependence. A summary of the history of the Gulf lending in relation to the capital base [of] Sandstorm is shown at Appendix I. There is evidence that the Gokal brothers used this positi[on] as a lever to obtain short-term funding and repayment of non Sandstorm bank debt.

5.2 As a result of the large exposure guidelines imposed by the Bank of England in 1977, the accounts were moved to Grand Cayman, and in 1978 when it became apparent that the Gulf Group was in financial difficulty S Naqvi and Hashim Shaikh took direct responsibility for the accounts. It appears that account manipulation began at this stage, and to this end a 'specia[l] duties' department was set up to oversee these accounts. This was a full-time occupation wh[ich] involved the manufacture of documentation, inflation of account turnover, concealment of func[s] flow etc and involved some 750 accounts over a fifteen year period. Turnover in the period w[as] some $15 billion.

5.3 Management in collusion with Gulf used sophisticated methods of deception to conceal funds flows including:

- use of Gulf 'bank' accounts which received funds and then redistributed them around a number of accounts (particularly 1978 to 1983).
- transfers between Gulf locations in different parts of the world to create turnover and imply debt servicing, particularly just before year ends.
- conduit accounts at external banks, under the control of Sandstorm officers (largely afte[r] 1986).
- funds transfers through BCP and nostro accounts at various Sandstorm branches.
- use of excessive interest and charges to provide profits.

5.4 The bank believed that the failure of the Gulf Group would have crystallised large losses which would have eroded the bank's capital base and put its very survival in doubt. To avert liquidati[on] of the Gulf Group, it would appear that Sandstorm worked very closely with the Gulf Group management to ensure that third party bank liabilities, many of which were rescheduled in 1984 to 1986, were met as they fell due.

5.5 By the early 1980's the position of the bank was so compromised by its reliance on the Gulf Group, that more complicated manipulation was necessary. This involved the use of external funds managed by Fork entities. In part this was achieved by loans drawn down in Fork with t[he] funds routed to Sandstorm, with such loans being repaid by short-term offshore accounts being drawndown in Sandstorm. In addition Fork appears to have utilised certain external funds available to it. Such funding was most significant in the period 1984 to 1986.

Analysis of funding

Bank employees working with Mr Naqvi have now recreated a detailed analysis of the external funding utilised within the Gulf Group accounts as follows:

	Drawdowns $ m	Repayments $ m	Interest $ m	Outstandings 31/12/90 $ m
1981 - 1983	160	72	130	218
1984	222	-	13	235
1985	345	185	90	250
1986	300	237	97	160
1987	138	15	42	165
1988	63	15	23	71
1989	21	-	-	21
	1,249	524	395	1,120

Net drawdowns 725

This analysis has not been capable of verification and must therefore be treated with caution, but gives an indication of the likely scale of the manipulation of the exposure.

5.8 According to the bank's records the application of the net external funding (excluding interest) was as follows:

	$ m
Reduction in Gulf liabilities to third parties	457
Reduction in Gulf liability to Sandstorm	186
Liabilities of other borrowers to Sandstorm	82
	725

5.9 The routing of funds appears to have been through the following entities:

			$ m
Sandstorm Affiliates	BCP	Zurich	225
	BCP	Luxembourg	164
	BCC	Grand Cayman	168
	BCC	London	57
	BCCI	Spain	92
	NBO		96
	Other		25
			827
Conduit accounts			203
Yet to be identified			219
			1,249

The above analyses have yet to be substantiated but give a general outline of what appears have transpired.

Offshore accounts

In more recent years the 'special duties' department were involved in fabricating information in respect of the 'offshore accounts'. This included the creation of profiles of the beneficial own financial information, false instruction letters etc. The relationship of these particular accounts with the Gulf Group was finally acknowledged by Sandstorm and the Gokals as a result of the task force investigation in early 1990 and Gulf assumed responsibility for 73 offshore accounts with an exposure of $264 million at 31 December 1989.

SECTION 6: WXYZ

Background

6.1 It is alleged that Sandstorm has acquired a 58.6% interest, currently through eight nominees, in WXYZ the ultimate holding company of the First American Bank (FAB), the largest banking group in the Washington area with cross state banking licences to operate in seven states.

6.2 This interest appears to have been obtained through Sandstorm or its affiliated companies granting loans to certain prominent Middle Eastern individuals with which to subscribe for shares in WXYZ, such that Naqvi or Abedi indemnified the shareholders against any liability for the loans disbursed in their names, in return for which the shareholders gave Sandstorm, through a variety of share dealing and attorney arrangements, authority to buy and sell shares in WXYZ on their behalf. These indemnities were usually in the name of Fork.

6.3 The legality and effect of the various nominee and indemnity arrangements is clearly uncertain and a matter on which legal advice will need to be sought in order to ascertain the ultimate beneficial ownership, but preliminary legal opinion would suggest that the registered shareholders do appear to have been nominees.

6.4 Sandstorm's former management have represented to us that the arrangements were in the form of a 'merchant banking' transaction, in that it always acted as a 'sleeping partner', at no time using any voting rights or exercising any controlling influence over the management of First American. This appears to have generally been the case although we have seen evidence to the effect that AH Abedi was consulted by Clark Clifford in the recruitment of a senior executive for FAB, and certain other personnel issues.

History of operations in the US

6.5 In the early years of its operation Sandstorm operated through a number of branches and agency operations. Management however perceived that if Sandstorm was to achieve the status of a global banking organisation in line with Abedi's vision, it needed subsidiary operations in the United States. To this end a number of unsuccessful attempts were made to acquire a bank in New York.

6.6 Through Abedi's contacts with Bert Lance, FAB, at that time FGB, was identified as a suitable acquisition target and in the period from 27 December 1977 to 10 February 1978 some one million shares in FGB, representing 18% of the ordinary capital were acquired on behalf of Sandstorm in the open market. Sandstorm contended that these shares were purchased on behalf of certain investors for whom it acted as investment advisor. We have, however, seen evidence to suggest that this was not the case and that the four investors were used to keep individual ownership below 5% and to ensure that Sandstorm's name did not appear.

6.7 The investors were:

Sheikh Kamal Adham
Faisal Fulaij
Sheikh Sultan bin Zayed (subsequently sold to SKA)
A Darwish (on behalf of Sh Mohammed bin Zayed)

Ownership of WXYZ

After various federal and state banking and regulatory approvals, agreements with the SEC FGB, a tender offer for the remaining FGB shares was made by First American Corporation (FAC) on 2 March 1982 and control of FGB was secured by WXYZ.

The initial capital contribution into WXYZ (including the original investors' FGB shareholding) $180 million being 100,000 shares at $1,800 each subscribed as follows:

		No of Shares	$ m	%
Kamal Adham		19,050	34.3	19.1
A Darwish		13,720	24.7	13.7
Fulaij		7,180	12.9	7.2
ADIA		8,240	14.8	8.2
Stock	(Dubai)	8,240	14.8	8.2
Crescent	(Dubai)	8,240	14.8	8.2
AR Khalil		8,240	14.8	8.2
Mashriq	(Fujeiran)	7,660	13.8	7.7
Sh Naomi	(Ajman)	7,070	12.7	7.1
Shorafa		6,480	11.7	6.5
Cabazard		2,940	5.3	2.9
Gulf Investment Real Estate Co.		1,470	2.5	1.5
Real Estate Development Co		880	1.6	0.9
Jawnary		590	1.1	0.6
		100,000	180.0	100

6.10 Since these initial subscriptions there have been a number of rights issues by WXYZ as set out below:

		No of Shares ('000's)	Price $'000	Amount $ m	Main purpose
02.03.82	Initial subscription	100.0	1.8	180	
18.08.82	Rights issue	16.7	1.8	30	Class A shares
22.12.83	Rights issue	39.4	1.9	75	FAB, NY
25.07.86	Rights issue	67.7	2.2	150	NBG
17.08.87	Rights issue	47.3	2.4	115	NBG
18.07.89	Rights issue	18.0	2.8	50	Repay loan from BAII
		289.1		600	

In so far as the eight shareholders who would appear to be nominees for Sandstorm or Fork concerned, almost all of their initial and subsequent subscriptions for rights issues have been funded by disbursements from Sandstorm. Most have been funded from the nominated [illegible] accounts with a few, particularly in the early 1980's, from other accounts, including the Treas pool accounts.

6.12 At 31 December 1990 of the fifteen registered shareholders, eight appear to hold their shares nominees as follows:

	No of Shares	%	Loan balance $ m
Possible nominees:			
Adham	36,493	12.6	170
Fulaij	26,439	9.2	253
Shorafa	28,748	9.9	210
Mashriq	27,986	9.7	451
Hammoud	18,200	6.3	79
Naqvi	16,824	5.9	100
AR Khalil	13,250	4.6	133
Jawhary	1,465	0.5	5
	168,405	58.6	1,417
Burford	26,837	9.3	
Other shareholders			
Adham Corporation	7,410	2.5	
ADIA	19,141	6.6	
Sh Khalifa	28,741	9.9	
Sh Zayed	33,994	11.8	
C Clifford	2,395	0.8	
R Altman	1,197	0.4	
	92,878	32.1	
Total issued shares	289,120	100	

6.13 The shares held by Burford represent the shares repurchased from Sh Khalid bin Mahfouz under the terms of a buy-back agreement nominally with Mashriq and guaranteed by Sandstorm Overseas. This repurchase was effected through payments to Mahfouz in October 1989 and June 1990 totalling approximately $190 million, funded by S Naqvi from various sources.

The amounts having been paid, although in consideration for shares, were credited to new accounts in Manrouz's name. Given the method by which this repurchase was effected, it considerable uncertainty as to the beneficial ownership of the shares in WXYZ registered in name of Burford although we understand that steps have been initiated to transfer the shar the Department of Private Affairs as compensation for a placement absorbed into Treasury years ago.

6.15 The above loan balance reconciles to the amounts taken over by Company A as follows:

	$ m
Loans as above	1,417
Adham Corporation	15
WXYZ Debenture	18
Total to be assigned to Company A	1,450

Nominee arrangements

6.16 The evidence of the nominee relationships varies but typically includes one or more of the following:

- Hold harmless letters
- Signed but blank share transfer deeds
- Signed but undated and blank promissory notes
- Share deposit agreements
- Letters or agreements governing the disposition of WXYZ shares
- Powers of Attorney
- Agreements covering the payment of fees to shareholders.

6.17 These documents are often in the name of Fork Overseas or Holdings, albeit sometimes signe by S Naqvi. The effect of these arrangements essentially appears to be that the account hold were indemnified against any liability for the loans but have no entitlement to any profits accru from the underlying investment in WXYZ.

6.18 The nominee shareholders appear to have received fees in respect of their services, only some of which we have been able to trace:

Fulaij	$100,000	pa	1986 - 1989
	$606,000		on 23 August 1990
Shorafa	$300,000		on 5 August 1985
	$341,000	pa	in 1986 - 1990
Sh Sharqi	$500,000		in August 1985
	$390,000	pa	in 1986 - 1990
	$111,000	pa	in 1988 - 1990
	$42,000		in 1990

AR Khalil — $1 to $2 million pa for use of his name for Treasury trading purposes (uncorroborated)
$15 million in July 1987 (Source not identified)

M Hammoud — $1 million pa in 1986 - 1990 (uncorroborated)

In addition, payments of $15.8 million and $6.5 million respectively were paid to Sh Kamal Adham and Sh Naomi, supposedly in consideration for their original subscription of shares in WXYZ plus rolled up interest, notwithstanding that the shares continued to be registered in th names.

Use of WXYZ accounts for other purposes

6.20 Sandstorm management have used the security offered by the investment in WXYZ as a me to:

(1) disburse funds for totally unrelated purposes, in particular to adjust unrelated loan accounts to avoid the need to book provisions.

(2) generate substantial amounts of fictitious income to enhance Sandstorm's recorded pro

6.21 This has been facilitated by the fact that the investment has increased in value over time, allowing capacity for extra loan drawdowns made possible because the account holders were indemnified against any liability for the loans. In addition a substantial number of new shares were issued by way of rights issues at net asset value thereby providing excess borrowing capacity, which was also utilised for other purposes.

6.22 The total amount of loans, supposedly secured on the shares of WXYZ at 29 December 1990 the effective date at which they were transferred to Company A by means of a sub-participation agreement concluded on 22 May 1991, of $1.45 billion, noted above, was made up as follows

	$ m
Equity capital subscriptions relating to nominee shareholders	307
Other WXYZ capital contributions	39
	346
Servicing of non WXYZ loan accounts	599
Servicing interest on external borrowings	57
Other disbursements	89
Less: receipts from non WXYZ accounts	(214)
	531
Interest and account charges	573
Total	1,450

As far as the WXYZ exposures were concerned, by virtue of the nominee arrangements and fact that Sandstorm held signed share deposit agreements and transfer deeds, the shares in WXYZ were regarded as a pool of security with frequent informal cross pledging of security, again supporting the view that the shares were held in a nominee capacity.

6.24 Non WXYZ disbursements may be analysed by borrower as follows:

	$ m
Sh Kamal Adham	15.5
Faisal Fulaij	161.4
Sh Sharqi	206.0
Shorafa	130.5
AR Khalil	47.0
Sh Naomi	26.0
Hammoud	12.0
Jawnary	1.0
	599.4

6.25 These were disbursed as follows:

	Date	$ m	Borrower
Adjustment of non WXYZ accounts	June 1985	191	Various
Repayment of SNCB loan	Sept 1990	58	Shorafa
Repayment of SNCB loan	Oct 1990	138	Mashriq
Repayment of SNCB loan	Oct 1990	130	Fulaij
Repayment of SNCB loan	Oct 1990	78	Mashriq
Various		4	
		599	

6.26 The adjustments in 1985 occurred in the period 25 - 28 June when amounts totalling $191 millio drawn down in the names of Khalil, Shorafa, Fulaij, Sharqi and Naomi together with additional amounts drawn down in the accounts of the Ruler of Dubai ($ 25 million), SH Sharqi ($10 million and SDCC ($5 million), were paid to Hashim Shaikh ($89 million) to adjust a number of Gulf Group accounts and to Z Akbar ($142 million) to adjust various Treasury pool accounts. Notwithstanding that these drawdowns had nothing to do with the borrowers concerned, confirmation letters of account balances continued to be received by us as auditors.

In September/October 1990 four loans totalling $404 million were drawn down in the names of certain of the WXYZ borrowers to repay four loans previously granted by SNCB to Sandstorm Overseas which had not been properly authorised. These were not recorded in the books but had been used to service various Sandstorm loan accounts between July 1986 and April 19[illegible]. They were in part secured on 20% of the shares in WXYZ and cash collateral placed with SN[illegible] Bahrain. Notwithstanding that the funds placed with SNCB were there as security for these loans, Sandstorm management represented to us that these were bona fide bank placements which were confirmed as such to us by SNCB. The collusion of SNCB and its owner Sheikh Khalid bin Mahfouz in the fraud perpetrated on Sandstorm appears to have been a major fa[illegible] in allowing it to go undetected.

Interest and charges

6.28 Interest was levied on the accounts at broadly commercial rates (1.5% to 2.0% over US$ LIB[illegible]) and in addition, to boost income further, significant management charges and fees were also levied. These totalled some $150 million in the eight years to 31 December 1990, and to giv[illegible] the appearance that the nominee shareholders were agreeable to the charges, letters drafted [illegible] Imran Imam, indicating acceptance were periodically obtained and provided to the auditors.

6.29 The total income booked in respect of the WXYZ loan accounts was $573 million and is a material sum to Sandstorm's purported profitability over the last decade. If it is found that the bank does have a beneficial interest in the shares, classification of the balances as loans and advances would not be appropriate and alternative accounting treatment would be required.

Sandstorm Personnel

6.30 Control over the WXYZ accounts was exercised by S Naqvi from London, who determined the uses to which the various loan accounts were put. Naqvi informs us that it was not until 198[illegible] that these accounts were manipulated for other purposes.

6.31 Mr Naqvi was initially assisted by Z Akbar and, from 1983, Mr Imran Imam who exercised con[illegible] over the accounts on a day to day basis and initiated many of the fraudulent transfers of func[illegible] and book entries. In addition because of Fork's involvement in the nominee relationships and frequent transfers of loan balances between Sandstorm and Fork, Mr HM Kazmi was closely involved. Otherwise, there is no clear evidence that the other staff who were involved in giving or receiving instructions, were aware of the true nature of the accounts or Sandstorm's relationship with the account holders.

6.32 Generally the borrowers provided audit confirmations however it is now clear that hold harmless letters were also despatched, and that there was an orchestrated attempt by the senior management of Sandstorm, with the collusion of major customers and a third party bank, to deceive the auditors.

SECTION 7: UNRECORDED DEPOSITS - TUMBLEWEED AND OTHERS

Tumbleweed

Sandstorm's relationship with Tumbleweed dates back to the late 1970's when inter bank acceptances were taken by Overseas' Egyptian branches. When in 1982 Overseas sold its branches to the newly formed affiliate, BCC Misr, the sale did not include the transfer of Tumbleweed deposits of $171 million as its size would have given local capital adequacy problems and because Tumbleweed wanted more confidentiality. Accordingly, the placements were transferred to Grand Cayman, although the customer relationship continued to be maintained by BCC Misr. The dealing operation in relation to Tumbleweed was performed at BCC Misr by an employee of Overseas, with transactions notified to London who determined the accounting to be effected in Grand Cayman.

7.2 The nature of these transactions was formalised in 1983 when a contract between Tumbleweed and Overseas was signed stating that these funds were to be invested in commodities in accordance with Islamic Law. Although prices for spot purchase and forward sale of commodities are always quoted on each deal we have seen no evidence to suggest that the bank actually entered any commodity contracts. Yields equate to term deposits.

7.3 We are told that there is an understanding between Sandstorm and Tumbleweed such that if Tumbleweed needs to withdraw funds at short notice it can do so interest free without breaking a deposit. At a later date Tumbleweed will reciprocate by placing an equal amount interest free for the same period. This agreement was apparently particularly beneficial to Tumbleweed in the Egyptian banking crisis in 1989 when two $20 million interest free deposits were made and the Group arranged shipment of dollars to Egypt to enable Tumbleweed to meet its customers needs.

7.4 Although the banking relationship is still maintained by BCC Misr the account has been controlled, since the resignation of Z Akbar, by Mr S Naqvi's central team. Since 1988 the bank have employed a former governor of Tumbleweed as a consultant at a retainer of $75,000 per annum paid through Fork.

7.5 From the time that the account was transferred to Grand Cayman in 1982 it appears that all funds from Tumbleweed passed through the Treasury pool accounts and were an integral part of the manipulation of funds within Treasury up to the resignation of Z Akbar in February 1986. Over this period interest paid to Tumbleweed on its placements was not expensed but instead debited to the same pool accounts. From 1 March 1986 separate pool accounts for all Tumbleweed transactions were established, although as previously, interest continued to be debited to the pool account rather than the profit and loss account.

7.6 Initially on the closure of the Treasury pool account it appears that an attempt was made to reinstate Tumbleweed's deposits, and $199 million was injected into the Tumbleweed account in August 1986 (from funds under management with Fork), although within a few months these funds had again been utilised to service loans and make certain payments, as follows:

		$m
Fork Holdings	- servicing of loans via BCP, Fork and SCCC, and payment of interest on borrowings from ADIA and FULDA in connection with repurchase of shares from Sh Mahfouz	70
Delta Bank Cairo	- SCCC	32
	- Gulf Group	15
Repayment of a Fulaij WXYZ related loan		30
Repayment of CD's of Fork and Emirates 'utilised' by Treasury		14
Untraced items		38
		199

7.7 In reviewing the Tumbleweed pool account we noted a number of payments to reinstate otherwise unrecorded deposits as follows:

State Bank of India	53
Saudi Arabian Fertiliser Company	18
Sh Dossary	25
Ministry of Finance - Cameroon	5
NADCO	2

7.8 The balance on the Tumbleweed account in the books of Grand Cayman has since 1986 fluctuated between $100 million overdrawn and $50 million in credit. We have been told that the account was manipulated to ensure that the balance was zero or insignificant at 30 September and generally at 31 December each year in order to avoid it being chosen for confirmation by the external auditors. This was the case in 1986, 1987 and 1989. In 1988 a balance of $11.3 million debit was circularised and confirmed by Tumbleweed; but this had again been manipulated to equal an interest free placement Sandstorm had made as part of the back-to-back arrangements.

