

**REPORT OF THE TASK FORCE
(SET UP BY C.E.O. OF BCCI HOLDINGS (LUXEMBOURG) SA)
TO REVIEW AND REPORT ON SELECTED INTERNATIONAL LOANS AND
TRANSACTIONS**

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**REPORT OF THE TASK FORCE
ON SELECTED INTERNATIONAL LOANS AND TRANSACTIONS**

1.00 PREAMBLE :

1.01 This report by the special Task Force, addressed to the Chief Executive Officer, is in response to the specific requirements of the external auditors of the BCC Group - Messrs. Price Waterhouse (PW).

It incorporates the findings of the Task Force concerning a number of international loans and transactions related thereto - primarily emanating from Grand Cayman branch of Bank of Credit and Commerce International (Overseas) Limited. The external auditors had identified these loans and transactions during the course of their audit for the year 1989 and had expressed severe reservations thereon - necessitating further independent review and disclosures as to the nature of these accounts and transactions and their effects on the financial results of the Group and provisions for the year.

1.02 The report has been prepared after days of continuous work since receiving the PW report on 14th March 1990 and involved extensive and intensive interviews of concerned "Accounts Officers" and review of a number of files and documents connected with these accounts and transactions, as were available or made available in London. PW presented the Task Force with a supplementary report on the 6th ~~March~~^{April} 1990 containing 12 problem loans/related issues. The Task Force notwithstanding the time constraint has made all efforts to review each of these accounts and present their findings in this report.

1.03 While the Task Force has not conducted a detailed audit as done by PW it has nevertheless reviewed all accounts listed in PW report and additionally accounts in those locations not covered by PW audit like Kuwait and Uruguay which have a similar nature or purpose or relationship.

1.04 The report besides recording the findings of the Committee also makes specific evaluation of the effects of these findings on the financial results of the BCC Group for the year 1989, as well as their monetary implications for 1990 and beyond.

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1.05 The report also makes very specific recommendations on :-

- (a) the additional provision necessary in the bank's accounts of 1989 to cover against the resultant drop in the quality of certain specific portfolio of advances in the books of the bank, primarily in Grand Cayman branch.
- (b) actions necessary by management to prevent the recurrence of such irregular accounts and activity in the bank any time in the future.
- (c) proposed restructuring in Grand Cayman branch and at the C.S.O. to avoid similar events in the future.

Regarding any other actions which may be considered necessary against the concerned officials of the bank, is left to the CEO and senior management of BCC. However the Task Force has already withdrawn authority of three of the key concerned personnel from their existing customer related activities leaving them to do any transactions only if they are vital to the bank, in which case at least 2 members of the Task Force will countersign such authorization.

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WORK OF THE TASK FORCE2.00 BACKGROUND WORK :

In order to perform their role more effectively the Task Force obtained the following information from the Group's central Finance Division :

- A - The Global Audit Process
- B - The 1989 Audit Details
- C - The Grand Cayman Branch Audit Process

2.01 THE GLOBAL AUDIT PROCESS :

The BCC Group consisting of 32 banking units in 73 countries has been audited annually from its inception at group level by Messrs. Ernst & Whinney and at BCCI (Overseas) Grand Cayman level by Messrs. Price Waterhouse. In 1987 as a means of consolidating the global audit process under one firm the entire audit work was transferred to Messrs. Price Waterhouse.

- The annual audit is conducted by Price Waterhouse (and previously by Messrs. Ernst & Whinney) in two parts :
- an extensive interim audit covering the financial results of the Group for the 9 months up to September 30th of each year which is carried out at all major locations as selected by the auditors during the months of November and December each year and
- a final audit conducted globally for the entire year which is carried out from around the first week of January and up to late February (in normal years). Often this exercise extends into March also.
- As a part of the audit routine a very comprehensive 'Audit Instruction Manual' and 'Questionnaire' is sent by PW in September of each year to the auditors in all BCC locations.
- Copy of the Audit Instruction/Questionnaire is given at Annexure A.
- The global list of auditors is given at Annexure B.

- Notwithstanding that the majority of the BCC locations are audited by PW's own local offices, several senior partners of PW from London and other locations travel to various BCC locations to directly review the local operation of BCC and to discuss outstanding audit issues with the local management and the local offices of PW or other audit firm(s). This has given PW an extensive understanding of the operations of BCC globally over the past several years. A list of the locations visited in 1989 and the names of the partners concerned is given at Annexure C.
- Task Force were informed that it has always been management's policy to give full and complete access to PW to all records and documents of the bank in all BCC locations and to allow free and intensive direct discussions between the external auditors and each and every concerned officer or official of the bank to clarify all transactions and other audit queries.
- PW informed us that they have not had full access to BCP and KIFCO. Management, in response, told the Task Force that this is due to certain local regulatory restrictions, as BCC are minority shareholders in these companies and local auditors have been appointed by the Company's Board, who oversee its day to day management.
- To smoothen the annual audit process the central Finance Division of the Group based in the Central Support Office in London (CSO) coordinates the audit process globally. Counterpart officers are nominated in each location - normally the location's finance officer, with whom ongoing contact is maintained throughout the audit period to monitor the progress and clear any outstanding audit queries on an ongoing basis.