7.9 In analysing the transactions between Sandstorm and Tumbleweed over the last eight years we have reviewed over 3,000 transactions and agreed them to deal slips or telex confirmations. In addition, of the supposed 37 outstanding deals at 27 September 1990 confirmed to Mr Naqvi, we have traced 85% by value to the original receipt of funds or the list of deals transferred at 31 October 1982.

Whilst there are unusual features about the Tumbleweed account - it appears from the Tumbleweed financial statements that some 25% of its total assets are placed with Sandstorm, and some $170 million relates back to pre-1982 - it does appear that there is a significant liability to Tumbleweed which has not been recorded in the books. We have not received confirmation from Tumbleweed of outstanding transactions at 31 December 1990 totalling $358 million in US Dollars not recorded in the books and $ 39 million in other currencies which are recorded in the books.

Al Harthy

7.11 Hussain Al Harthy and his company, NADCO, have been long standing customers of Sandstorm since 1982. The relationship has been managed by Bahrain branch although the funds were booked in Grand Cayman, and instructions to roll-over or repay deposits have usually been sent directly from Al Harthy to London (which entity).

7.12 Prior to March 1986 Al Harthy's deposits appear to have been credited to the Treasury pool account. When recalled both principal and interest were debited to the pool account. It would appear that the liability for such deposits was extinguished with the exception of three deposits, which were recreated in Grand Cayman in June 1986 following Akbar's resignation and the closure of the Treasury pool account. The recreation of these deposits totalling approximately $62 million appears to have been achieved by using funds managed by Fork Investments.

7.13 These accounts were rolled over and properly accounted for from June 1986 until September 1987 when $65 million was transferred to Credit Suisse and then onto Grand Cayman; $56 million was used to repay a bogus loan in Al Harthy's name which had been used to repay borrowings from Fork drawdown in an attempt to reinstate the Tumbleweed accounts. The remaining $9 million was part of an amount of $12 million credited to the Tumbleweed account to reduce the account balance at 30 September 1987. Having utilised these deposits certain part repayments to Al Harthy in November 1987 had to be funded by the creation of overdraft accounts in Grand Cayman which were subsequently repaid by funds from Fork entities.

7.14 At 31 December 1990 the balances on the three accounts in question were:

		$ m	Maturity
Term deposit	1	15.7	15.5.91
Term deposit	2	27.3	08.1.91
Term deposit	3	9.5	06.3.91
		52.5	

7.15 [All were rolled - over] on maturity, and have now been confirmed by the customer.

Miscellaneous unrecorded deposits

7.16 The remainder of the unrecorded deposits reported to us by Mr Iqbal are made up as follows:

	$ m
Dr GR Pharaon	10.4
Oppenheimer	16.6
BCP Luxembourg	9.6
Arab Livestock Co.	5.3
M Motawa	0.2
	42.1

Dr GR Pharaon

7.17 This account purportedly relates to a deposit in Bahrain by Dr Pharaon in April 1989 the funds being received from BAII, which was subsequently transferred to an account at BCP Geneva via First American. (Account holder unknown). A further $1.2 million was transferred for an unknown purpose to a Turks and Caicos Company, North American Finance and Investment, controlled by Mr Kazmi of Fork.

7.18 As yet we have been unable to establish whether the bank has an unrecorded liability in respect of these transactions.

Oppenheimer

7.19 This potential liability appears to relate to a liability of Fork (Overseas) to Oppenheimer in respect of certain repo transactions. In total through a complicated series of transactions $35 million, apparently sourced from Oppenheimer ($15 million), as above, and Tumbleweed ($20 million), passed through SOCC to KIFCO ($10 million) and a Fork routing account at SNCB ($25 million), and has most probably been used for loan servicing.

7.20 Whilst there appears to be a liability to Oppenheimer it is by no means clear whether it is a liability of Sandstorm or Fork.

BCP Luxembourg

7.21 This amount relates to an overdrawn account in the name of Fork Overseas, which despite its name appears to have been used as a 'pooling' account within the Sandstorm Group.

The balance thus relates to unfunded utilisations:

		$m
MM Hammoud:	funds transferred to reduce loans at Fork Overseas	2.0
IBU:	funds used to repay a deposit of CIB accepted by IBU and placed with Fork Holdings	5.0
Fork account 500 at SNCB:	funds transferred to Fork Holdings and subsequently routed to Saudi Cairo Bank, Jeddah apparently to service loans in the name of Kamal Adham	2.0
Interest		0.6
		9.6

7.23 Again whilst it is clear that funds from this BCP account has been 'utilised' for unauthorised purposes it is by no means clear whether the liability is solely that of Sandstorm.

Arab Livestock Company (ALSCO)

7.24 This amount relates to a deposit by ALSCO in Bahrain, which was 'utilised' for other purposes. Although the amount was subsequently reinstated this was done using funds from Fork's pool account 500 with SNCB, hence it appears that if there is any unrecorded liability it is to Fork.

M Motawa

7.25 This is a another Bahrain deposit which was 'utilised' for other purposes.

SECTION 3: UNRECORDED DEPOSITS - ISLAMIC BANKING

Introduction

8.1 Sandstorm SA would seem to have commenced Islamic banking activities in its UK Region on behalf of certain Islamic customers in June 1984. Initial activity is believed to have been low building to a level of around $[50] million at the time that the current records commenced in May 1986. Thereafter volumes grew significantly and from 1 January 1989 all these transactions have been routed through a separate Islamic Banking Unit ("IBU"). At its peak of activity at the end of 1989 amounts placed with IBU by Islamic customers for Islamic investment transactions totalled some $1.4 billion equivalent in seven different currencies.

8.2 The most common type of Islamic banking instrument is a Murabaha deal. This involves the purchase of a commodity and the immediate sale of that commodity with deferred receipt of the sale proceeds for a period determined by the Islamic customer. This eliminates any risk pertaining to holding the commodity and leaves the cost of the deferred payment to generate a higher selling price than purchase price. Not surprisingly the mark up usually bears a close relationship to prevailing interest rates. There is a risk to the Islamic customer that the counterparty will not pay on the due date, however it seems common practice for the Islamic customer to seek to avoid this as well by obtaining a bank guarantee/letter of credit securing the recovery of funds.

Sandstorm's approach to Islamic banking

8.3 All funds received by Sandstorm SA from Islamic customers for investment purposes are applied in the manner outlined above with Sandstorm acting as agent and for the vast majority of transactions the necessary guarantee is provided by Sandstorm SA. By issuing a guarantee Sandstorm inherits the risk of counterparty failure. To avoid this Sandstorm undertakes two further commodity deals, the mirror image of those undertaken on behalf of the Islamic customer, thus cancelling the forward sale transactions with forward purchase transactions. The resulting free funds are then on placed within the BCC Group, affiliated entities or on the money markets to earn a rate of interest at least equal to the guaranteed mark-up for the period of the original deferred payment period.

8.4 The effect of Sandstorm's own commodity deals and on placement of funds can give the impression that the whole transaction is no more than one of taking deposits from these Islamic customers, but this is not the case. In respect of the Islamic customer Sandstorm has acted as investment manager. As principal it has issued a guarantee and covered the risk by entering into its own contracts with brokers and making matching placements. Problems have arisen however on the accounting for transactions undertaken by Sandstorm as principal.

Funds placed outside the BCC Group

8.5 The majority of funds on placed by IBU went to Sandstorm (Overseas) in Grand Cayman or branches within UK Region. However, between 1986 and 1990 funds were on placed by UK Region with other affiliated Sandstorm entities.

UK management initially informed us that all these other placements were done with Fork (Overseas), by reference to instructions from S Naqvi regarding an overall level of placeme identified for this institution of some $80 to $100 million. There is however no written evide relating to this instruction. We have established that placements were also made into accounts controlled either by Fork Holdings, or BCC Bahrain, on behalf of Fork Holdings. management say that they were not aware of this. The accounts in question are represent by Mr Kazmi to be Fork Holdings client accounts, albeit under the control of S Naqvi.

8.7 The following amounts were received from Islamic customers and on placed by UK Region with Fork (Overseas), Fork Holdings and BCC Bahrain at 31 December 1989 and 31 December 1990:

	31 December 1989 $'000	31 December 1990 $'000
Fork (Overseas)	46,502	-
Fork Holdings	50,485	c/s
BCC Bahrain for Fork Holdings	30,000	c/s
Total	126,987	84,451

- Funds placed with Fork (Overseas)

  Placements with Fork (Overseas) outstanding at 31 December 1989, were done through the transfer of funds from a UK Region nostro account to a number of accounts held by Fork (Overseas) at BCC Grand Cayman. Although no confirmation was received from Fork (Overseas) when the funds were placed, Sandstorm SA UK Region notified this institution of the transfer of funds and terms of the placements.

- Funds placed with Fork Holdings

  The make up of the funds received from Islamic customers which were subsequently placed with Fork Holdings, with interest to 31 December 1990, were as follows:

	Placement date	$ m
Al Rahji Banking and Investment and Corporation	16.1.90	10.0
Interest		0.8
		10.8

Qatar Islamic Bank

	29.1.90	6.0	
	06.3.90	8.5	
	07.3.90	2.5	
	13.3.90	3.3	
	13.3.90	5.1	
	25.3.90	4.8	
	Interest	2.1	
		32.3	

Dubai Islamic Bank

	27.12.89	10.0	
	01.3.89	30.0	(Note)
	Interest	2.4	
		42.4	
		84.5	

Note: This amount was on-placed with BCC Bahrain who then placed the funds with BCP Luxembourg.

Amounts placed with Fork Holdings were initially made in December 1989 for the crec of an account number 101458.500 ~~at~~ Saudi National Commerce Bank, Bahrain. This : a client account belonging to Fork Holdings.

Further amounts totalling $35.4 million were placed through this account in January 1990 and March 1990. We understand that no further funds were placed via this account after March 1990.

UK Region did not confirm these placements with Fork Holdings or receive any confirmations from them.

Fork Holdings defaulted on the repayment of all placements due in May 1990, June 1990 and October 1990. The original Islamic investments to which these placements were matched were repaid by UK Region to Qatar Islamic Bank, Al Rajhi Banking Investment Corporation and Dubai Islamic Bank on the appropriate due dates. Total funds outstanding as a result of the non repayment from Fork Holdings (principal plus interest) amounted to $[84]million at 31 December 1990. We understand that these amounts have not been repaid by Fork Holdings to date.

Funds placed with BCC Bahrain

Three deposits of $10 million each which were placed via BCC Bahrain in March 1989. These amounts were rolled over monthly to match the monthly roll over of the underlying Islamic investment. However, when repayment was called in October 1990 the funds were not forthcoming. Once again the original Islamic investment was repaid forthwith. Total funds of $ [ ] million remains outstanding to Sandstorm SA UK

Region at 31 December 1990. We understand these amounts have not been repaid to date.

8.8 The inappropriateness of the on placements to Fork (Holdings) and BCC Bahrain is emphasised by the fact that the manager of IBU (S Cona) withheld or manipulated all third party confirmations from Islamic customers relating to these transactions from the external auditors at the time of the 31 December 1989 audit of UK Region. A total value of $80.5 million. The UK General Manager informs us that he had no knowledge of this and that S Cona must have been clearly taking instructions from S Naqvi.

Application of certain on placements

8.9 Funds on placed to BCC Grand Cayman or Fork (Overseas) were usually put in a deposit account in the name of the original Islamic customer who had provided the funds for investment. In some cases however it seems that the on placements with Grand Cayman were made into deposit accounts of certain third party customers. Those deposit accounts were then held out to be the deposit security for certain loans made to those third party customers. In the two instances that have been identified the third party who 'benefited' from this deception was the Virani Group with false loan security of $ 17 million.

Destination of Funds

8.10 The amount of $30 million on-placed with BCC Bahrain is believed to have been transferred to an account with Credit Suisse: (and then probably onwards to SNCB account 500). Otherwise all the other amounts were received into the SNCB account 500 in the name of Fork Holdings and we have confirmed this by reference to bank statements. This is one of the accounts under the control of S Naqvi and his central team used for the purposes of fraudulently routing funds.

8.11 Mr Kazmi of Fork acknowledges that the funds were received through the SNCB account of Fork Holdings but as they were then routed back to Sandstorm or elsewhere on the instructions of Mr S Naqvi, he does not believe that Fork has any liability to Sandstorm UK Region in respect of these amounts placed by IBU.

The funds appear to have then been utilised by S Naqvi and his team as follows:

			$ m
Sh Kamal Adham - amount used as repayment in January 1990 of a $5.5 million loan in the name of Kamal Adham in connection with WXYZ			5.3
Interest on nominee loans at SNCB in the names of	Mashriq Holdings	6.4	
	Faisal Fulaij	6.1	
			12.5
These loans were secured by a placement from Sandstorm with SNCB and relate to the financing of WXYZ shares.			
Purchase of shares from Fork Foundation and Fork Staff Benefit Fund in the name of Sh Zaiyiai as nominee.			4.0
Transferred via Fork and BCP to Bahrain to repay interest and principal on unrecorded deposits.	Sh Bahrein	4.0	
	ALSCO	1.2	
	Alisson Est	2.1	
			7.3
Various servicing of loans within BCP and Fork (not yet corroborated).			7.7
SDCC (purpose as yet unknown).			10.6
Gulf Group - apparently transferred via Granite and Cedar in March 1989 (not yet corroborated).			11.5
MM Hammoud - loan servicing of account in Sandstorm Cyprus in March 1989.			3.0
Balance - used generally in SNCB 500 account pool utilised by Sandstorm and Fork.			17.8
			81.2

Accounting for Islamic banking transactions

8.13 Prior to August 1990, UK Region accounted for all aspects of the Islamic commodity investments as if they acted as agent and therefore no part of the series of transactions was reflected on balance sheet. The on placements to Grand Cayman, UK Region and Fork (Overseas) were reflected in the accounts of those entities as third party deposits rather than intra group deposits.

8.14 Since however certain parts of the series of transactions are actually originated by Sandstorm, namely its own commodity deals and on placement of funds, the appropriate accounting treatment is to reflect a due to brokers credit balance and a placement debit balance.

8.15 In Sandstorm SA's accounts for the year ended 31 December 1989 the appropriate accounting treatment was reflected for known Islamic investments on placed in Grand Cayman, UK and Fork (Overseas). However this was not the case in the UK Region's own financial records and returns.

8.16 Since August 1990 UK Region have reflected credit and debit balances in respect of Islamic banking transactions on placed to the above locations although the credit has been identified as a deposit rather than a due ~~to brokers~~.

Disclosure in the Prudential Returns

Prior to August 1990

8.17 As a consequence of UK Region's accounting policy which treated all aspects of Islamic banking as off-balance sheet except for funds on placed to UK Region, the prudential returns submitted by UK Region to the Bank of England during this period showed a significant understatement of assets and liabilities. At 31 December 1989 for example assets were understated by \$ 802.4 million due from banks and liabilities understated by \$802.? million due to brokers, although as noted above adjustment was made in the legal accounts of Sandstorm SA. In addition \$176.3 million of deposits should have been classified as due to brokers (being amounts received and used within the UK Region itself).

From August 1990

8.18 In August 1990, at our insistence management decided to transfer the entire portfolio of investments from Islamic customers into the books of UK Region except for investments which were actually held by brokers and guaranteed by third party standby letters of credit (ie genuinely off-balance sheet). In practice this still excluded the transactions that had been on placed with Fork Holdings and BCC Bahrain and two other amounts on placed with Bank of New York, London and Nederlandsche Middenstands bank NV, London. The impact on the prudential returns was a continuing but smaller understatement of assets and liabilities which at 31 December 1990 amounted to \$ 106.9 million and a misclassification of \$ 441.4 million as deposits rather than due to brokers at the same date. In addition, because of their classification as deposits the Islamic customers with the four largest aggregate investments were also disclosed in the B7 return as depositors with more than 5% of total deposits.

The amounts placed with Fork Holdings and BCC Bahrain amounting to $84.5 million at December 1990 were correctly reflected in the books of UK Region from 27 March 1991. Funds totalling $ 22.5 million placed with two other institutions noted above are still not reflected in the books of UK Region.

Accounting for the shortfall in repayment of placements

8.20 The accounting adopted for the shortfall of funds was even more inappropriate. Rather recognising a debt from Fork (Holdings), UK Region used loan accounts opened for Al Banking Investment Corporation and Qatar Islamic Bank to 'disguise' the recording of amounts due from Fork Holdings. As a result, credit facilities and relevant loan accounts authorised by BCC Central Credit Committee for these banks were effectively used by UK Region for purposes other than for those for which they were actually approved.

8.21 To 'disguise' the amounts due from BCC Bahrain a loan account in the name of Dubai Islamic Bank was opened by UK Region in September 1990 to record investments repaid UK Region to this customer but not recovered from BCC Bahrain. This credit facility for Dubai Islamic Bank was not authorised by BCC Central Credit Committee.

8.22 The loan accounts were then subsequently adjusted by crediting them with new funds received from the same Islamic customers up to the amount of the shortfall, rather than crediting those new funds to the liabilities side of the balance sheet, thereby, falsely understating assets and liabilities.

Disclosure in the Prudential Returns

8.23 The impact of these accounting entries on the amounts disclosed in the prudential returns was an understatement of both assets and liabilities. At 31 December 1990 assets should have included a sundry debtor for $ 84.5 million being the amounts due from Fork Holding and liabilities a due to brokers of a similar amount, although the recoverability from Fork is uncertain.

8.24 Those Islamic investments shown in the B7 return as large deposits, whilst not correctly classified as deposits, would also have been understated by a total of $ 84.5 million.

Management control

8.25 The extent of the errors and deceptions raises enormous concerns about how management control over the Islamic activities was exercised.

8.26 IBU is and has been under the executive control of B Chowdry for some considerable time even before he became regional general manager. His knowledge or lack of knowledge as to the events outlined above demonstrates a lack of effective management with respect to this area of business.

8.27 With respect to the placement of funds with Fork Holdings and BCC Bahrain, B Chowdry represents that he was acting under instruction from S Naqvi. There is however no documentation supporting instructions given by S Naqvi or instructions given by B Chowdry to IBU. Furthermore, B Chowdry represents that at the time of the transactions he was led to believe by S Naqvi and others that the funds were being placed with Fork (Overseas). There is however no documentation supporting notification by UK Region to Fork (Overseas) or any other entity in respect of funds placed through BCC Bahrain and Saudi National Commerce Bank, Bahrain. The only documentation available, according to UK Region management, is a memorandum sent by Mr Dona, (former manager of the Islamic Banking Unit) to Mr HM Kazmi, (Fork Foundation, based at 100 Leadenhall Street) outlining details the funds so placed. B Chowdry claims that the routing of placements (ie through Grand Cayman, BCC Bahrain, Saudi National Commercial Bank) was determined and notified by Naqvi or Mr Kazmi. However, there is no written evidence to support this statement.

8.28 Mr B Chowdry represents that he is seeking recovery of the debt from BCC Central office in Abu Dhabi. With respect to the misuse of on placements as security for third party loans and advances B Chowdry represents that he had no knowledge of this until it was recently identified and that the manager of IBU must have acted under direct instruction probably from Mr Haque, the account officer for the Virani Group.

8.29 In relation to the general accounting for these transactions B Chowdry has now recognised that the original accounting treatment was incorrect although it should be noted that the bank placed reliance for some time on legal advice that lent support to their earlier practice. However the precise accounting classifications for Islamic transactions that have been outlined above still need to be adopted.

8.30 With respect to the accounting practices adopted to cover up the non repayment of certain on placements B Chowdry acknowledges that this was inappropriate but represents that whilst against his better judgement he was again acting under instruction from S Naqvi. The knowledge of other members of the UK Management Committee with respect to these transactions is unclear, but it seems unlikely that these entries went unnoticed by the UK Region's credit department.

Conclusion

8.31 From a customers point of view all Islamic investment transactions have been properly executed and funds repaid on the due date. UK Region's approach to covering its own guarantee risk whilst acceptable was not adequately researched from an accounting view point and was misguided with respect to where funds were ultimately placed.

8.32 The resulting catalogue of errors with regard to the non repayment of some placements and the misuse of other placements as security reflects at the very least a lack of any proper independent management control in UK Region. The accounting adopted for the non repayment is indefensible and lends weight to the conclusion that UK management have acted irresponsibly in allowing the events outlined above to occur. Whether UK management and particularly B Chowdry and Mr Dona have acted in good faith under instruction from senior officers within BCC Group has been impossible to determine but it is difficult to imagine that every transaction could go through unchallenged by them.

SANDSTORM

HISTORY OF GULF GROUP EXPOSURE

		Recorded Balance sheet Exposure $ m	Sandstorm Consolidated Capital $ m
31 December	1977	80	113
	1978	110	171
	1979	180	226
	1980	183	292
	1981	254	462
	1982	221	641
	1983	211	808
	1984	196	1,009
	1985	246	1,190
	1986	370	1,508
	1987	437	1,469
	1988	597	1,417
	1989	705	1,075

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SANDSTORM

Notes of a meeting on 19 January 1991

Present: S Naqvi
MH Armour
SJ Chapman
Mike Hunter

SJC briefly introduced MHA and MH and explained that the reason for the meeting was to permit SN to provide an overview of the events leading up to the bank's present difficulties. SN said that he had provided a brief memorandum on the subject for the shareholders and passed a copy of this to MA. SN questioned the investigating teams Terms of Reference and said that he would like to see a copy of these so that he understood the framework within which we were asking questions of him.. He also commented that he had told everything to the shareholders and that he had no reasons to withhold information. He said that he and his staff had not benefitted personally from the activities of the bank and any minimal areas of personal benefit had already been disclosed by him to the shareholders.

SN said that he would like to deal with the accounts in Companies A and B although he did not have a detailed list of these accounts at this time. He agreed to provide information in all areas of enquiry and explained that he had undertaken an exercise since April to try to reconstruct the accounts however this had come to a halt when his records had been put under dual control.

SN explained that he was taking total responsibility for the activities at the bank and that he had not allowed officers at either end of transaction chains to fully understand what they were dealing with. As a result the account officers and booking clerks were not aware of the reasons that they had been asked to pass certain entries.

SN said that the activities at the bank fell into three groups:

1. funds passed through external accounts,
2. funds routed through accounts in order to disguise their nature, and
3. funds passed through customer's own accounts usually with the knowledge of the customer (e.g.Gulf).

SN summarised the historical position by noting that the problems arose from :

a. the old treasury activities
b. Gulf group
c. nominee accounts (he pointed out that not all accounts in Companies A and B were nominee accounts)

SN explained that funds had been moved between these groups to avoid the need to create loan loss provisions when the accounts were reviewed by the auditors and to augment profit by servicing interest and fees which had been debited to loan accounts. In addition it is possible that treasury losses may have been absorbed or profit inflated in the early 1980's however SN had not yet had time to reconstruct this. He had however noted certain annotations on old files which indicated that this may have been the case.

SN said that he wanted to make it very clear that contrary to rumour, Mr Abedi did not have his own portfolio and that the people who were working in the Advisor's Office had not themselves beneficially gained from activities at the bank. He explained that Mr Akbar had been the general manager of BCCI (Overseas) for tax purposes and also SN had come to understand that Grand Cayman was in a mess when Mr Zia Akbar resigned as head of the Treasury. SN also noted that when Hashim Shaikh resigned from the bank the Gokal account became a problem and Mr Akbar had been briefed for audit purposes so that he could deal with the auditors in the Grand Cayman.

SN said that all of the bank's records were now available in Abu Dhabi except for a few on restructuring which were still to be transferred. He noted that certain documents were held in the DPA cupboards as these were regarded as confidential by the DPA, in particular he noted that the papers in respect of the Rulers of Ajman and Fujairah fell into this category.

SN said that he would be willing to provide all assistance to the investigating team and that he would endeavour to ensure that we received the original signed agreements between the bank and nominees and other original agreements which were pertinent to the investigation process. In order to simplify this process SN requested that PW give him advance notice of the areas to be discussed on a daily basis so that he had time to prepare for the meeting and avoid unnecessary time pressures. He also requested that the investigating team assign somebody to deal with Mr Akbar on a regular basis bearing in mind his diabetic illness and the effect this sometimes has on his temperament.

SN briefly discussed payments which had been made to individuals, particularly Hashim Shaikh, Zia Akbar and Kamal Shoraib. In the case of Hashim Shaikh, SN noted that there is no evidence of the man's dishonesty however his wife had had a nervous breakdown and he himself was very nervous. As Shaikh placed Naqvi in a difficult position. Naqvi arranged to pay $1.7 million to Shaikh as retirement benefit, and for his continued availability to help reconstruct the Gokal account.

In the case of Zia he was recently recruited by Plum, an assistant to Senator Carey, to try to provide information in respect of the bank. Because of the difficult position this has placed Capcom and the bank, Zia made SN feel obliged to pay $15 million to Zia.

We then agreed to review some of the more significant accounts on a case by case basis as follows:

1. Dr Pharaon

SN briefly discussed the difficulties of dealing with Pharaon noting that he should continue to be dealt with on a professional basis. SN explained that he had sent a memo to CCD splitting the accounts between Dr Pharaon's own account and those in which he was a nominee.

With regards to Independence Bank it is up to BCC to do decide the position. Originally there is a written agreement between Dr Pharaon and the bank for GRP to hold 15% of the shares in his own right and 85% for others. A verbal understanding later took place where Dr Pharaon would hold 50% in his own name and 50% as the bank's nominee.

SN explained that Dr Pharaon could argue that 100% of the shares are his if he believes that there would be a profit on their realisation over and above the underlying value of loans. Alternatively if there is a shortfall Dr Pharaon could argue that all the shares are the bank's property. As a result of this SN recommended that the bank should work out the position on the Independence Bank related accounts and take a position with a view to reaching a negotiated settlement with Dr Pharaon.

Some of the other accounts of Dr Pharaon were used to finance BCCI shares held by Dr Pharaon. Initially he was a holder of 10% of BCCI shares of which 6% were for his own account and the balance of 4% were held as nominee for the bank. Subsequently the 10% was transferred to his brother, Webel, and was then used for the portfolio.

This shareholding is financed from loans in the bank and at one stage Dr Pharaon wanted to sell his 6% shares. As BCC had no money to pay the built in profit at an agreed share value of $40 each the loans were taken over by the bank who then became responsible for trying to give the impression that the loans were still genuine. The shares were then transferred to the DPA in satisfaction of "other arrangements". The rest of the GRP nominee accounts relate to interest servicing and the reduction of other accounts such as those for CCAH.

SN explained that at the start of the Independence Bank acquisition the California market was perceived as a good opportunity for the bank. There was also a possibility that following the 1978 OECD concordat the US could be one of the regulatory authorities for the BCC group. Whilst FAB was considered too big for the bank to invest in Independence Bank could have been a possible vehicle for the development of a significant presence in the US which would then lead to the receipt of Fed regulation.

SN confirmed that the NBG investment was a joint venture between GRP and the bank and that the profits on this were split 50/50. For regulatory purposes the deal was structured so that GRP appeared and acted as the owner of all of the NBG shares. The option agreement and fee at the time was required because of the need for FAB to have the pre-emption right over NBG whilst the time was taken to get the necessary regulatory approvals. SN said that the price at the time was evaluated on an arm's length basis and that there had actually been a higher offer from National Bank of North Carolina however as this was a cash/share deal it was less attractive to Dr Pharaon.

In addition to these investments SN confirmed that the investments in Centrust and Eurotunnel financed by the bank were for GRP's own account.

When SJC queried the audit confirmations received from Dr Pharaon in respect of the nominee accounts SN explained that Dr Pharaon has hold harmless letters for these accounts which were designed to allow to him to sign audit confirmations. No fees were ever paid to GRP for acting as a nominee and he did it out of goodwill because of the profits that had been paid to him on the sale of BCCI and NBG shares.

SN also explained that FIIL was apparently owned 75% by GRP however ICIC has an option on the shares and therefore the CCI and Attock groups fall within the BCCI/ICIC group.

BCCI shares

SN explained that when the rights issues of the BCCI shares were announced they had to be funded from loans in BCCI and ICIC in certain instances. Also some of the small shareholders had sold their shares with a profit in the earlier years and these had to be financed by ICIC or BCC. As an example Fulaij had a letter from the bank guaranteeing him a profit and he had therefore sold his beneficial interest in the bank some years ago. SN was adamant that no member of management had a beneficial interest in BCC shares and that the shares held by the bank were held with the intention of making a capital gain as the bank grew and became more profitable at which time they would eventually be able to sell the shares to the DPA. The profits thus earned would be retained in the trusts such as the Staff Benefit Fund.

SJC queried the use of the Staff Benefit Fund noting that some ex-officers such as Mr Rahman appeared to be claiming that there was an obligation on the trust to pay money to them. SN explained that from foundation it was possible that some of the early staff members may have been given the impression by Mr Abedi that they would benefit from the Staff Benefit Fund if it had the funds available from the profits on BCC shares. Also Mr Abedi had paid some officers who had retired earlier, such as Mr Saddiq Ali and Mr Burney, $1 million each. Other officers such as Mr Rahman had the impression that this was a right and had jumped on the bandwagon. SN said that there were no rights to these people and this situation was clearly untenable as the shares had not increased in value as anticipated.

Sh Kamal Adham/CCAH

SN said that SKA had become the principal person involved in CCAH shares after his introduction by BCC. Except for the shares held by Adham Corporation (2.5% of CCAH) all the remaining shares held in Adham's name are held for BCC. SKA had always been very careful to appear as the controlling shareholder. There was no written agreement regarding the shareholdings in CCAH as to do so would have been a violation of the US rules. As a consequence there is now some concern in SN's mind that SKA may claim the shareholding as being his own. SN believes that this would be detrimental to the bank as they would like to be able to control all of the shares in CCAH so that they could be sold as a controlling shareholding to a third party. The situation became more acute in April 1988 when SN tried to get an option agreement signed by SKA over his CCAH shares. SKA refused to do this without settlement of the implied profits for the CCAH shares and ultimately this agreement was not executed and no consideration passed.

SN summarised the other CCAH shareholders as being principally nominees under the following arrangements:

a. Ruler of Fujairah - 1,000 shares in his own right balance as nominee for BCC

b. Ruler of Ajman - own shares now sold, all shares held are as nominee

c. Faisal Fulaij - all held as nominee for BCC

d. Shorafa - 500 in his own right, the rest as nominee

e. Hammoud - all BCC

f. Jawahary - all BCC

g. ARK - originally held some shares but asked for these to be sold in 1987.

Consequently virtually all the shares funded now belong to the bank. SN explained the sensitivities over the CCAH loans and noted that BCC was very careful that it never took or exercised voting powers and did not allow any controlling influence over the activities of CCAH.

He acknowledged that representations had been made to the Fed but BCC would not provide finance for the shareholders for their investment in CCAH and key shareholders had made disposition to the Fed. SKA, Darwish and Fulaij almost satisfied the requirement in that SKA used his own money, Darwish may have had a bridging loan but ultimately used the DPA's money and Fulaij received his funding from Kifco. There may have also been some original loans from ICIC however as this was not affiliated to BCC it was not seen as a concern. The problems arose late because of the substantial rights issues which were required to be financed by BCC.

SN said that at one point less than 50% of the shares were pledged to BCC however this had now increased due to the unwinding of the Sh Khalid transactions. In particular 9.9% of the shares which were sold to Burford had been bought back through Masriq/Faisal Fulaij on the bank's own behalf. This has taken the shares beneficially owned by BCC to about 60%. The present shareholding in CCAH was roughly summarised as:

60.0% BCCI (including the Burford shares)
12.0% Sheikh Zayed
9.0% Sheikh Khalifa
6.0% ADIA,
2.5% Sheikh Kamal Adham
10.5% Other
100.0%

SN acknowledged that approximately 50% of the CCAH shares were held by others as nominees for BCC from inception. The purpose of this was to obtain a capital gain for BCCI.

Other loans

We briefly reviewed some of the other loans as follows:

Virani

Gomba

Crown

AS Trading - These loans have been overcharged with fees with the customers' knowledge and these will have to be refunded. Because the bank was financing profitable transactions the customers were willing to sign phoney confirmations in the knowledge that ultimately the excess fees charged would be refunded.

Prince IMC - now cleared.

Red Sea - a trading concern not a nominee.

Saigol - have been used for funds routing with the knowledge of the borrower. The Saigols also assisted the bank in not disclosing the nature of the settlement agreement made with two of the younger brothers.

Agra/Chu/Hsu - commercial loans which may have had their balances supplemented in order to avoid provisioning. SN said that these were dead accounts which should be written off. The customers were not aware of the position of their accounts.

Unetco - SN said this account should be written off. The customers had been told various stories by the bank in order to obtain balance confirmations for audit purposes, however this amount was not recoverable.

Control Securities shares - SN said this was an arm's length transaction although there may be some buy back arrangements with Virani.

Sh Kamal Adham

SN said that he had prepared a briefing memorandum on the Sh Kamal Adham account which should be reviewed by the investigators. SN said that a major element of the Kamal Adham accounts related to interest over charges. He noted that the rate agreed between the bank and SKA had been at 1% over LIBOR however the bank has been charging a much higher rate and although the balances have been confirmed by Sh Kamal there is an understanding between him and the bank that this excess interest will be refunded.

The Saudi Riyal account for Sh Kamal is regarding his nomineeship investment in SDCC on the bank's behalf. The loans to NWI relate to a failed attempt by Sh Kamal to get BCC to invest in shares of Allied Arab Bank.

SN summarised the Sh Kamal lending saying that part of the lending is customer's own and there is a clean shortfall of $80 million. SKA had expected this to be repaid from the profit on the CCAH shares.

Faisal Fulaij

SN said that Fulaij was a simple person who had acted as a nominee for the bank and had received regular fees for doing this. He is now very nervous about his position and wants to terminate the arrangements as soon as possible.

Rulers of Ajman and Fujairah

Both of these individuals acted as nominees for the bank. Ajman received a built-in profit from the sale of the few shares held in his own right in CCAH, and Fujairah receives regular fees for acting as a nominee.

Mohammed Shorafa

Shorafa has acted as a nominee for the bank and has received fees for services rendered.

AR Khalil

SN said that the problems with Khalil arose from the days of Treasury. He used to have very large deposits placed through Zia and eventually Zia talked him into allowing the funds to be used under management by the Treasury operations. Khalil was also a shareholder in BCC and CCAH.

In 1986 once Zia was removed ARK wanted to settle his accounts and withdraw his deposits. As the deposit had been absorbed into the Treasury division, SN had to create loans to enable him to repay the deposit. He also had to reorganise the CCAH loans and allow these to be covered by the shares redeemed from ARK.

Because of the confusion over whether ARK's funds had created profits or losses and in order to avoid any potential litigation ARK and SN reached a settlement agreement for the bank to pay $15 million as "profit" on the deposits used and to transfer the CCAH and BCC shares back to the bank. A letter of release was signed by ARK in 1986 and subsequent to this there has been no recourse or relationship with him.

SN said that it was incomprehensible to him to see how the Treasury problems arose and how Zia could use a customer's funds for his own purposes. SN said he first became aware of this in 1984 and was shocked when he found the deposits had been used.

SN said that the major deposit relationships handled by Zia in Treasury were FIB and ARK. Whilst he felt that Zia had acted in the bank's interest in the early 1980's, by 1982 he is now convinced that Zia was acting in his own interests and the interests of Capcom. SN was adamant that only ARK's funds were subject to management agreements and that FIB had not fallen into this category. SN also noted that some ICIC Investment's funds placed with Treasury had been absorbed.

SN explained that during 1981 - 1984 an informal account of profits had been given however later after Zia left SN found indications in the files that not all of these profits may have been genuine. SN said that some pre-1986 Treasury papers had been found when Treasury moved to Abu Dhabi and these were now available. This would take considerable time to reassemble and may be very difficult as payments may have gone directly to brokers without being recorded in the bank's records. SN estimated that up to $600 million had been injected into Treasury in this period but he could not be sure of this as there were no records. He even doubted if it was clear from the dealing records whether transactions were undertaken on behalf of ARK or the bank.

SN said that ARK would be asked each year to sign his balance confirmation on the understanding that the settlement agreement still held but the reason why the balances existed in the bank's books was that SN had not yet been able to resell the BCC or CCAH shares.

SN explained that the remittances into ARK's account in the last couple of years had arisen from the sale of some properties in the UK and Panama which had been purchased under joint venture arrangements between the bank and ARK.

Gulf Group

SN explained that the relationship with the Gulf Group started in 1972/73 when he had been looking after the region in Abu Dhabi. $20 million was deposited by the Gokals in Luxembourg where Aktar Annis had been the contact officer.

At this time it was not BCC's policy to enter into term lending however after one year the Gokal asked for facilities in moderate amounts. Facilities were initially given in the UK against the deposits and subsequently against the mortgage of ships. The term of these loans was for 2 years and as the market value of ships was increasing this was thought to be safe lending.

Later in 1975/6 the lending grew to $60 - 70 million however the profitability to the bank was enormous because of the very significant remittances through the account. This was useful as the UK region was a high cost region.

The bank was however concerned about the size of the borrowing in relation to the very small capital of BCC and the increasing requirements as the company invested in these ships. At this time the customers' deposit was uplifted and used as down payment for the new ships. Because of the volume of activity through this account it was not followed professionally however because of its profitability no concerns were raised on this issue. In the late 1970's following the Bank of England's regulation that not more than 10% of any one bank's capital should be loaned to any one customer they had to move the account to Grand Cayman however control over it was maintained in the UK.

With the remoteness from the account officers, control over the accounts became even weaker and it was only when SN was transferred to the UK and became embroiled in the tax problems etc that he started to look after the Cayman entity. At this time he and Hashim Sheikh started to look after the account which at this time was close to bankruptcy with loans of $250 million and a capital base of only $100 million. The Gokals wanted BCC to bale them out and asked for $50 million for a 6 month period as a short term loan. Feeling they had no choice BCC told their branch to do this and then ran into much deeper problems as many of the other 50 banks used by the Gokals kept issuing notices of default which the BCC found themselves obliged to help refinance as the liquidation of the Gokal group would bring down BCC. SN explained that he had many heated arguments with the Gokals over their financial difficulties but he felt his hands were tied as their failure would lead to the failure of the bank.

Because of the Gokals' knowledge of BCC's own problems they were also willing to help with funds routing and the mis-statement of their liabilities. SN said that some 80% of the funds routed had now been reconciled and that this had been a major task. He said that there was no joint business between the Gokals and the bank and the situation could just be put down to foolish banking on behalf of BCC.

15

Sh Hamdan bin Mohammed

SN explained that this account related to an interest concession which was agreed when the bank took over a former Habib Bank loan for the construction of the Centre Hotel. In order to make up for lost interest the bank said it would create an investment using $5[illegible] million in the customer's name. This loan was used however for other purposes (repayment of loan accounts) but the customer was willing to sign loan confirmations because he was led to believe that the bank was investing on his own behalf in order to assist in the interest concession arrangements.