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2.02 THE 1989 AUDIT DETAILS :

The 1989 audit has been conducted on the same lines as in 2.01 above.

The Task Force's review of the audit work conducted for all locations of BCC in 1989 indicates that not only has it been extensively and intensively carried out by PW, but it has also been relatively smooth globally with only a small number of enquiries, which have been duly answered by the local

management or local auditors to the satisfaction of the group auditors in London. This is with the exception of Grand Cayman branch.

The audit of Grand Cayman branch, which has always been a difficult audit for PW, has been even more so during 1989. As a result besides the work carried out by the local office of PW in Grand Cayman a special PW audit team from London has had to travel to Grand Cayman on two separate occasions during the period November 1989 to February 1990 to clear many outstanding issues.

2.03

SPECIAL DIFFICULTIES RE. GRAND CAYMAN AUDIT :

The Task Force made specific efforts to understand the cause(s) for the complex nature of operation in Grand Cayman branch and reasons for difficulties faced by PW in their audit process. They concluded that these were primarily due to the following reasons :-

- (a) Grand Cayman branch does not have any 'local' clients. Their portfolio of assets and liabilities are all offshore. This causes inadequate documentation and written communication, particularly in active accounts.
- (b) A significant amount of loans have been given to shareholders of CCAH against the security of CCAH shares. These have very special need in their handling and special documentation requirements. Since the parties are very high net worth (or even Royal family members) required documentation has not been easy to obtain.
- (c) The branch has several direct loans to the Royal family members in UAE where documentation is difficult to obtain.
- (d) For historical reasons a substantial number of slow moving or weak advances have been transferred to Grand Cayman from other BCC locations for business consideration. These are currently being managed from Grand Cayman (and partly London) under separate 'Accounts Officers' who are individually perusing these clients, including restructuring several of these accounts wherever feasible. Communication with some clients is sporadic.
- (e) There are three or four very large business accounts, with large income to the Group, which have been booked in Grand Cayman for tax consideration. This creates undue concentration of risk in one location.

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- (f) Over the last several years a large number of new 'offshore' loans have been initiated from Grand Cayman said to be for parties from the subcontinent doing shipping and trading business. These loans have been 'parked' in several BCC locations and back up documentation is extremely weak.

3.00

PRICE WATERHOUSE FINDINGS IN 1989 AUDIT :

During the course of the audit of Grand Cayman branch the PW audit team questioned the activities in relation to a series of international loan accounts which had been opened during the last several years in Grand Cayman branch and some which had been opened in 1989, the transactions of which did not appear to reflect the correct nature of the business it was supposed to be involved in. PW was also not able to obtain satisfactory evidence of the real beneficiaries of these accounts.

Further the PW team detected a few 'problems' accounts / transactions in Bahrain and National Bank of Oman about which they had similar doubts.

Transactions were also found which related to the shareholders of the BCC Group and the shareholders of CCAH which were either not properly authenticated by the client or did not have sufficient and/or complete explanations as to their underlying nature. Certain year-end balance confirmations were also missing or even rejected (2 cases).

4.00

PRICE WATERHOUSE REQUIREMENT :

Since the PW team were unable to progress and conclude with the concerned 'accounts officers' to their satisfaction, they raised the matter at the highest level of management of BCC and with some of the Board members stating that the progress of the audit for 1989 would be significantly delayed unless management set up a TASK FORCE to review these accounts and some of the transactions and clarify their true nature and inter-relationship (if any) and report their findings to the Chief Executive Office and to PW.

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5.00 THE TASK FORCE :

A Task Force was accordingly set up by the Chief Executive Officer on 13th March 1990 consisting of the following members :-

- (i) Mr. Masihur Rahman : Executive-in-Charge
Central Finance Division.
- (ii) Mr. Shahid Jamil : Executive-in-Charge
Central Treasury.
- (iii) Mr. Azizullah Chaudhry : Joint Executive-in-Charge
Central Credit Division
(recently assigned to this function)
- (iv) Mr. Rashid Velmi : (Until recently) Head of Operations
and Credit Committee in U.K. Region

6.00 TERMS OF REFERENCE :

At a joint meeting of the Task Force and PW on 13th March, 1990 a detailed 'TERMS OF REFERENCE' was drawn up and agreed (Annexure D).