MM Hammoud

SN explained that all of the Hammoud loans were nominee or joint venture arrangements. Many of them arose from the bad loans from Egypt which could not be managed by the bank. Facilities in Cyprus and Kuwait were granted to Hammoud to enable him to buy the Misr loans at BCCI's risk.

SN explained that the problems in Misr arose from bad banking and the management's over zealous attempts to earn commissions on revolving L/C's whilst releasing documents under trust receipts. In some cases borrowers went into intentional default and others just through lack of funds.

In addition Hammoud has nominee loans for BCC and CCAH shares with BCC and ICIC and has also taken over some bad debts such as the Canadian hotel project and the Carlson Farms project. Both these projects were on the bank's books however when the started to go bad the bank could not afford to make provisions and so it created a sale to Hammoud through ICIC Holdings so that it could be disguised within the bank. The bank, through ICIC, had paid fees to Hammoud for sheltering these transactions.

SN noted that there may be some problems in the resolution of the Hammoud account as there were numerous disputes between his heirs and that they may try to claim ownership of the shares held under the nominee arrangements.

US Affairs

SJC enquired into the background for the US money laundering problems. SN said that the bank had been in the US to raise dollar deposits and that Miami had been a good profitable branch with substantial import/export business. The problems arose because the individuals in the branches were over zealous in raising deposits and were possibly also using their position in the bank to obtain favours and financing for the improvement of their lifestyles.

Kifco

Kifco is owned 49% by Holdings and 26% by Fulaij however the Fulaij holding is covered by a hold harmless letter. Other shareholders are genuine and include WJ Towell. Initially Kifco was used for trading in shares in Kuwait and for the raising of deposits however with the change in central bank regulations and the repatriation of Mr Iqbal it was used for the parking of loans. The Souk Al Manakh losses came at a later stage and had to be funded. SN noted that the losses at Kifco partially related to Souk Al Manakh and to certain companies created by Zia Akbar. Also some slow accounts were parked there to be out of sight of the auditors.

BCP

SN was insistent that BCP is clean and there are no accounts in it relating to the problem customers. He agreed that BCP had been used for the routing of remittances.

ICIC Group

a) ICIC Holdings - SN said that there was little substance to ICIC

Holdings other than its investment in ICIC Overseas. He acknowledged that it did contain certain joint venture arrangements and other agreements and that this company was used when management wanted to keep transactions once step removed from the bank and the auditors.

b) ICIC Overseas - This company was used to an extent for funding BCCI requirements SN noted that it may have a claim on BCC. SN said that he has discussed this with the shareholders and that they should work between ICIC and BCC to ensure that there is an orderly reorganisation of the 2 companies. HM Kasmi is in the process of working to reconstruct the accounts of ICIC although SN noted that before March 1990 Kasmi had no knowledge of many of the transactions in the books of ICIC as they had been directed by SN.

c) ICIC Investments - SN said that this company had no assets or liabilities of its own though it may have earned some profits before the 1987 stock market crash which were given to ICIC Holdings. It used to act as the principle for the portfolio account and was not audited.

d) CCI Holdings - CCI Holdings is owned by FIIL, SDCC and Fulaij as nominees for the bank. It owns CCL UK which is now profitable having been recently turned around. CCI UAE has been subsequently sold except one local shareholder who remains as a nominee to ICIC Holdings. Ghanem Mazroui is trying to get this customer to sell to a third party. CCI Saudi is a subsidiary of CCI UK.

Other Accounts

Ibrahim Gad

Mr Gad is an associate of SKA but the loans in the books are used to give BCC control of minority shares in BCC Misr

Abbas Mosselhy

Bad BCC Misr loan probably reduced due to improper funds flow.

Lisa General

Bad loan supplemented by funds from other accounts.

Bader al Ruwas

This is a mishandled account. The borrower's investment in BCCI shares is genuine and should be repaid from his own resources. It is possible that ICIC have given him a letter saying that they will have first option on the shares.

Bamadaoha

Bad debt supplemented from other sources.

Sogex

Bad debts supplemented from other sources.

General Agencies

Bad debt.

Haji Ali Fadel

Relates to NBO shares purchased when Bank of America sold out. These shares are owned by Mr Fadel in his own right however he has asked the bank to buy them back as they are not performing to his expectations.

Dhamal, ECTI

Egyptian steel mill loan in Misr and Grand Cayman. The Grand Cayman loan is a loss.

Red Sea Enterprises

A Sheikh Kamal trading account.

Advisors Team

SN briefly talked through the advisors team in his office noting that SM Akbar had been helping him with the Gulf group account.

Imran Imam and Habib-Ullah are assistants who have helped SN from time to time. Imam does not wish to return to the UAE although he will be able to provide considerable assistance in the CCAH/GRP/SKA accounts.

Mr Jamil Khan is now back in Pakistan and has threatened to expose some of the BCC issues if his loan account is not forgiven. SN is not concerned about this. Mr Razhali in his department used to deal with SKA.

Mr Arjamand Naqvi has assisted SN particularly in respect of the FIB account. In addition Mr Naqvi noted that Zia, Kamal Shohaib, Hashim Sheikh and Aluddin Sheikh had all benefitted from payments made by the bank. SN said that he did not believe that Mr Abedi had gained from the bank in a personal way and noted that he was not in any way connected with the Gulf group. SN also said that he himself did not have any bank accounts other than those booked in the bank and that his only house was one in the UK in his wife's name. (SN broke down after further discussion of these individuals involvement in personal gain.)

We had a brief discussion on the operating methodology of the investigation team and SN stressed the need for care to be taken in respect of the GRP and SKA accounts.

SJ Chapman
21 January 1991

(21)

Minutes of a meeting held at the Advisor's Office on 19 January 1991 at 11 a.m.

Present were: Swaleh Naqvi
SJ Chapman
MH Armour
Mike Hunter

The meeting was arranged to enable SN to explain the background to the accounts under investigation.

Introduction

1. SN said that he was broadly aware of the terms of reference of the investigation but would like to be provided with a copy in order that he should know the extent of the ground he should cover.

2. As far as SN was concerned he did not see the distinction between the portfolios and other aspects of the loss relationships; but, understood that it is for others to decide to what extent information on the portfolios should be divulged.

3. He said all transactions were supportable apart from certain specific payments which he would discuss with us at a later date.

4. He has sent a memorandum to the Chairmen of the Committees and to Zafar Iqbal setting out the background to the bank and its development and explaining the origins and progress of the manipulation of the accounts. At the end of the meeting he provided us with one copy of this memorandum.

5. SN said that he had told the whole story to the shareholders and saw no reason to hold back although there may be certain bits of paper that needed to be explained not on their own but in a larger context.

follow up SN asked that he should be given a definitive list of these accounts split into Company A and Company B so that he could advise whether or not the division was appropriate.

6. SN said that in April 1990 he had told His Excellency Habroush that he would be able to explain the use of funds by carrying out detailed reconciliations. He said that the routing of funds was complex, sometimes these were through customers' accounts elsewhere and customers were told to pay on the funds back into BCCI. Loans had been created to make funds available and new loan accounts had been created to put funds into old loan accounts.

He said that he would like to discuss these affairs in 3 elements:
* old Treasury
* Gulf Group
* Nominee accounts

He explained that the funds were used to:
* reduce loans to avoid provision
* augment profit with charges and interest
* to hide Treasury losses

XX XX He said that some Treasury dealing was done inside the bank and some was not. It had been managed by Ziaddin Akbar. He said that DPA funds were pooled with general funds. He said there was no separate private dealing by Mr Abedi.

Staff and documents

7. He explained that the following staff had been mainly involved:

Imran Imam

Nadeem Habib-Ullah, who assisted Imran Imam

Arjamand Naqvi, who assisted SN

SM Akbar - SN explained that SMA was only made general manager in Cayman for tax purposes and was not acting as the chief executive officer of BCCI (Overseas). He explained that BCCI Cayman was formerly a booking centre operated from London by Ziaddin Akbar. This was considered unsatisfactory so SMA was sent down to Cayman to manage the position but only booked what he was told to book.

Hashim Sheikh - handled the Gokal account. This account was partly audited in Cayman and so he had to brief SMA on how to deal with the auditors.

8. SN said that all records relating to these activities were available in Abu Dhabi with some in London.

Documents relating to CCAH shareholders have been given to Sandy Martin and there were 2 or 3 documents in the DPA filing.

SN said that the US lawyers should look at Independence Bank as well as CCAH.

As far as BCCI shares were concerned, there were very little in BCCI and some loan arrangements overflowed to ICIC.

He said that he was segregating ICIC records which were to be seen later.

He said that there was some correspondence in March/April with shareholders on the problems - what they were and how they could be dealt with.

He said he would be going away for a short trip of two weeks to London in connection with his eye operation.

In dealing with the recent urgent requests regarding Dr Pharaon and from Sandy Martin, this could affect the urgency with which he could address matters.

SN said that SMA was a diabetic and care should be taken in liaising with him.

9. He said that payments had been made to past employees including:
* Hashim Sheikh
* Ziaddin Akbar
* Kamal Sheikh

He said that there was no evidence of wrong doing by Hashim Sheikh despite his abrupt departure. He said that HS's wife had had a nervous breakdown and he was ill. He was scared concerning the US matters and wanted to retire as he was over 59. The payment made to HS was not so much blackmail but he had put SN on the spot and so $1.7M was paid to him as a pension payoff. He said that HS was still co-operating and SMA had seen him.

Ziaddin Akbar had exploited his knowledge later in his career. When he left he was recruited by Mr Plum for Senator Carey to attack the bank. He then put pressure on SN and received $3 million.

Dr Pharaon

SN had sent to central credit a memorandum which bifocates his accounts from those which are not his.

10. Independence Bank - he said there was an agreement whereby GRP agreed to invest 15% and the bank would find other shareholders. This it did not do and the other 85% is held by GRP acting as nominee for the bank. There is a written agreement for this. There was a later verbal understanding that took GRP's involvement up to 50%.

SN said that there was a need for a negotiated settlement and to find out how much was invested. He said originally GRP financed his investment elsewhere and then BCCI took it over as a loan.

BCC shares - he has shareholdings in BCCI of about 10%, of which 6% are his own and 4% as nominee for BCCI. This was financed from loans. GRP wanted to sell his own shares at $40 but BCCI had no liquidity so effectively took over the loans. The 6% shares were bought by BCCI and passed on to the CPA in lieu of buy back arrangements.

11. SN said that BCCI nominee shareholders would be analysed later and that they were mostly financed from BCCI and ICIC. Some shareholders had their own shares and had sold them for a profit which had to be financed by the bank.

He said Faisal Fulaij acted as a nominee and was held harmless against the related lending. The bank's investments of its own shares through nominees had been initially intended for the benefit of the ICIC Staff Benefit Trust and ICIC Foundation. There was no value expected to be given to management.

The 4% of shares held by GRP as nominee were transferred to Wabel Pharaon.

12. SJC said that Rahman had told PW that the Staff Benefit Fund had owed him a lot. But SN said that Abedi only promised that payments would be made if the bank succeeded and none of this was in writing. Abedi had paid £1M each to the families of two people who had died and this had become a benchmark.

Independence Bank - it was evaluated by staff. GRP was keen to take 15% investment and make a capital gain like the one he made on National Bank of Georgia. The other 85% was held by BCCI through nominees as Abedi wanted to keep his options open as to its future involvement. There was much talk at that time when the bank was re-organising about using a US vehicle and Financial General was considered too big.

/ / /

National Bank of Georgia - there was no written agreement however the profit on NBG was split 50/50 between GRP and BCCI. Officially he owned 100%. The profit was taken into the bank through management fees and in other ways.

The reason for the initial $80M option followed by $140M purchase consideration was purely structural. The option was taken out and then approval obtained. SN said that the transaction was at arm's length and that GRP had also had an offer from NCNB which was part shares part cash at the time.

13. Centrust - the bank had wanted to invest in Centrust and had arranged it through a loan to GRP secured on the shares. This was a $25M back to back transaction which was mishandled by BCCI Paris branch. First the branch made a loan, then it was changed into an investment.

Eurotunnel - the Eurotunnel shares are his own and not held on the bank's behalf.

14. SN said that GRP was a hardnosed businessman and the bank needed to deal with him about the $18M loan requested. SN asked that the bank do not break off communication and said that GRP had phoned him this morning. He needs careful handling .

SN said that GRP knows of the phoney loans in his name and confirmed balances. He never received fees for this but made profit on his BCC shares and NBG shares

FIIL - around 70% was held in the name of GRP, 10% in the name of Sh Kamal Adham and 5% other. ICIC has options to acquire these holdings and GRP in effect acts as nominee.

The nominee arrangements cover:
The oil group
the insurance group
SDCC and
the Hong Kong Financial Services Company.

15. Faisal Fulaij also acts a nominee in FIIL and insurance (CCI).

He said that the purpose of SDCC was to get into the Saudi. Similar nominee arrangements apply to Egypt. There were either written or unwritten agreements to effect the nominee arrangements.

Sh Kamal Adham

SN said that SKA's position was much simpler. He had a role in CCAH where he was introduced by BCCI. He became the principal person there and gave depositions at the time of the acquisition of Financial General shares. There was no written agreement made with CCAH shares as this was a clear violation of his statements. The understanding was however that, except for Adham Corporation, he was acting as nominee and gave blank transfer deeds. He maintained the appearance of controlling shareholder.

In 1988 he wanted to sell his own shares which could have fragmented the shareholdings. A long document was apparently drawn up and signed but SKA has said that it was not executed. He wanted settlement on the profit.

The SKA shareholding was 12 to 13% with Adham holding another 2.5%.

Other CCAH shareholders - arrangements were as follows:

Fujairah -	1,000 in his own name the rest for the bank.
Ajman -	partly his own but these were later sold to the bank
Fulaij -	wholly a nominee
Shorafa -	500 in his own name and the rest for the bank
Hammoud -	wholly for the bank
Khalil -	originally owned shares but then sold in 1986
Jawahary -	as nominee.

SN said that BCC never took voting powers and had no influence on managemen

As far as financing CCAH shares from their own resources, he said that SKA had his own money and Faisal Fulaij received a bridging loan from Kifco. His Highnes had his own resources. Initially the bank had thought that the undertakings concerning financing of the CCAH shares from their owners resources only cover these three shareholders however it is now assumed that it applies to all shareholders. For the rest the loans came from ICIC and only a small amount fro their own resources. In 1986/87 rights issues were all BCC financed.

BCC had held under 50% until September 1990. But when the Sh Khalid bin Mahfouz arrangement was unwound and the 9% in the name of Burford was take over by the bank an account was created in the name of Fulaij and Masriq to finance it.

SN said the beneficial ownership of CCAH was currently as follows:

Burford/DPA 10%
Adham Corporation 2.5%
BCCI 60%
Sh Zayed 12%
Sh Khalifa 9%
ADIA 6-7%

He said from inception BCCI always owned around 50% and the objective was capital gain. A merger was always considered impractical.

<u>Virani, Gomba, Crown, AS Trading</u>

Management fees were over charged to these companies and now need to be refunded. There will have been a letter regarding these arrangements.

<u>Prince/IMC</u> - the position is now resolved.

<u>Red Sea</u> - bad lending

<u>Saigol</u> - used for routing loans and a settlement has been made with the tw brothers.

Control Securities shares

The purchase was arm's length although it was possibly a buy back arrangement.

Control Securities/Batace [?]/Virani - the bank got a fixed fee and a share of the profits otherwise the relationship was arm's length.

Circularisations were arranged so as to confirm balances with signed letters given to customers.

Sh Kamal Adham

With Allied Arab Bank (now Allied Trust Bank), SKA had asked the bank to take shares to help with the restructuring. It was agreed in principle but there was significant confusion over the names of the companies. Take over by BCC was unlikely to meet with approval.

There is a $2 million dollar loan which represents the investment in SDCC using SKA as a nominee.

SKA has been a big claim against the company in respect of his own borrowings. Interest was agreed at LIBOR + 1% however much more was booked. Refunding is estimated at about $20M. Meanwhile SKA did not get fees for acting as nominee but wanted profit on sale of his own shares.

Otherwise his lending is normal with security against deposits and properties. The shortfall or unsecured portion of the lending is approximately $80M. He was expecting a substantial profit on his CCAH shares to repay all this.

SN suggested that contact be made with him sooner rather than later.

Fulaij

He was acting as a pure nominee and received a regular fee for this. He now wants to stop.

Fujairah and Ajman

Their positions SN said was now well known. They were nominees and participate for a fee. Fujairah received fees on a regular basis and Ajman sold shares at a profit.

Jawahary

He should be considered with Sh Kamal Adham.

AR Khalil

The relationship was managed by Ziaddin Akbar. Khalil used to have substantial deposits then ZA started doing Treasury transactions on his behalf and for a share of the profits. Khalil was a shareholder in both BCC and CCAH. In 1986 he wanted to settle his accounts and take his deposits. Loans were created in order to do this. Then all his business connections were wound up and a "discharge payment" was agreed. He handed over his BCC and CCAH shares and received a fixed profit of $15M and he has signed over those shares.

ZA was responsible for notifying what the profit on the bank's Treasury operations was and it was very difficult to know what the real profit was. Trading on behalf of the client was expected to make a profit off the books and ZA was asked to supply the profits from elsewhere. In 1984, deposits had been used by Treasury by ZA.

He probably established Capcom in 1983/84. He had difficulty in reconciling the losses. There was no written agreement with ARK on ARK trading.

ZA had an "authority" but SN does not believe that it was ever signed. ARK was never given any accounts of any dealings etc although all were in his name. Abedi wanted to enhance profits and ZA said that he could do it.

So SN thought that the 1981 to 1984 "Treasury Profits" were in effect enhancements. ZA used to give SN an account book.

ZA disappeared in March 1986 and then the tax problems arose The terminals were disconnected and the operations moved to Abu Dhabi. Papers were later found in a cupboard and are now here but it is not known the full extent of the losses.

SN said it was impossible to reconstruct Treasury trading now. ZA inflated Profits and covered losses. SN was not familiar with the pre-1985 position and he did not know who is. He thought it was quite possible for a $600 million Treasury loss in excess of the $365M recognised. The record does have a statement showing the amount of profit injection from other savings and it is only from this that SN has made his guess.

Transactions were not only in the books of the bank. Other dealing tickets for funds under management are held probably by ARK.

ARK confirmed his balances but had hold harmless letters. In 1987 he signed them again and it was explained to him that confirmation was needed as his shares had not yet been sold on by the bank. SN later asked SKA to take over the shares.

SN said that 4 or 5 properties were bought and sold in the name of ARK, some were joint ventures.

Gulf Group

SN said he was in Abu Dhabi in 1972/73. At that time the Gulf Group had deposits of $20M in Luxembourg. Mr Anis had the initial contact. It was the policy of Abedi at that time not to do term lending. After one year the Gokals asked for a facility in London. It was given and secured on receivables. They then started borrowing disposal. The market was going up at that time and approval was given.

In 1975/76 the lending reached $60-70 million and the bank was making enorm profits from this. As the UK region had a high cost base, this high income client was important despite the low capital base of the bank. Shipping was booming with large orders placed for new ships. The Gokals used the deposits for down payments and borrowed from the bank. BCCI fooled themselves SN said.

In 1978 the borrowing reached $100 million and new regulations were introduce by the Bank of England concerning individual exposures. The account was mov to Cayman but still controlled from England. SN went to the UK where there we lots of tax problems and by default SN started looking after Cayman. UK management washed their hands of the Gulf Group and SN took it over. In the early 1980's, the borrowing reached $250 million and with a recession underway the Gokals wanted to be bailed out. $50M was required and so it went on. The bank tried many ways to control the lending. The Gokals continued to speculate gold etc and lost money.

Hashim Sheikh managed the account and SN would meet the Gokals and be pursued to lend more money.

The Gokals knew that their account was outside normal procedures. SN would the Gokals to route funds and assist in the manipulation of the Gulf Group accounts.

The Gulf exposure was so large that Abedi/SN needed to grow the bank in orde resolve the position.

Sheikh Hamdan

He had a loan account here. City Centre Hotels went into default and Sh Hamd wanted a concessionary rate of interest which was agreed. Instead he tried to tu the interest accrued write-off into an investment. Sh Hamdam was pursuaded to take a loan of $50M to be used for BCC shares. Instead the funds were used fo other purposes. The other lending was Dirhams 30M.

Hammoud

He is a CCAH nominee. He has joint ventures with ICIC Holdings.

Egyptian loans were bad debts of between $70-100M in BCC Misr. So the bank asked Hammoud to buy them at BCCI's risk. Then gave him the facilities in Cyp and Kuwait of around $20-30M. This also relates to the steel mill account.

Misr went wrong in the early 1980's. SN said that Misr management did not beli that an L/C was a real liability and earned good fees. So they opened many anc failed to control them. Documents were released on trust receipt, borrowers deliberately defaulted and the exchange rate went against them leaving the bank exposed.

Hammoud loans were used to assist other bad debts. In Canada an hotel was financed by BCC Canada. Hammoud took it over as joint venture. Carlson Farm in the US - the same thing.

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ICIC was involved to keep the bank at one step removed. Hammoud acted as BCC's shares nominee.

He has small shares secured on property and life insurance cover. Hammoud received a fee from ICIC.

SN said that Hammoud acted the same way as Jabaly where a problem loan in Misr was transferred in his name in order to try to recover the security of a property in Lebanon.

Regular joint ventures were done with Hammoud. His heirs are responsible for 50% of those joint venture losses. BCCI and CCAH shares are registered in his name.

US operations

SN said that the US operations were required to obtain dollar deposits. Offshore deposits were required and Latin America was a major source of dollars for US banks. The Miami branch was profitable based on importing and exporting for US customers. Los Angeles and San Francisco never made a profit. Miami was motivated by a desire to mobilise deposits.

Kifco

Kifco is 49% owned by BCCI and 51% owned by local investors. Of which 26% are not responsible for their losses and 25% in the name of Towell who are not acting as nominees. It is managed by BCC. Initially it was set up to trade in shares and financing international trading. It was used to mobilise deposits from Kuwait until the central bank stopped it.

The company was also used for domiciling loans. The Souq al Manaq losses were turned into loans and Ziaddin Akbar created new companies for loans that were bad debts to be parked in.

BCP

SN said that BCP was clean with no phoney accounts. It was however used as a routing for remittances between loan accounts.

CFC

SN said the position on this was open.

ICIC Holdings

This was used for joint venture agreements with customers. It did not have a large balance sheet and its major asset was its investment in ICIC Overseas. It was there to remain one step removed.

ICIC Overseas

This was used for funding of BCC and technically it may have a claim on BCC for funds taken for the Gulf Group and others. There were perhaps $100M in this one plus $100/150M. SN said that he had recommended shareholders to support ICIC and its problems are manageable.

The purpose of Apex Holdings was to route dividends through to the staff benefit fund and foundation.

He said that Kasmi was trying to reconstruct and was needing to liaise with Akbar. He was only responsible for external funds. Kasmi was otherwise not involved but should have drawn his own conclusions. Since March 1990 he has been informed but never kept his own orderly record. Things were being routed through Kasmi.

ICIC Investments

The company managed other people's funds. It was a nominal company but was part of the overall scheme of things.

ICIC has injected funds into CCI Holdings Luxembourg which owns CCL UK, which was loss making but has been turned round. CCI Holdings Luxembourg was BCC owned through nominees. The UAE company is owned by ICIC Holdings through nominees. The Saudi is a subsidiary of ICIC Holdings.

There is a memorandum on this held by HE Mazrui.

GAD

? The GAD loan in effect was the nominee investment of BCC in Misr. The beneficial ownership of Misr is as follows. BCC 49%, public 10%, GAD [illegible]%, Jawhary 4-5%.

Abbas Mosseihy/Lisa General - poor lending with credits from elsewhere.

Rawas - Invested in BCC shares from his own resources. He has a letter from ICIC giving the first option to ICIC to acquire them. Liens have not been taken on deposits in Dubai and Oman.

Bamaodah - poor lending and the accounts have been reduced.

Sogex - about $1M was used to reduce accounts.

General Agencies - no problem.

Haji Ali Fadel - he owned the NBO shares in his right financed by BCC.

Dhamal - no problem; possibly some manipulation.

ECTI - steel mill connected with BCC Misr and Cayman.

Red Sea - Sh Kamal Adham and not manipulated.

Advisor's Office

This particular responsibility within the Advisor's Office was as follows:

SMA Akbar - Gulf Group and helping SN

Imran Imam (assisted by Nadim Nabim-Ullah) -CCAH
GRP
SKA

The SKA account used to be handled by Jamil Khan and Fakmir Hussain, although Razaii used to really handle the account.

Arjamand Naqvi - assists SN and looks after List 1 accounts, especially FIB. Handles FIB account.

Jamil Khan is in Pakistan - some of the funds were handled by him but he left behind papers. He wanted to discuss his loans but SN could not help him. SN advised him to tell the bank, SN said we could see him if we wanted to.

Fakhir Hussain - was handling the accounts only half heartedly. Not involved in the underlying transactions, however, he may have surmised.

Sharaf in Cayman was only a bookkeeper really.

Nobody still in the bank has received any amounts.

Kamal Sheikh acquired acknowledge through Ziaddin Akbar and Jamil Khan and then blackmailed. SN thought that ZA was the real crook. Hashim Sheikh was not in the same category.

Ziaddin then also put on the squeeze. Nobody else has exploited their position and SN has no knowledge of misuse.

SN said that Mr Abedi had no direct gain and no relationship with the Gokals. SN said that Abedi was disgusted with the Gokals.

SN said that he had received no monies in connection with all of this other than was in his personal account with the bank.

During the course of the meeting Mr Naqvi broke down several times in tears and had to recompose himself.

MH Armour
Recorded on 23 January 1991 from contemporaneous notes.

Notes on a meeting at the Advisor's Office on 20 January 1991 at 12 o'clock

Present were: Swaleh Naqvi
MH Armour
Nadeem Habib-Ullah

The meeting was held principally to discuss the accounts of Dr Ghaith Pharaon (GRP). SN explained that the bona fide accounts of GRP were kept entirely separate from those accounts for nominee and manipulation purposes. He said he wished to discuss the GRP position as follows:

1. Relationship
2. Written arrangements
3. Split of accounts
4. History of his non-accounts
5. Identification of major transactions

Relationship

He acted for nominee for BCC in the following way:

a. BCC shares, which were about 50/50 BCC and his own.
b. National Bank of Georgia, where 50% of the profit was due to BCCI
c. Independence Bank where 50% of the profit was due to BCCI

He also acted as nominee for ICIC, in particular through his involvement with FIIL. The ownership of FIIL was as follows:

70% - owned by GRP and a written option agreement for ICIC
15% - beneficially owned by GRP
10% - beneficially owned by SKA
5% - owned by Faisal Fulaij (2% for himself; 3% for ICIC)

SN explained that Mr Abedi worked for Habib Bank in 1946. After partition he started developing branches in Pakistan. He became disaffected and his principle aim was to involve management in the business. With Saigol capital he formed a bank. Before ICIC he intended it to be a profitable operation. He firstly identified Attock Oil, where the UK company wished to divest, and so FIIL was formed in order to own the oil company. Then came the insurance group at a later date.

Under FIIL, there was mainly Attock Oil, involving the UK company having operations in Pakistan and elsewhere overseas. Concessions were obtained in Abu Dhabi and so various companies were formed to exploit this. SKA had participated in this. However, large losses were incurred of $20M. FIIL had a loan from BCC and this was transferred to ICIC .

Tradigrain

This was a Swiss commodity trading company owned by the Gokals. When they pressurised the Gokals to sell their assets they acquired Tradigrain through GRP and the proceeds were applied against the account. ICIC had agreed to finance and run it but failed to do so . GRP had initially said that he was interested in taking over the operation but actually it was owned by ICIC in GRP's name. It has since been sold to BP and the loans repaid.

ICIC gave loans to GRP and the funds were used to repay in BCC.

List B loans were used for the investment of BCC shares and for servicing other loans including the CCAH lending. This was done to show the auditors that the loans were being serviced.

He said that there were written agreements in respect of these nominee arrangements in the files.

<u>Independence Bank</u>

SN gave me a copy of the option agreement between Independence Bank and ICIC.

SN explained that when Independence Bank was acquired, Mr Abedi wanted to keep an option open for the bank to acquire it. 51% of the bank was held by GRP and 85% for ICIC or its nominees. This written agreement may be null and void, as clauses were not fulfilled. GRP asked for 50% to compensate him for his active management oversight of the business.

SN said that there is a letter from GRP saying that he wants to stay at 15% written about 2 years ago. A copy of that is in fact with Mr Shoaibh, the BCC's man put in at Independence Bank.

<u>NBG agreement</u>

There is an agreement in writing for the bank to charge fees on the sale.

<u>Attock Oil</u>

There is an option agreement on Attock Oil and the UAE concessions.

<u>Confirmations</u>

GRP was asked to confirm balances but was given side letters that loans would be settled from securities held, i.e. supposedly underlying investments for the nominee claims. GRP occasionally would ask for his nominee loans to be settled and SN told him that securities would be available. This was about 2 or 3 years ago.

<u>Statements given to GRP</u>

The statements were given to GRP to help keep track of his nominee and genuine loans. They were broken down in the following way:

a. bona fide accounts
b. investment in BCC and FIIL (later transferred to ICIC)
c. NBG related
d. Ad hoc - to repay third party loans
e. Independence Bank related

SN said that GRP did not know the real purpose of the loans and thought they were bein used to finance BCC shares.

As regards the BCC shareholdings, Mr Hafeez is preparing a schedule.

SN asked Mr Nadeem Habib-Ullah to create a transmission record recording the debits each account and their destinations.

As regards his analysis of security:

List A security relates to deposits on which there is no formal lien
Eurotunnel shares, which are fully secured
Centrust, which he said was dispose of

List B security relates to Independence Bank
Batace - SN said that Imran Imam in London would know the involvement of GRP in Batace and the Virani connection.

Rainman - SN that Imran Imam would know more about this, he said it was partly nomi and partly GRP.

Rio Estates - he said that this was GRP's personal borrowings.

SN agreed that Derek Tyler should visit II to discover more about these..

Redec - was not used for any purpose.

List A No 15 - $5M was given to GRP for extra capital in Independence Bank.

As far as GRP's files in London are concerned, SN explained that the Grand Jury in Ne York had subpoenaed GRP's files. GRP had served an injunction on the bank to ensu the files were not despatched to the bank.

As regards the prosect of repayment, he said that GRP had the capacity to repay the l A borrowings.

GRP requested an extra $17.9M to reimburse for injection made into Independence Ba in the 3rd September quarter. He explained that certain accounts needed to be remov from Independence Bank and GRP had done this on the understanding that the funds would be provided by BCCI.

He suggested that the bank still needed GRP to sell Independence Bank. He talked c net worth of $42M at a multiple of 1.75 giving a value of approximately $68M.

MH Armour
Recorded from contemporaneous notes on 23 January

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Notes on a meeting at the Advisor's Office on 20 January 1991 at approx 5 pm

Present were: Swaleh Naqvi
Nadeem Habib-Ullah
MH Armour
John A Guy

I raised with SN the comment he had made in his memorandum regarding that in 1986/87 an arrangement had been entered into with Mahfouz.

SN explained that Mahfouz wished to acquire the bank. An arrangement was made with ICIC whereby ICIC had undertaken to procure 30% of BCCI and 30% of CCAH subject to the separate regulatory approvals required.

BCC shares

Some shares were sold to Sh Khalid that were held by nominees (this could be looked up). The funds were received from SKBM and utilised against the corresponding loans and for other loans. There was a pool of funds used to repay other loans.

There was a rights issue and the other shareholders all waived rights in favour of Sh Khalid. Money flowed directly into the capital of Holdings.

Convertible capital notes were issued to him and again credited to the capital of Holdings.

Together these made about 30%.

CCAH

9.9% were sold to Burford Investments (which held them on behalf of Sh Khalid - these have now passed the DPA). The vendor was Crescent and Stock Holdings who passed the shares to Mashriq, which was then acting as the nominee for Sh Khalid.

Because of the need to get regulatory approval, the other 20% was not transferred into Sh Khalid's name. However, he provided loans through NCB secured on the 20% shares which enabled the bank to get funds. An agreement was entered into with him whereby Sh Khalid could divest within 3 years except for the capital notes which were redeemable in 5 years. Secondly ICIC group guaranteed to acquire the shares from Sh Khalid at the initial purchase price plus a profit equivalent to the prevailing interest rate. Meanwhile Sh Khalid notified towards the end of 1987 or early 1988 that he did not want to go ahead, i.e he exercised his shadow option to sell the underlying shares to ICIC.

BCC shares sale

BCC started acquiring BCC shares from him by creating loans and paying him in installments. In August 1988 ICIC borrowed $435M from ADIA and $100M from NCB to buy the shares from Sh Khalid.

With interest etc he was paid about $535M.

The 20% shareholdings were sold to the government in 1990 for $800M. These proceeds were used to repay the ADIA loan of $435M plus interest of about $72M/73M, $115M were repaid to NCB and the balance was put to a general pool of funds. The bank in effect made a profit on the transaction even after interest payments or about $50-70 millio[n] used to make write offs and make up shortfalls in Sh Mohammed's account.

(CCAH shares ?)

Pressure came from Sh Khalid for the 9.9% held in the name of Burford to be bought. However, the government would not buy. So it was agreed to pay him $147M which was effected in the form of 2 loans of $100M and $47M. BCC took over the CCAH shares.

However, BCC owed the DPA 20,000 CCAH shares - it had used DPA funds for other things. So the $147M was added in the name of Mahfouz to a CCAH lending with no increase in the underlying assets. A balance confirmation was obtained from him for audi[t] purposes.

Before the government took over the 20% CCAH shares in 1990, the shares were used t[o] support further loans and accounts were opened under the name of CCAH Shareholders with NCB. The funds were transferred back to BCCI Cayman. The loans amounted to $320M and the proceeds were used to:

1. pay back loans of Crescent and Stock
2. surplus used in the pool

If Mahfouz had got approval for the 20% holding in CCAH he would have had to have pai[d] in the funds. On the Burford shares, there is a 9.9% blank transfer deed for 26,000 at the will of DPA. Interest on the $147M, i.e. the minimum price agreed, has been paid to Mahfouz by creating a loan in Bahrain of about $40M.

GRP

GRP was selected as a nominee and used to borrow money from NCB. GRP consented to the opening of the account and there should be a letter on file somewhere holding him harmless. Amounts of $70M and then $35M were borrowed several years ago and serviced from elsewhere either debited to GRP's own accounts or other accounts or ICIC. NCB always had placements to cover this borrowing.

GRP felt uncomfortable with this arrangement, as he had to renew each year. NCB was also uncomfortable. So the bank took it back.

SN said that in all of this, there was no grand plan - just ad hoc expediency. He said there were no separate records maintained to keep track of what was done.

SKA

SN said that this was a simple affair and that NH would be able to assist in tracking amounts. He suggested that the bank should be talked to. He said they were non-sensitive accounts in the bank and suggested that I talk to Mr Fakhir Hussain. He said the accounts were not debited with amounts for account manipulation.

Hammoud

He said there was a great overlap with ICIC. An exercise had already been done. He suggested that we look at the latest communication with the bank by asking Mr Velmi.

He said start with Mr Velmi but the bulk is in ICIC. In BCCI there is Hammoud's own borrowing and Egyptian loans parked there. We should talk to SN about the Egyptian loans.

MH Armour
Recorded on 23 January 1991 from contemporaneous notes

Notes of a meting held at the Advisor's Office on 22 January 1991 at 5 pm

Present were: Swaleh Naqvi
SM Akbar
Arjamand Naqvi
MH Armour
Neil Blair
Charles Barrows

The meeting was arranged principally to discuss the affairs of Sh Kamal Adham and al. SDCC and Jawahary.

SKA

SN explained that SKA had been a shareholder in BCC since inception. Initially it was subscribed by him and later rights issues were partly funded from his own resources a: partly his nominee. He has always been useful in developing the bank's business.

The first original purchases by SKA in CCAH were with DPA and Faisal Fulaij. He went through length depositions and became the lead shareholder. He, with Adham Corporation, held 14/15%.

With CCAH, the initial subscription was from his own resources and the rights issues w funded from loans. His personal name shares were expected to eventually become nominee holdings. There was no written agreement until 1988 when SN wanted to kee the shares under control.

SKA was unwilling to compromise his position, so he had an option agreement with ICI(for them to buy his shares within five years. He wanted a profit for facing the world as nominee. He has signed blank transfer forms and the shares are being used in the poc

His other nominee lending includes:

FIIL - 10% financed by ICIC and secured by the shares and controlled by it.
SDCC - nominee company. BCC lent the money and it was controlled by BCC.

SN explained that he had sent a memorandum to central credit concerning the list of accounts and his recommendations.

As far as List A was concerned it related to a CCAH lending and I explained that Mike Hunter and Mick Walker would be looking at that. We concentrated on List B which was designated non-CCAH lending by SN.

North West International

SN explained that NWI was a vehicle for investment in Allied Arab Bank (now Allied Trus Bank). The bank had agreed to invest in ATB, but held the investment through NWI. It would have taken more but was unable to obtain the appropriate approvals.

Originally the investment asked for by SKA from the bank was £6 million for the shares and also to take over the restructuring costs that were added to it. The bank committed to the investment and there was a lengthy restructuring in which Mr Shawari was involve Interest was charged on the account.

Under the arrangements the bank could become owner of about 3-5% of Allied Trust Bank. Balance of account represents accumulated interest and charges from the initial investment.

SDCC

This was a nominee investment .

Account 2971

This was CCAH related.

SN stated that the accounts were clearly split between his own borrowing. SKA's own people, which included a qualified accountant, would have reviewed the statements.

SCB

A $25M loan was taken out from the Cairo bank in the name of SKA with BCC making an equivalent placement with the bank. The funds were paid back to the bank to appear as repayments to CCAH lending. Interest was paid either from his current accounts or externally, i.e. through ICIC as part of the general pool of funds.

BCC Emirates was used to park loans in order to use its spare liquidity and to move profitability around the group.

The bifocation of the accounts follows the way in which it was always presented to SKA.

SN suggested that further discussions were held with Mr Arjamand Naqvi and that Zafraz should be asked to come from London where he has now been made redundant. He said that he knows a lot although his involvement was only booking the entries.

Claim

SN said that there had been an agreement with SKA that interest should be charged at 1% over LIBOR. This he said was in writing in about 1985. In fact the bank charged much more than this. On CCAH related lending it did not concern SKA since he was not responsible for it. On the other lending he had had a claim to get the accounts adjusted to strip out the excess interest and service charges and bring the interest back down to 1% over LIBOR. SN said that SKA had confirmed the balances and BCC had separately agreed to refund the charges even though he confirmed the balances. SN said that SKA's motivation for this was the large facilities afforded to him by the bank and the promotion of goodwill in the relationship.

SN said that he thought that a statement showing an analysis of a refund amounting to $20M may have been given to SKA. He said that his last meeting with SKA had been three months ago but there had been no further contact awaiting restructuring the account.

He said that the two main things that were outstanding were agreement on:

1. excess charges - as above
2. compensation for carrying the CCAH shares and his role in the bank. He said that SKA was expecting a large payment, and SN said that he had indicated to SKA that $20M should be paid.

Asked who was responsible for raising the excess interest and service charges, SN said that he would ask Grand Cayman to book the extra profit.

Jawhary

He said that Jawhary was an associate of SKA. When quizzed about the payments made from the SKA accounts into Jawhary accounts, in particular SAK Trading, SN said that SKA authorised all the payments and so that the reasons were his own affair and professed not to know the reasons behind the payments.

SECIF - Jawhary acted as nominee for the bank.

BNK Holdings - Jawhary acted as nominee for the bank holding shares of BCC.

Syed Jawhary - Jawhary acted as nominee for holding CCAH shares on behalf of the bank.

SN said that we should also find nominee holdings in respect of BCC Misr. He said that GAD and Jawhary both act as nominees for this together with their families. He said that the ownership of Misr was approximately:

BCC 60-65%
Public 10%
Other 10-20%

SN said that they may have used GRP accounts to pay SAK with fees that were due to Jawhary for his involvement as a nominee for the bank. Fees were paid on a formula basis for his involvement as nominee for BCC and CCAH. Mr Azmutullah arranged payment of the fees.

Asked about the payments by Kaad Corporation to Red Sea, SN said that this was SKA's own business and the bank was not involved.

Jeddah Hotels

This was a 50/50 joint venture between SKA and GRP. SN said that GRP was acting in his own right and not as nominee for the bank. He said that GRP had sold his interest to SKA and repaid his related borrowing. When asked whether or not this repayment by GRP came from his own resources or from drawdowns elsewhere on GRP accounts, SN stated that it was from GRP's own resources and that we should not prejudge GRP's own bona fides just because the bank had manipulated accounts in his name.

SKA finances

SN explained that the relationship with SKA had started with deposits placed from his own resources at the very beginning. SKA's liquidity had been very tight for the last 4 or 5 years. He had invested in properties and the market had crashed and he could not put a value on them.

SKA had had a large commission business with the government but this had stopped about 4 or 5 years ago. He had some income and assets but there was no reliable financial information.

SKA had not made any payments or serviced interest from his own resources since 1984. SN regarded that prospect of recoveries from SKA other than through the realisation of security to be dim.

He thought that SKA was potentially dangerous to the bank if a confrontational approach was adopted. He thought however that SKA would like to settle these affairs. SN had discussed this with Mr Jawhary but the arguments are unsettled concerning the level of rebate and the fee concerning CCAH.

Asked about the promissory notes on file signed by SKA, SN said that SKA would sign blank promissory notes. If they were filled in first, it was possible that the balance on the relevant accounts would rise above the amounts in the promissory notes so they would become invalid. Instead blank signed notes were kept so that they could be completed as required to make them more legal. They might still be voidable but much better than an outdated promissory note. Asked why a customer would be happy to sign a blank promissory note, SN explained that the customer was happy to do that since there was significant goodwill between the customer and the bank and the customer trusted the bank only to act properly. Asked why the bank required the customer to sign the promissory notes, SN explained that they were obtained in order to mislead the auditors that the loans were bona fide and supported by promissory notes.

He explained that the main businesses of SKA were:

Cairo Beverages
Red Sea
Contracting businesses
Property businesses
Commission agents

He suggested that Neil Blair should meet SKA as soon as he was ready.

Jawhary

Heavy interest was also charged on his accounts although this has yet to be disputed by Jawhary.

SDCC

This represented the bank's investment in Saudi Arabia. No branches or rep offices were permitted and BCC wanted an office there. SDCC was set up with shareholders SKA holding 85% as the nominee for BCC and Abdullah Aziz holding 10% with 5% elsewhere.

1985 the nominee shareholdings were changed to ensure that SDCC did not appear in SKA's group accounts. The three new nominees were chosen by Mr Jawhary.

It did no real business except invest in 2 properties, one of which has since been sold.

Restrictions were placed on companies in Saudi Arabia acting on behalf of foreign banks and so the company was used for the routing of funds on behalf of BCC. The local accounts of SDCC did not reflect these dollar borrowings and loans in order to keep the balance sheets small and so minimise the amount of tax payable on net worth.

In 1980, loans parked in SDCC included Bishir - against BCC shares. Haji Bin Sultan - against BCC shares, Unetco - regular trading, Darhad - nominee transaction.

Loans could have gone somewhere else. The Saudi general manager does not know of the loans. It was formerly managed by a BCC manager on secondment who used to park bad loans and route loans for poor lending.

Kifco was used in a similar manner.

SEÇIF

In Egypt only finance companies could have banking arrangements if supported by Arab ownership. SDCC was used to provide this for BCC's involvement in Egypt through SECIF. After 2 or 3 years offshore banking was allowed so SDCC involvement became redundant.

SECIF was mostly owned by BCC through the 50% owned by SDCC and by nominee holdings by Jawhary. The remaining shares were held by, SN thought, the public and others including some insurance companies. BCC seconded staff but after 2 years lost interest. It is managed by its own board.

SECIF gave no dividends and business was restricted. If Egypt allows conversion of SECIF into a bank then it may have some value.

BCCI Financial Services Pte Ltd has one or two properties in Oman and Dubai. It is funded by BCC Emirates. It may have been used in one or two nominee arrangements.

BCC Financial Services Hong Kong may be an investment in Kifco and other leasing companies in Malaysia and Hong Kong.

Ownership is through BCC Financial Services Dubai through SDCC to get round UAE non banking company restrictions.

BNK Holdings

For BCC shares.

CCAH

The CCAH shares are used as a pool. The CCAH lending represents:

Rights issues
Loans servicing
Increasing profit/high management fees

The \$20M fee payable to SKA referred to earlier, SN said, was not based on a formula but he had calculated on the basis of the fees calculated for other nominees where a formula was used. In simple terms it was 10 years times \$2M per annum.

He said the \$20M rebate on interest and charges had been calculated by Mr Raza Ali. When asked why the schedule summarising the analysis of the \$20M rebate only covered 1988 and 1989, SN said that he had just picked up 2 or 3 years since if he had chosen all years since inception of the arrangement in 1985, the amount would have been too much. The exercise was done at the request of SKA and Jawhary and he said the statement was made a year ago. He suggested that we ask Fakhir Hussain whether or not a statement had been given to them.

MH Armour 23 January 1991 based on contemporaneous notes.

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Minutes of a meeting at the Advisors' Office on 24 January 1991 at 5 pm

Present were: Swaleh Naqvi
SM Akbar
Neil Blair
MH Armour
Mike Hunter
John A Guy

The meeting was held to discuss the affairs of the Gulf Group.

SN explained that there were about 100 files covering the relationship since 1972. The whole story is in the files and only bits of detail may be missing.

He explained that the Gokals were an old Indian business family from Southwest India around Bombay. Two generations ago they had migrated to East Africa and then on to Iraq (?). The three Gokal brothers who owned the business were Mustapha (based in London), Abbas (based in Geneva) and Mustiaz (based in Canada). The main business brains was Abbas although the bank also dealt with Mustapha. Abbas was settled in Geneva which is effectively the base.

SN had had no contact with the Gokals prior to BCC. The account relationship started in London in 1972 when SN was in Abu Dhabi and Akbar Aneez was general manager in the UK.

The bank needed both deposits and business. The Gokals placed $20M in Luxembourg and London. At that time SN said that he had no knowledge of their size of operations.

In 1977 they started opening facilities in London of modest amounts and started routine substantial remittances through the bank and letters of credit. This became major business for London.

It was the policy of the bank at that stage not to do term lending but only trade finance. However, in 1976 the bank started shipping loans as bridge finance for the Gokals secured on old ships. Usually for a period of 2 years.

The deposits were then withdrawn and the reason given that they were used as down payments on large orders for ships from the Japanese. At the same time the Gokals started buying other businesses. The relationship was invaluable but the size grew to $90-100M which at the time represented 50/60% of the bank's capital. In 19XX the Bank of England issued its 10% guideline concerning individual risk. Although the bank was based in Luxembourg, its UK branches had to report to the Bank of England. So the borrowings were moved to Cayman in 1976. The account was still managed from London. When the exposure hit $200M, the Board and the auditors were concerned. Meetings were held between Mr Abedi and the Gokals.

UK management continued to manage the account until it grew too large. The profits went to Cayman and it was a problem account and was treated as 'out of sight, out of mind'. SN took over the responsibility in 1978 for the account assisted by Mr Hashim Sheikh. The balances continued going up.

By 1985 (?) they had been hit by the shipping recession and the Gokals came to the bank asking for salvation. It was clear that the bank's and the clients' fates were interlocked. If the bank had not supported the Gokals, 50 to 60% of the capital of the bank would have been wiped out.

SN initially agreed to extend $50M and insisted that the Gulf Group reduce operating costs, reduce the size of their establishment and divest assets. The $50M was exhausted in 2 or 3 months and the Gokals kept on coming back. They would show a demand from a bank or a notice of arrest of a ship. The bank would be told that if these were not met then the holding company would have defaulted. The situation was a nightmare. SN used to run the bank during the day and at night with Hashim Sheikh would go to the Gokals offices to discuss matters. Two or three times a month the Gokals would ask for more money in sums of $2, 3, 5M and it would be allowed.

There was considerable pressure from auditors, the board and eventually the regulators. The tangible security was very small.

In 1982 the Gokals reorganised the group into two holding companies. One was GIH organised to show a good balance sheet with much net worth. This was the paperwork to support the paper security.

The bank was having a major problem with publicity. In 1985 it had its treasury losses. If the Gokals folded in 1986, then there would have been a big problem with publicity. The US situation then arose. External factors played a major role. Without a fallback position or a lender of last resort, it was impossible to stand up to the Gokals. Because of other loans not being serviced, he started to use the Gokals account to route funds back into the accounts. This should be traceable. There were no organised records for this just, ad hoc arrangements. The reconciliation work is being done from notes made.

From time to time he tried to get them to reorganise their business. They had a company Tradigrain that had a net asset position of about $26M. SN got it sold to Dr Ghaith Pharaon to reduce the balances. However the business went down as particularly Soviet purchases of grain fell and the business was eventually sold to BP.

SN tried to help generate business in bunkering for Saudi flag vessels working with Sh Kamal Adham and Dr Ghaith Pharaon.

They had a finance company, a licenced deposit taker, in Hong Kong. The Gokals said that the bank had to fund the LDT too to avoid a collapse due to its liquidity crisis. They continued to speculate and made losses in trading and on these speculative transactions. The bank tried to identify these but the Gokals never admitted them and they found out from the market that speculative losses had been made.

After 1986 SN asked for a monthly report of cash flow but had no means to check it. However, they were not much help due to the recurring ad hoc crises the Gulf Group had.

The offshore companies were set up once the Gulf Group limits were exhausted. The companies had bearer shares which were mostly owned by the Gokals. These accounts were opened in Kuwait, BCCE, NBO and funds would be routed from them to the main Gulf Group accounts. SN said that he hoped to get other customers to do joint ventures with these offshore companies. However, the joint venture in Saudi Arabia involving SKA and GRP had been a bitter experience. The Gokals had defaulted and GRP had been on the receiving end of writs and was very unhappy.

Last year the offshore loans were consolidated. The balances are well established and only need analysis. Some money was used for the bank's own purposes, however the offshore funds have only been used for the Gokals account. The vouchers should represent the principal amounts drawndown plus subsequent interest.

SN arranged private financing for them, say $15M for 6 months, from "other sources". SN would not specify what these sources were saying that he was not permitted to by higher authorities. He confirmed that Mr Mazrui would have to give his permission for SN to discuss these external sources further. He explained that from time to time the trail will go into these other sources. Until we could see the other sources we would not understand the full picture. He said that the matters could be explained later. The bank took responsibility for refunding these other sources.

SN said that there had been insinuations that the Gokals might be in partnership with Mr Abedi or some other manager. He said that this was not the case and that the relationship with the Gokals was only force of circumstance and in fact was out of control.

As far as the recovery process was concerned, he said that he did not think they had any wealth of substance. The relationship had become very intimate and SN had made his best estimate of their assets. The only findings are in the file. They certainly may have money - however he could find nothing substantial. He concluded that they could only go into liquidation.

He recommended to proceed only once the financial position of the bank was clearer, and that they should be taken into liquidation. Neil Blair asked whether it was practical to write off a substantial amount of the debt and ask for the balance to be rebanked. SN thought this was impractical. They have not once met their commitments.

He said he had to cross his fingers when they were paid funds to route on elsewhere that the funds did actually flow on. He had no confidence. He found it difficult to accept that any arrangements would be honoured.

The bank took personal guarantees from the three brothers who are the shareholders. When the bank started threatening, the family fell apart. Mustapha was approached but both he and Mustiaz were scared of Abbas who would be using the funds. Mustiaz went to Canada. Even the children tried to keep away.

He said that Abbas had never been a shareholder in the bank. When ICIC was acquiring shares from the Bank of America, the Gokals had a finance company. ICIC may have borrowed $2.5M short term from the finance company. There were no joint ventures or any relationship of that sort between the bank and the Gokals. Their accounts were only used to hide losses and boost profits. He said he could not suspend interest because of the balance sheet and could not leave the loans appearing to be non-performing.

He said that the Gulf Group were not connected with the affairs of Attock Oil or Nigeria. Attock Oil was an investment by Abedi with Ghaith Pharaon. He said the Nigeria deal was to lend $200M to the government. Attock would lift the oil and repay.. The deal did not happen. The Saudi joint venture did not involve the bank only SKA and GRP participation as local sponsors.

SN said that he started adjusting the Gokals accounts in 1980 although the bulk of the adjustments had been made in 1983, 84, 85 and 1986. From 1987 onwards it became more difficult for him to arrange new purported lending. He said the Gokals cash position was less strained in those years because of an improvement in the shipping market and the benefits of the cost reduction undertaken. In addition they had stopped speculating.

He said the loans in the offshore companies came back to the main identified Gulf company accounts. Drawings may also have been made from CCAH and GRP where the funds drawndown form part of the pool of funds available for adjustment. The CCAH shares were going up in value so the nominee accounts could be used more and similarly

GRP's accounts could be used in an emergency.

He said that for Hashim Sheikh the management of the Gokal account was almost a full time function. He use to ensure that there was good turnover on the accounts either real or false. After him the activity fell away and SM Akbar who took over the account knew the account far less.

The Gokals had 30 to 40 other bankers and had about 20 main companies in all. For the routing of funds the Gokals would nominate a bank to which BCC would pay and then the Gokals would arrange for the bank to pass the funds back to BCC. Some funds were directly paid to other banks and some accounts were used for regular trading purposes. There were a number of companies which were used to route the funds for the offshore companies. The bank did not form any of these intermediary companies and the Gokals may have used them for other purposes.

When asked what the gross exposure of the Gokals might be if the adjustments were added back, SN declined to estimate. He said that separate discussions were needed and he needed to clear it with Ghanim Mazrui. He said that apart from adjustments by the bank some credits may have come from the Gulf operations, otherwise they would be from "other sources". We could talk about it that time.

The Gokals confirmed the balances each year and in the consolidation. They will however in any final negotiations say that:

- the bank used some of the drawdowns on their accounts
- they were charged excess charges and service fees.

This will need to be analysed. The Gokals knew the sources of the credit adjustments to their own accounts, including the "other sources". Those "other sources" would go direct to the Gokals to recover those credits made. In answer to the question whether the Gokals could exploit the sensitivity so as to avoid liquidation, SN said that the bank should be able to show that it had lent money to the Gokals and he did not think the Gokals would take much comfort from the possibility of discussing the sensitivities more openly.

Interest and charges were excessive, but the rebate has yet to be calculated. Somewhere in the record of the early days, SN said should be found an agreement to charge 2% over LIBOR. In fact 3% was charged and loan fees of 1% plus other charges. Confirmations were obtained for audit purposes from Gokals and SN said that no side letters were given to them concerning their responsibilities in respect of the balance confirmations. I made the point that since the Gokals were confirming balances less than their gross exposure, they were unlikely to need side letters in the same way that perhaps GRP needed a letter when he was confirming balances greater than his own exposure.

In answer to NB's question whether or not the bank had given the Gokals auditors any confirmation of the bank's balances, SN said that the bank would have done so but only confirmed those balances that appeared in the Gokals balance sheet. There were other considerable borrowings that were not on the Gokals balance sheet and so were not confirmed in that way.

The Gokals accounts were used to service other accounts. SN said that overall about 100 accounts in the bank had been adjusted. He thought that about 10 to 20 accounts were not on the list of accounts under review.

He said that SM Akbar has started analysing adjustments from the supply side including from sources not to do with the bank. Part has been used for the Gokals and part for

/..

others. On the used side, the Gokal account debits were used also for others.

When asked about the routings of funds, SN said that BAII were not involved except in that GRP had his genuine accounts there. BCP was used for some direct routing from external sources to accounts but was otherwise not involved. NCB was used to generate funds outside the bank including the two loans of $70M and $35M in the name of GRP. He also mentioned BAU although he seemed uncertain and he mentioned European Bank where GRP would be asked to borrow and it would be matched by placements from BCC.

Asked about the possibilities that funds were fraudulently taken in the routine process. SN said that Hashim Sheikh had the best opportunity however there was no evidence of fraud. In all the reconciliation work carried out to date, no fraud had been uncovered. SN monitored the flows quite carefully when funds were being routed and so should have been aware had funds been leaving the loop. He said that no fees were paid to the Gokals or any transactions other than as described.

He said that as far as the manipulation of the accounts were concerned, his personal team & central support office (CSO) knew everything. Affiliates co-ordination unit (ACU) managed the offshore business in London. When Ziaddin Akbar was dealing with Treasury and booking entries in Cayman there had been a separate Cayman desk. However when the tax issues arose, the name had to change to ACU. 95% of its time was spent dealing with Cayman accounts.

SN took time to explain CSO and Mr Abedi's concept. He felt that a head office needed to be supportive of the field and not just control it. Abedi felt that he needed to motivate the field management and avoid the heavy hand of bureaucratic control. In Habib Bank, Abedi had thought that management was over controlled and treated badly. When he created United Bank he had established conventional controllers but they had become demi-gods and SN's own controller had dictated staffing issues as well as many other things. When Abedi formed BCC the central support office was named such for both philosophical and tax reasons. It could not be called a head office as this would have given problems in the filing of returns, dealing with the regulators and tax.

SN said that the Gokals had no other connections with other customers.

SN said that the board had been very concerned at the Gokals liability but had no idea of the way the accounts were being manipulated or total exposure hidden from them. The credit committee he said also had no idea. They would approve drawdowns based on submissions from ~~the~~ his team and would rely on whatever Hashim Sheikh told them. Central credit would see it coming from SN or his team and, trusting SN implicitly, they would agree to what ever was put forward. SN said that they also knew that he would be doing the explaining to the board and the auditors . SN never told anyone outside his own team what was happening as it could not have been contained.

As far as balance confirmations on the offshore accounts, he said the Gokals would get the nominees to sign the balances. These nominees were relations or associates of the Gokals. He said the profiles of the "owners" of the offshore companies were put together to explain the accounts to the board and the auditors. The profiles were orchestrated by the bank and the Gokals and put forward by the bank. He said it was hoped that some of these nominees would actually engage in some meaningful trading relationship with the Gokals but this never happened.

As far as recovery prospects were concerned:

1. Pilot Petroleum - he said this had little value possibly $2 or 3M. It had storage tankers. Small producers would sell to it in order to bulk the quantities to consolidated saleable parcels. This had only been successful when prices had been high. And also it had an oil trading business which had made losses.

   SN said that the Gokals had also speculated with gold, grain and other commodities without much success.

2. Dutch companies -he said this was their best asset. The net worth was approximately $30M (or at least $20-25M). However it was a management run business and he believed the management to be good. Any buyer would need to be able to take over the management or manage the business immediately. The Gokals had also borrowed through these companies from Dutch banks. The Dutch banks had forced restructuring and BCC had been required to provide funding to enable ~~an~~ inter company debts to be repaid. There had been a plan to float the Dutch companies however this had been abandoned following the 1987 crash.

Referring again to Tradigrain, SN said the bank had no expertise and therefore could not control it following the acquisition. ICIC was barely able to cover the loan with the proceeds.

SN said that there were no other Gulf Group management that could be negotiated with concerning the repayment of debt. The bank could only negotiate with the 3 brothers. He suggested trying Mustapha first. He said Abbas was a dreamer.

As far as the involvement of personnel with the group:

Ziaddin Akbar - some of the funds were routed through Treasury

SM Akbar - SN said that SMA has to cope with his repulsion of the Gokals. In addition he is sensitive to being considered being a crook when he is not. He is concerned that if he does not have an answer to any particular question it might be misconstrued as evasion or conspiracy.

SN said that he was going back to London for a check-up on his eyes every 2 weeks. His next check-up was on 29 January although he offered to postpone this by a week if required. He would be away for 2 or 3 days.

Velmi saw Abbas Gokal in London. Yet again they wanted more money. Velmi wanted the documentation signed up to finish off the last consolidation. Since last December SN had had no personal contact with the Gokals. There had been some telephone calls with SMA to keep channels open. He is not familiar with their current attitude.

SN said that he had been most concerned that the Gulf Group would fail before the bank's restructure was in place. This would cause considerable publicity. He does not see how the Gokals can settle.

Neil Blair said that the Gokals had not been fully cooperative. They wanted to transfer funds from affiliates presumably so that it boosts their own balance sheet. SN said that they would need to construct their balance sheet either in March or May 1991. An approach to the Gokals should wait for the group's own financial structure to be in place.

MH Armour
Recorded 27 January 1991 from contemporaneous notes made

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SANDSTORM

otes of a meeting on 26 January 1991

6 pages

resent: S Naqvi
MH Armour
SJ Chapman
ML Hunter

IHA explained that there were a number of issues PW wished to discuss uring the meeting including the extent of the account manipulation, the reasury losses and the related entities.

. Other Accounts

SN said that he estimated there were about 100 hundred accounts ncluded on the Companies A and B lists but noted that there may be e other accounts which have been touched by the irregular activities. He estimated that there were 10 to 20 other accounts including some small adjustments accounts e.g. the Vall group which was probably adjusted in the mid-1980's. He said that there were no other accounts in BCCI's books which had been involved in the manipulation except for those on the list and those which had been closed.

. Treasury

SN explained that the Treasury evolved at the time that he moved from Abu Dhabi to London in 1975. At that time SN started to look after the bank's liquidity and used Zia Akbar who had previously been with Commerce Bank in Pakistan and then from National Bank of Oman to help him. Initially SN and Zia were involved in managing the liquidity of the bank and the large dollar deposits. This was particularly important because the bank had to maintain high liquidity in all currencies because had no lender of last resort. Because of the cost of mobilising posits at the top end of the market rates the bank had a profitability problem and this had initially led to trading activities to try to enhance the bank's return.

Initially the trading activities had only been specified for government securities however the futures market evolved in 1976, and Zia showed some interest in this. Zia thus began trading in futures in a small way and made some profits. Following the initial profits, trading was expanded and the Treasury division re-organised with a proper trading department added. As no other expertise was available in the bank, total management and control responsibility for this was left with Zia.

SN further explained that as Zia was a trusted assistant he was given other non-specific jobs for example the funding of CCAH and BCC rights issues. This brought him into contact with SKA/ARK and also provided him with knowledge about the nominee shareholdings.

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During the last quarter of 1985 SN thought that some good profit could be made from writing call options. The bank had high liquidity at this time and could have afforded to take delivery of the assets under the calls if the market price went against the bank. The calls written gave premium income of about $50 million however in January/February the auditors had said that this income was not correct. At this time the markets were fluctuating dramatically and in February the bank could have closed the deals and made a profit but instead it sat on the positions and made a substantial loss as reported by PW. The PW report only covers those deals booked at the bank. Other deals particularly in respect of ARK were not booked and it was not possible to ascertain what was happening.

Following this period SN had a very difficult time with Zia who kept disappearing. The 1985 accounts were eventually closed however SN later received a statement from Zia showing deposit losses and profits injected totalling $800 million. SN said that this was the only statement from which the bank could try to build a reconciliation of the past and it would be extremely difficult as brokers were used to break the chain of accounting entries within the bank. SN was then faced with the nightmare of how to explain the gaps in customer deposits and how to replace them. UNDER PRESSURE THEY USED CUSTOMER'S A/C TO THEIR BENIFIT OR RESOLVE THEIR PROBLEMS

CAN WE ASK FOR THIS STATEMENT

SN said that the investigation team should see Zia's handwritten statement. All of the fraudulent activity relates to Grand Cayman and at the time the entire accounting function in Cayman was controlled by Zia. Only after Zia left did SN send SM Akbar to Cayman to sort out the mess and it may now be possible that Akbar can provide some assistance in reconstructing the Cayman records prior to 1985. SN was also considering recruiting one ex-Treasury person, Mr Nassim Shaikh, to assist Akbar in this process.

SN said that he does not know what is in the losses although he did find some files which were abandoned in London when Treasury was moved to Abu Dhabi. From these it will be extremely difficult to reconstruct the Treasury records and he believes that it may be better to look through the Cayman ledger and find out where income was decoded. As an example he believed that $160 million was booked as foreign exchange transactions on the CCAH loans and that also the ARK account and the dealings with Capcom should be reviewed.

SN said that it appeared that business being transacted with Capcom in 1984 although he was not aware of the connections between Capcom and Zia until informed of this by PW in 1985. At this time SN confronted Zia who claimed he had no interest in Capcom. SN instructed that Capcom should not be used for any further transactions but it appears now that Zia still used Capcom to route funds to and from the bank for loan servicing and other purposes.

After leaving the bank in 1986 and disappearing Zia eventually reappeared and advised SN that he wanted to buy more shares in Capcom and for this he needed a $17 million loan. This loan was eventually granted and was probably drawndown through Kifco. Later Zia came back to SN and demanded a further $15 million which he said was needed to protect himself and the Capcom employees from the loss which it would incur if Zia made a detailed and frank statement to Blum, the attorney acting on behalf of the Carey committee. SN felt that he had no option but to pay this money to Zia in order to protect the bank's position.

SN said that if he had to identify 2 significant causes of the bank's present difficulties they would be Zia Akbar and Abbas Gokal.

SN then talked about his and Mr Abedi's reaction to the problems and the solution that they were proposing. He noted that in December 1987 Abedi felt that he must resolve the issues facing the bank and had asked Kazmi to prepare an information memorandum on ICIC relationships. He intended to go to Sh Zayed to try to sell the BCC nominee shares to cover the deficit in the bank's books. This may also have required supplementing by a long term from Abu Dhabi in order to balance the books.

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At the same time Kamal Shohaib, a BCCI employee, who was previously with Commerce Bank, asked to meet SN and AHA in the USA. SN met him one night in New York and KS brought various documents regarding the FIB/Ibrahim deposits which he must have got from either Jamil Khan or Zia. That evening SN showed these documents to AHA who suffered a minor heart attack and went blue. The next day SN took Kamal Shohaib to Abedi who would not respond to KS except to say to Naqvi that he should pay whatever it cost to shut KS up. The next day SN and Abedi flew to London and were then due to fly on to Lahore to meet Sh Zayed. During this period Abedi was suffering from a severe cold and on arrival in Lahore had the first of the major heart attacks leading to his present disability.

SN explained that Kamal Shohaib was a son of Mohammed Shaibh, a former finance minister in the government of Yousef Khan in Pakistan. Mohammed Khan was also a close friend of Abedi and had helped United Bank open its branch in London. On inception of BCC Abedi had chosen a few young people, including Kamal Shohaib, to be the second generation management of the bank. KS had tried from this time to place himself on a par with Abedi and Naqvi and had wanted to be a trustee of ICIC as he thought this would enable him to get a $1 million hand out on retirement. KS made Abedi's life miserable and eventually Abedi sent him to Independence Bank to get him out of sight. Even after Abedi's heart attack KS pursued his claim with the bank and collected the $3.6 million to buy his silence. SN suggested that Masi Rahman was largely inspired by KS in his activities against the bank. (During this discussion Naqvi was clearly upset and frequently in tears)

SJC asked whether Mr Samad would be able to assist in reconstructing the Treasury accounts. SN said that whilst Samad was a good accountant his judgement was not good and he was also temperamental. SN was also not sure of the extent to which Samad was aware of the unofficial transactions.

3. Ex Gratia Payments

SN confirmed that there had been a number of ex gratia payments from the bank in addition to Kamal Shohaib. Of these Zia was probably the largest as he explained to SN that he could foresee the bank's failure and therefore wished to build his own future. Another individual who benefitted was Mussafa Nurani, who was formerly deputy general manager in Cameroon and later went to Kenya where he was involved in the coffee warrant debacle. Following that he was transferred to London where he created problems because he had found that the Cameroon deposits were missing. With this information he put pressure on Zia who in turn put pressure on Naqvi for Nurani to be paid off. Eventually $1 million was paid over although this subsequently recovered from him.

SN said that a number of people tried to use Zia to get information and thus put pressure on BCC. Zia was hostile to BCC following his departure and this kept causing the bank problems. SJC questioned whether the bank had ever followed up and identified the writer of the JM SM letter. SN said that they had not.

SJC also questioned the involvement of Zia in Capcom and the Miami indictment. SN said that he had not been happy with the lifestyles of Anwar Ahwan and Akbar Bilgrami, who had both been extremely active in the marketing of deposits. Part of the problem was the antagonism between Shafi and Shakra which meant that the bank's management in the USA was ineffective.

When the foreign relations select committee enquiry arose SN wanted to remove Akwan to Paris. Akwan refused and it appeared that from this point he and Bilgrami expanded their activities in Latin America. It was at this time that they had established a strong relationship with Capcom and eventually planned to set up their own company in a similar business. The idea had been to mobilise funds to give to Zia for management in Capcom.

The other people involved in the indictment were unfortunately caught up in the activities of Zia and Bilgrami and SN said that he felt rather sorry for them as they had been compromised in this affair.

ALL THESE SENIOR EXECTIVE'S ARE LEAVING ABOVE THEIR MEAN'S, S.F.O. BELIEVE 'H' AS BENEFICIAL OWNER OR NOMINEE CO.

'H' INSTEAD OF BLACK[illegible] D[illegible] WAS

SJC questioned SN's comment about these individuals lifestyle. SN explained that BCC tried to establish a standard of banking personality wherein its officers should have a good but not luxurious lifestyle. In this regard he noted that although Akwan and Bilgrami came from good families their lifestyles were excessive with luxurious villas, swimming pools and so on. Because of their success in raising deposits Shafi had become dependent on them for the success of the region and also Shakra tended to make it difficult for Shafi to exercise any control over these individuals. SN commented that he was also aware that Shakra was living above his means.

[illegible] FAMILY'S BENEFIT.

SN attributed these problems to the bank's foundation when it had set out recruit mainly middle class people with just a few high flyers. In its formative days the bank was not able to develop procedures to manage people and it tended to operate on a family basis looking after each individuals personal needs. As time went on SN wanted to institutionalise and depersonalise the bank but this was very difficult given Abedi's personalised approach. An example of this was the proliferation of Mercedes cars through the bank.

Eventually Nader Rahim was appointed to head the Human Resources division however his background was as a merchant banker and he did not have the experience or expertise to run such activity. In addition SN felt that Nader Rahim had misread Abedi's caring intentions and that he tended only to focus on the 1,000 international offices and not the 13,000 local staff. As a result of this the Human Resources division became more of a welfare department and SN was becoming increasingly concerned with its failings.

We then questioned again the extent of the Treasury losses and SN confirmed that the $800 million referred to above was in addition to the $350 million referred to in PW's 1986 report. He again confirmed that the $800 million arose between 1978 and 1984/5 and was derived from clients' accounts. SN said that he himself was horrified that deposit accounts had been used for the massaging of profits in this way and that had he been consulted he would only have allowed this to take place from loan accounts.

4. FIIL

SN explained that FIIL was started after the acquisition of Attock Oil Company in Pakistan at a cost of £9 to 10 million. FIIL was established by a loan given BCCI however because they decided that they wanted this group outside of the bank new loans were created from ICIC in the names of the FIIL shareholders. The initial BCC loans had been in Panama. SN said that FIIL was not a difficult account as there is a complete record of the loans and investment value in a report submitted to the shareholders. This would be given to the team by Mr Kazmi when access to ICIC has been established.

SN said that the major Attock lending had nothing to do with FIIL. The Attock lending on List 2 is normal trading business however the amounts on List 1 should not be discussed with Attock in any way. SN did advise us that Mr Baqi had knowledge of the fictitious Attock lending and had signed the confirmation in the knowledge of this. SN also confirmed that Mr Lodi and Mr Baqi had both been approved by Abedi for their role in managing Attock. SN said that HMK had had helped with the Attock accounts recently but does not have historical knowledge. SN himself used to direct the major transactions until recent years when he has had to leave more and more responsibility with HMK.

5. Insurance Group

SN said that the insurance group is structured through SDCC from MECO and FIIL as nominees the reason for this being that the UK regulators did not allow more than 33% of the shares of an insurance company to be held by any one entity. CCL Saudi is owned by CCI Holdings and CCI UAE is substantially sold although Sm Ahmed is a nominee for ICIC. SN again advised that Mr Kazmi could give a paper on the oil and insurance groups.

6. Hammoud

SN said that we should read a file and memorandum from HMK which would explain the Hammoud relationships.

7. ICIC Holdings

SN said that HMK would be able to help in responding to queries about ICIC Holdings however these discussions must take place in Cayman. SN said that a memorandum had been prepared by Kazmi on the subject of ICIC and that this could be reviewed in due course. He believed that the accounts of the ICIC group were kept by Siddiqi & Co and Jaffree/Dossani/Kazmi.

SN briefly explained the structure of the ICIC group and noted that ICIC Holdings occasionally did a few small transactions and was involved in the KBM share procurement arrangements. The other commercial activities of Holdings were small and their objective was to generate a profit for payment into the Staff Benefit Fund and Foundation to allow those entities' loans to be repaid. SN confirmed that ICIC Overseas should not be the beneficial owner of BCCI shares and Wabel Pharaon or ICIC Holdings would be used for this.

SN also said that ICIC Investments was established to manage both client and its own trading transactions.

In order to understand the ICIC group SN said that the team should deal with HMK splitting the work down into 2 parts, that relating to the DPA and that relating to BCC. SN also suggested that companies like FIIL were outside our terms of reference but we should be provided with information as this was necessary background. SN said that HMK should get clearance from the DPA about providing information to PW and should discuss this with Mazrui. SN suggested that the best way to deal with the ICIC group was for it to take over the assets of the oil and insurance group and realise these to help ease its own liquidity position.

Following this conversation SN telephoned HMK at home in England and asked him to provide all necessary support and explanations to the investigation team.

MHA then asked SN to prepare a list of ex gratia payments which he agreed to do. He noted that SMA would be able to identify the source of funding of the payment and that these were often in 2 types - payments made under duress, and interim payments which were not made under pressure (for example Hashim Sheikh)

8. <u>BCCI shareholdings</u>

SN said that Hafeez was putting together a shareholder information schedule which would show all movements in shareholding since inception. The initial schedules prepared are from 1984 but Hafeez is now going through trying to bring this up from inception. SN said that on receipt of this he will try to prepare a statement showing where these shares were funded from.

SJ Chapman
26 January 1991

7
2 pages

Minutes of a meeting held at the Advisor's Office on 27 January 1991 at 6.30 pm

Present: Swalen Naqvi
SM Akbar
MH Armour
JA Guy

The meeting was held to discuss List 1 issues.

SN was asked how one could be sure that List 1 was a full list. He said that it would be impossible that a customer would not have come back to the bank once in the last few years if the deposit had been left with it. The assumption is that the customer would have appeared with his claim.

He said that the old Treasury losses met from deposits were now either in the books or List 1. He said that the statement of Ziaddin Akbar in 1984 was somewhere in the records. In this list he sets out the deposits that have been used. These have either been settled or appear in List 1.

The initial list included NABCO, FIB, SASCO, SNH Cameroon, Cameroon Airlines and Islamic International Bank Cairo. These have all been paid off apart from FIB which w[as] on List 1.

He also said that the old Treasury department was receiving mostly money market fu[nds] and was short of deposits. So there was not a large pool of deposits from which dep[osits] could disappear.

The pool needs to be reconciled and FIB was the only pool account. All the others ha[ve] been dealt with separately from the pool.

In respect of Sh Mohammed, he explained that the bank received $86M remittance in respect of loans. In addition $50M were received for investment purposes. These we[re] booked in the accounts but not for what they were. In February 1990 Sh Mohammed asked for repayment of $134M and $54M. This had prompted a crisis and the bank needed time to settle with the shareholders. It had had a simultaneous liquidity proble[m].

SN said that there were no other investments missing. He said that he had supervised [the] whole process and that the position had been thoroughly researched by him.

ICIC he said was clean and separate in this regard. Some investment funds were plac[ed] by ICIC with Treasury and used by them. Treasury would have given fictitious statem[ents] to Kasmi. When the Treasury problems arose in 1985/86 and the Gokal problem, the bank had asked Kasmi for loans on which interest was paid and some repayments we[re] made.

Kasmi first became aware of funds not being returned in 1986/87. SN told him that it would be made good and so there was a claim on the bank. Kasmi should have a re[...] SN said that the bank had let Kasmi down. It was all client account money.

Islamic deposits were routed through ICIC who are responsible for the liability to the customer.

1 / G

FIB relationship

SN was asked why FIB should have such large balances outstanding with one institutic SN explained that FIB had very substantial deposits with the Central Bank of Egypt. Tr gave them a foreign exchange exposure and also made them open to moral pressure r to withdraw from the bank.

BCC had always provided funds back to FIB when required even if maturities were not due. In addition when there had been a run on FIB and it needed $20-40M in cash BC flew the money in.

The ex-FIB governor is now an advisor to the bank. SN was amused at the suggestior that he might know of the arrangement stating that he was completely unaware.

SN stated that London is the principal with FIB but the local relationship is handled by M or at least one person there. This person has recently left and been replaced by his predecessor. SN said the movement in staff was some cause for concern since any change in the relationships could influence FIB's position. SN said that he was in daily contact with FIB.

SN said that the story given within the bank was that some funds were received for investment purposes which was why they were not recorded in the books.

SN said that interest was not accounted for on funds since, should they do so, the question would only arise of where the principal was to which the interest related.

Others

- SN explained the IBU. He would go to IBU and say that ICIC needs funds. IBU would then place funds with ICIC and these might normally be rolled over. Whe the loan became overdue he had to promise that ICIC would repay.

- The GRP balance relates to amounts owed back.

- Re Oppenheimer, ICIC borrowed from Oppenheimer who lent it to the bank who not record it.

- Watawah and Arab Livestock were Bahrain depositors who had placed funds wr were then transferred on to ICIC.

- The overdraft was for BCC Luxembourg.

- Hussein Al Harthy. This related to one deposit. He has other deposits of over $100M SN said that he was a Saudi client who was already getting very jittery ar had been persuaded not to withdraw in Cayman and CFC. In answer to a question, SN said that if asked to confirm his deposit balance, Harthy would cor it and then withdraw his funds due to the unusual nature of such a request.

  SN said that Arab Livestock, BCC and GRP represented write offs rather than ca requirement i.e. the positions had already been settled.

MH Armour
23 January 1991

(12)

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Notes of a meeting at the Advisor's Office on 12 March 1991 at 3 p.m.

Present: Swaleh Naqvi
Neil Blair
Simon J Chapman
Martin Hall

The meeting was arranged primarily to discuss Dr GR Pharaon and the meeting he recently held with Neil Blair and Saleem Siddiqi.

Independence Bank

GR.Pharaon now claims 100% ownership of Independence Bank. He claims that funding for the initial purchase of the bank came from 2 sources:

1. $8.5 million from the sale proceeds of BCC shares
2. $12.5 million borrowed from the First National Bank of Boston.

SJC said that the investigation team have now seen the memorandum between GRP and ICIC which is effectively a nominee agreement giving ICIC an 85% interest in Independence Bank with the remaining 15% being held by Dr Pharaon. There is also a hand written letter from Dr Pharaon which appears to acknowledge the existence of a 15/85 split.

SJC felt that the memorandum was an explicit nominee agreement and that this was further reinforced by the subsequent letter from Dr Pharaon, and was now somewhat perplexed that Dr Pharaon should seek to deny the validity of this documentation. He asked if there had been any subsequent supplemental agreements which would have altered the substance of the previously mentioned memorandum. SN said that he was not aware of any further agreements. However, he was also unaware of any discussions GRP might have had with Abedi.

SN went on to say that there is no written agreement between BCC and GRP and that GRP's current position was probably dictated by the pressure being applied to him by the regulators in the United States. SN said that he had once again gone through the files relating to Independence Bank and that he was unable to find anything to substantiate the fact that it was not in fact GRP's bank. Although there was substantial correspondence between Kamal Shoaib and SN it is possible that GRP could point to the Investment Advisory agreement when questioned about the level of contact between Independence Bank and BCC. SN then talked about the ICIC memorandum and said that he did not feel that it would be legally binding as he did not feel that ICIC had complied with any of the terms of the memorandum.

As regards the $8.5 million which was paid towards the purchase of Independence Bank he firmly stated that this was not part of the sale proceeds of the BCC shares and that Dr Pharaon would have a hard time establishing that it was due to the lack of a written agreement covering the sale of these shares.

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SN said that he was not aware at what stage GRP became involved in the acquisition of Independence Bank, which had originally been identified by BCC's Los Angeles agency as a potential acquisition target. He thought that the original arrangement was that BCC and GRP would share profits in a 50/50 arrangement similar to NBG. Subsequently GRP reconsidered his position in the light of the fact that he thought the bank to be less profitable than he had originally imagined. As a result of this the agreement was changed to the 15/85 split discussed earlier.

SN is now very concerned about the regulators' views regarding Independence Bank and he feels therefore that the new management of BCC, along with their lawyers, will have to decide upon the position that they wish to take with the regulators regarding Independence Bank. He feels that this should be given very serious consideration prior to his meeting with the officials from the Fed on 15/16 March. He said that it was important that he should be aware of the bank's position prior to that meeting so that there were no apparent contradictions when he spoke to the Fed.

SJC went on to say that it would probably be in the best interests of BCC for there to be a sale of Independence Bank at arm's length. However, it is important that what ever position the bank takes that any funds from the sale should be received by BCC and applied towards the borrowings outstanding in the name of Dr Pharaon.

SJC then raised the issue of the recent advance of $17.9 million in respect of non-performing joint venture loans which had been removed from Independence Bank's portfolio. He said that Dr Pharaon was expecting that this amount would be repaid before any of the non-recourse loans in his name. Both SN and NB confirmed that this amount was personally guaranteed by Dr Pharaon and that the guarantee had been agreed between both BCC's lawyers and GRP's own legal advisers. Therefore the non-recourse loans would be adjusted before any sale proceeds were set off against this loan.

SJC then went on to discuss the joint venture loans further and the involvement of Mr MM Haque and Mr DH Rizvi in London, and their connection with the Virani group. He argued that having used up all of the credit lines in Independence Bank Kamal Shoaib had then approached his contacts in BCC. This may make it difficult to argue that there had been no special relationship with BCC. SN felt however that these were normal banking transactions and they had no bearing on the relationship between Independence Bank and BCC.

SN's view is that GRP will not allow himself to be destroyed financially or suffer unduly as a result of the current investigations, and that he would undoubtedly fight back. Therefore BCC should take a pragmatic view of the issues surrounding the GRP accounts and should consider all of these before making a decision regarding Independence Bank.

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SN confirmed that the capital injection of $5 million in 1990 had been provided by BCC. GRP did not want the authorities to know that they had provided the funding and therefore loans were allowed for other projects to the same value.

SN was not aware of any promissory notes or loan agreements in respect of the original $8.5 million advance. If the balance had been confirmed by GRP and was covered by one of the "hold harmless" letters.then he would of course say that its repayment should come from the sale of Independence Bank shares.

SJC noted the apparent contradiction in GRP's stance in that he wants 100% control of the bank, but will not fund the additional $6 million cap[ital injection now required. This puts BCC's investment at considerable risk. SN agreed that there was indeed a contradiction in GRP's stance with regards to this mater.

BCC shares

SN confirmed that he was currently working on the overall analysis of GRP's holdings of shares in the bank and that this would be available for the investigation team in the near future. This analysis would also explain the use of intermediate vehicle companies such as UEL.

He confirmed that 50% of shares held in GRP's name had been purchased from him for $95 million and were later sold to the portfolio for $153 million. And that a further parcel of shares which had been held on a nominee basis were subsequently sold to the portfolio for $160 million.

Attock Oil

SN confirmed that he has now gathered further documentation proving that BCC is the beneficial owner of the company and that this would be made available to the investigation team in the near future.

Eurotunnel shares

SJC queried GRP's contradictory statements that he would not sell the shares even though they had been placed with brokers. SN said that the bank must concentrate on perfecting their security and receiving the proceeds of any share sales. NB felt that GRP would consider it a hostile act to sell these shares at the present time.

Rio Estates

It was confirmed by SN that this account was not connected with the Virani group.

Transcontinental Finance and Trust Company

SN was unaware of the details surrounding the operation or the accounts of this company and suggested that any questions should be directed towards Mr Imran Imam.

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SJC then asked how long it would take to unravel the GRP transactions and how best the process might be approached. It was agreed that MH would attempt to list all major account movements on GRP related accounts and pass them to the advisers. SN suggested that drawdowns and receipts of $1 million plus be investigated. He estimated that this process could take approximately 2 months using the services both Nadeem Habib-Ullah and Mr Imran Imam, the account officer.

Both SN and NB confirmed that they had not indicated any time scales for the resolution of the current issues to GRP during their recent meetings.

The meeting closed at 4.30 pm.

Martin Hall
Recorded from contemporaneous notes
12 March 1991

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Notes of a meeting with Mr Naqvi on 13 March 1991

present: S Naqvi - BCCI
S Chapman - PW
J Guy - PW
D Tyler - PW

1. SN said that when the bank was established in 1972 there were no nominee shareholders Subsequent to this nominees were used to "front" amounts invested by ICIC (O) which were ultimately to be held by two trusts, one a charity and one for staff.

2. ICIC was originally established as a Liechtenstein based company. whose shares were held on a non-beneficial basis by 3 officers of the bank. This company was liquidated and the assets transferred to ICIC (O). Subsequently ICIC (Holdings) and ICIC (Apex) were established.

3. BCCI shares were originally held directly in the name of ICIC, but in the early 1980's shares were transferred to the Foundation, Staff Benefit Fund and GRP - in a nominee capacity. This was as a result of pressure from regulators who insisted ICIC should divest. Subsequent transfers were made to WRP. SN also mentioned that shares were being revalued at $40 and on the basis of this further drawdowns were being made on WRP's account for use elsewhere.

4. The use of nominees became extensive as the proper shareholders were unable/unwilling to fund the various rights issues made by the bank. SN listed the nominees as follows:

- Hammoud
- Prince Turki
- Wabel Pharaon
- Rauf Khalil
- Faisal Saud Al Fulaij
- Sheikh Kamal Adham
- Sayed Jawhary

Holdings were funded by ICIC (O). No loan was given in BCCI except possibly in the case of Adham and Khalil in the earlier years.

[We did not directly discuss the question of whether these holdings were in turn held for the benefit of SZ and SK.]

5. SN referred to the sale of 3.8 million shares by Ghaith Pharaon in 1986. He sold to the bank at $28 a share (yielding $95 million) as a result of significant bargaining, and the shares were then sold to the "portfolio" at $40 a share (yielding $153M). Owing to the fa it was not possible to sell the shares to the portfolio at the same point in time as they we sold by GRP, loans were drawn down by GRP equal to $95 million. These accounts we then credited with the sales proceeds from the portfolio. However. by this time the loan had already been repaid or manipulated or drawndown further and had lost their identity He said there was generally a lot of transferring of accounts between BCCI and ICIC.

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6. Shares were sold on a "buy back" basis in such a way to ensure that the nominee holders earned a rate of return of between 12 - 16% per annum. This was because they were confident that BCC could generate a better return for the portfolio than cash. However to enable this return more shares had to be given each year and the loans to WRP became unsecured. The buy back arrangements were not documented.

7. SC reviewed the list of shareholders at 31 December 1990 (see attached list).

Nominee holdings remaining

18.	Wabel Pharaon	1.2m
21.	Mohammed M Hammoud	0.7m (small holding in own capacity)
25.	Prince Turki	0.2m
26.	Sayed Jawhary	0.3m
27.	Faisal Saud Al Fulaij	0.4m

Other issues

4. Sheikh Mubarak - sold and in suspense
37. HE Sheikh Nahyan bin Mubarak - sold, but share register not updated
38. Sohail Faris Al Mazrui - sold, but share register not updated
41. Yousuf Al Nowais - sold, but share register not updated

Sowaidi - not nominee but residue of old shareholding. Loan in ICIC was for rights issue

Shaf Corporation - loans not share connected

Bugsham, Ali and Saleem - loans not share connected

He also referred to a number of shareholders who had sold at $40 per share in earlier years, earning significant profits. Many of these shares had been bought by nominees. He referred to Butti Bin Bishr and Otaiba as examples.

Capital notes

ICIC was used directly to purchase capital notes. Depositors' money was used on the understanding that when they wanted to withdraw the notes would be sold. In 1989/90 number wanted to withdraw and funds had to be found. SN said these customers were aware of where their funds were placed.

Mahfouz

SN said his capital notes were genuine. He said the bank should be very careful in dealing with Mahfouz. He acknowledged that the bank had pressed Mahfouz very hard get him to sign the audit confirmation letter. He said that to raise this issue would, however, create problems as Mahfouz had all the documentation relating to the buy ba arrangements.

7

North American Finance Company

SN said that this was originally formed for the reorganisation of the oil group. It was controlled by ICIC. He said that 4/5 companies had been formed to take on oil concessions. Kazmi can explain he said.

Drafts of $8 million

JAG asked if he could explain why these were held in sundry creditors at Grand Cayman. he said that this was in relation to the Sharjah Power loan. The Government of Sharjah had promised $8 million would be received but it was not. They therefore got $8 million in drafts from Kazmi and applied this to the accounts. The $8 million is therefore payable to ICIC.

(9)

SANDSTORM

Notes of a meeting on 6th February 1991

Present: S Naqvi
Mike Hunter
MH Armour
SJ Chapman

SN confirmed that he had a meeting with Mazrui and Kazmi during which they were both instructed to provide PW with all information regarding the ICIC and portfolio accounts with the exception of those matters that related directly to the private affairs of the Rulers which were unrelated to the bank.

SN explained that the accounts of the customers in ICIC were inter-related with BCCI and there had been funds raised between the two entities. He assured that the only external funds in the ICIC group were for the DPA and that there was a small portfolio on behalf of Sh Hamdan which had been managed by Naqvi and Abedi but which was fairly stated.

SN said that PW was fully aware of all of the other accounts in ICIC and had always had complete access to the accounts of the customers such as Pharaon and Fulaij. MHA questioned when the funds flow first took place between the portfolio and the bank and SN explained that this was done properly in 183/4 as part of the general pool of the funds. In ICIC books these were shown as amounts placed with the bank for periods of one to two months and initially the bank used to try to repay them by creating other loans in BCCI. After 2 to 3 years this attrition became unmanageable and the hole in ICIC became more apparent. We questioned the accounting treatment in ICIC and SN explained that records were kept by ICIC Investments on behalf of the DPA and Sh Hamdan which were outside of the books of account of the company itself. These records were kept by Kazmi.

SN assured us that Kazmi was not aware of the hole in the DPA portfolio until 1990 when he was bought into the picture by SN. He is now assisting SMA in providing information about the flow of funds between the portfolio and the bank.

SN said that it was important that we should not try to reconstruct the portfolio and that the cash utilised by it had in some instances been replaced by shares and other investments.

SN under pressure acknowledged that some $2 billion had been absorbed in cash from the portfolio including interest accruals. In order to try to give something back to the shareholders all of the ICIC entities including the related assets in the oil, insurance, BCCI shares, the Foundation and the Staff Benefit Fund had been given to the DPA. The legal process of this transfer is still to be finalised. SN explained that this is the reason why Mazrui was taking an interest in ICIC where as Saleem was looking after the affairs of the bank.

We questioned SN several times about what the net gap was after taking the 2 billion and deducting from it any other shares investments given back to the DPA. SN said he was unable to do this but noted that much work had now been done by Akbar in trying to reconcile the funds taken from the DPA. SN explained that this took place in 2 principle areas one the Gulf group, two other accounts. The Gulf Group funds flown from the DPA have been substantially reconciled but those for other accounts have not. These is also very little record at the moment of the funds which have been returned to the DPA.

SN assured us that all other ICIC deposits were fairly stated and that there were no other portfolio accounts.

MHa requested that SN/SMA provide a definitive list of the tranches of money which had been taken from the portfolio and absorbed in the bank so that this can be passed to Mazrui for authentication. Initially SN was reluctant to do this is as it would disclose the totals involved but eventually appeared to agree that this would be a useful idea. He suggested that the investigation partners spend three or four days with SMA and SN to work out exactly what the deficit was and how to present this. It was agreed that SJC and JAG would meet Akbar and Naqvi on 13 February to do this and also to review the Zia notes and register of Treasury transactions.

SN confirmed that the DPA were also trying to work out the portfolio shortfall based upon the funds taken and the assets reassigned to it. SN was sure that there would be no claim on the bank from the portfolio particularly as the portfolio had received an inflated profit at the rate of 12% rather than market rates.

We then spoke about the Treasury activity again and SN confirmed that profits would often be created in Treasury from brokers who had in turn funded by amounts taken from client accounts. These client accounts would then be made up from the external portfolio. In addition the CCAH accounts were increased in 1985 by money which was passed to Zia to give to a broker and then bring back as profit. SN said that he had become aware of this from the analysis he had done of the CCAH loan accounts.

SN confirmed that some 9.9% of the CCAH shares had been passed to the portfolio but commented that these had been paid for. This reduces the bank's security holding down to about 50%.

We also questioned SN about the alleged new bank being established by Abedi in Pakistan. Initially SN said that he did not know much about this, but then commented that it was probably some of Abedi's family making use of his name as well as his wife and that the capital of the new bank was only $3 million. SN was sure that this money had not come from BCCI although he felt there were bound to be rumours to this effect.

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SJC questioned the loan to Abdul Malik al Hamma. SN said that there were bound to be other small loans like this that kept clouding the big picture and they should not be allowed to divert our attention. He confirmed that the borrower had asked for some interest concessions however the bank had tried to provide this by creating the appearance of a portfolio upon which profits could be generated to finance this concession. It was probable that the funds which flowed into the account came from external sources.

I questioned the schedule of deals originally done as part of Al Hamma's portfolio and SN said that these deals had never existed. This was also confirmed by SM Akbar. SN commented ion the sensitive political nature of this loan and assured us that the true position of the loan was as set out in SN's most recent letter to Al Hamma.

SJ Chapman
6 February 1991

(16) MH2

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Notes of a meeting held on 16 March 1990

Present: S Naqvi
HM Kazmi
Simon J Chapman
John A Guy
Derek Tyler

1. SJC outlined the position as agreed following the meeting held with Mazrui on the previous Thursday. We would be given complete access to ICIC records including the portfolio bank accounts.

2. There was a certain degree of technical discussions on what we should have access to and also what prior authorities would have to be obtained. Again the basic position was confirmed as unchanged.

It was agreed that the investigation would encompass

(1) Transactions that have passed through BCCI and ICIC

(2) Accounts of BCCI shareholders and nominees

(3) Flow of funds to/from portfolio

(4) Routing accounts - Credit Suisse, NCB, BCP

(5) ICIC (Holdings) and ICIC Investments

(6) Substance of assets and liabilities of ICIC group

(7) Consider future of ICIC for regulators

The work should be done with the full co-operation of Kazmi and his staff.

3. Other matters discussed:

(a) Most of the accounting records/documentations are in Grand Cayman.

(b) Deposit of Sheikh Mohamed bin Rashid - double counted?

(c) Personnel who would be able to assist:
Mr Kasim - portfolio
Mr Jaffree
Clive Jennings
Dossani
Younes - portfolio

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(d) Mr Naqvi told Mr Kazmi that he had told PW that with the exception of Sh Mohamed and Sh Mahfouz there are no unrecorded transactions. Kazmi confirmed this to be the case although saying that these transactions were also, in fact, recorded.

(e) During the course of the meeting SN said that we should all forget what had been said before - ICIC and BCCI are inextricably linked.

4. It was agreed that the reports prepared for HE Ghanim on the future of ICIC should be handed over to PW.

Derek Tyler
16 March 1991

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Minutes of a meeting at the Advisor's Office on 1st May 1991

Present: Simon Chapman
John Guy
Martin Hall
Swaleh Naqvi

1. Mr Naqvi said that there was no written agreement with Dr Ghaith Pharaon in relation to sale of his BCCI shares. There was no document that details the terms. It was agreed verbally. ICIC bought the shares from GRP but they did not register this transaction. They were subsequently sold to Sheikh Khalifa. The deal with GRP was negotiated by Mr Abedi and was arranged under duress. GRP needed the funds and Mr Abedi negotiated on behalf of ICIC.

2. Mr Naqvi also made the point that there could be no claim on the bank as the bank does not buy and sell its own shares.

3. Mr Naqvi said that there was a paper in Zavahir's hand writing that showed the disbursement of the $95 million. (This paper was subsequently presented to Martin Hall)

4. In relation to Independence Bank, he said that it was not a shared ownership arrangement but an agreement to share profits. ICIC did not finance the deal; ICIC may well have wanted it as a US bank or just to make a profit. He said that the document with ICIC did not go through. In the event of divestment it was agreed that the profit would be shared 50/50 and BCC was to arrange financing for GRP of his 50%. In the event he said financing could not be arranged and GRP said he would happy with a 15/85 split.

5. He said that it could be said that later on GRP was 100% owner but that this would be through arrangement with Abedi. At present, in his opinion, management should be taking a decision as to where they stood.

6. Reverting to the share issue he said that he was a witness to the agreed price with Abedi and Pharaon. Abedi was acting for ICIC and not for the bank and the bank's records show that $95 million were paid. He said that GRP was claiming that $40 per share was paid for other share deals. In reality these were small and not for such a large tranche as his own. There was never a guarantee given in respect of the price.

7. In relation to NBG there was no agreement in writing on purchase or sale. He did receive the statement saying how the proceeds had been disbursed but this statement never had a covering letter and was not receipted. In relation to the Independence Bank agreement he said that he had signed because GRP would not accept HMK's signature alone. If he had signed this alone it may well have been void.

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8. As a side issue we discussed the North American Investment Finance Company. He said that this was a convenience company. He also said that UEL was defunct; it was used as a nominee for BCC shares. HMK had acted for both these companies with a power of attorney.

9. Reverting to Independence Bank he said that if the bank wants to say it owns it then they should use the agreement positively, but otherwise they can disown the agreement. He said that the bank had not exercised its control on either Independence Bank or NBG.

10. He said the whole issue required a high powered legal team to deal with it. As far as he was concerned they were just financial transactions, the bank wanting to share in profits.

11. He said that any comments by GRP in relation to having substantial deposits in the bank were factually wrong.

12. In relation to the non-recourse lending he said that in 82/83 Pharaon had raised a lot of objections and in 86 he was given the ABCD split with the security details. He took this and accepted this with the letter of indemnity.

13. He estimated the net worth of GRP to be in the region of $175 million to $200 million.

14. Finally he said that the lawyers should be very careful: they should not allow people to take advantage of the bank's bad publicity. The bank should get the best possible legal advice and use it.

John A Guy
recorded from contemporaneous notes
6 May 1991

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