7.00 PW - BRIEFING NOTE TO TASK FORCE :

On 14th March 1990 PW submitted a confidential report which was in the nature of a briefing note for the independent Task Force giving a summation of each of the problem International Loans and related transactions on which PW required a full review by the Task Force. These covered the following cases :-

- (1) CCAH
- (2) Sh Kamal Adham
- (3) AR Khalil
- (4) Gulf Group
- (5) Offshore companies
- (6) Mahfouz Family
- (7) Sh Mohammed Bin Rashid Al Maktoum

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8.00 WORK PHYSICALLY CARRIED OUT BY THE TASK FORCE :

8.01 The Task Force at their first formal meeting on 14th March 1990 decided to take two days to independently absorb the contents of the PW Report since the information contained therein was all new data and material for the Task Force and some very serious issues had been raised in the report which appeared to cover several years activity.

8.02 Thereafter the Task Force were more or less in constant session jointly interviewing the concerned Accounts Officers and taking their detailed statements and explanations. They also reviewed a number of customer related files and a number of documents relating to the above accounts.

8.03 Wherever required further material was collected from PW and advice sought from them as to the best course of action to be followed next.

8.04 In the course of their interviews and review of the papers and documents it became clear to the Committee that the cases referred to by PW fell into four broad categories :-

CATEGORY A : BCC Shareholders related accounts and/or transactions which would include :

- (a) Mahfouz Family
- (b) Sh Mohammed Bin Rashid Al Maktoum
- (c) Sh Kamal Adham
- (d) AR Khalil

CATEGORY B : Accounts/Transactions relating to shareholders of CCAH.

CATEGORY C : Business and commercial accounts which would include:

- (a) Gulf Group
- (b) Offshore Companies
- (c) Sh Kamal Adham (SKA)
- (d) A.R. Khalil (ARK)

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CATEGORY D : Other related accounts which could have linkage to the above series of accounts. This would incorporate transactions recorded and noted by PW in Bahrain and National Bank of Oman.

8.05 During the course of review the Task Force decided to extend their work so that they can determine whether any such transactions or accounts has also been recorded in any other unit of the BCC Group where PW are not directly auditing the locations such as Kuwait etc.

8.06 The Task Force specifically determined who were the officers dealing directly or indirectly with the above mentioned accounts.

9.00 APPROACH TAKEN BY TASK FORCE :

In the course of their review of many of the related files and documents and their extensive interviews of the concerned 'Accounts Officers' it became obvious to the Task Force that almost all these transactions related to the customers and activities of Grand Cayman branch. Even when 'counterpart' transactions or loans were found in other locations and units of BCC, there was documentary proof and/or verbal confirmation from the 'Accounts Officers' that they were initiated from Grand Cayman (and partly from London). The Task Force therefore concentrated more and more on the operations of Grand Cayman branch including a review of activities on other slow moving accounts in Grand Cayman branch referred to in para 2.03 above.

The Task Force thereafter determined that to progress the work speedily the team should break into three 'units'.

A. Mr. Azizullah Chaudry and Mr. Rashid Velmi would concentrate on all the commercial loans which would include :

- Gulf Group
- all Offshore accounts
- Commercial/business loans to SKA and ARK

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B. Mr. Shahid Jamil would concentrate on CCAH and BCC shareholders' and share related loans which would cover the following :

- CCAH shareholders
- Sh Kamal Adham
- AR Khalil
- Mahfouz Family
- Sh Mohammed Bin Rashid Al Maktoum

C. Mr. Masihur Rahman while assisting both these units would concentrate on once again re-reviewing other 'slow moving' accounts in Grand Cayman and to reassess any additional provision requirements thereto notwithstanding that these provisions had already been agreed.

Regarding A - The Task Force also concluded that in relation to shareholder loans and CCAH loans, (being dealt with by Mr. Shahid Jamil) much of the outstanding issues and queries would automatically be answered if the current exercise of restructuring of shareholders in Abu Dhabi were to be successfully concluded. On this basis Mr. Shahid Jamil was requested to focus more on particular transactions, relating to shareholders, which PW had listed, and on the valuation of CCAH shares, and assess any provision required for any of these outstanding loans based on the various security values. Thereafter he should concentrate on reviewing SKA's and ARKs accounts for which assistance will be required from other Task Force members.

Regarding B - Mr. Azizullah Chaudhry and Mr. Rahid Velmi were required to review the offshore loans based in Grand Cayman, Panama, Liberia, Bahrain, NBO, listed by PW and those subsequently disclosed by accounts managers as being located in Kuwait and Uruguay, in the light of concern shown in the PW report and to determine provision requirements thereagainst.

They were also requested to fully go into the operation of the Gulf Group accounts and ascertain the banks exposure to this Group based on all data and documents available to them and thereafter to ascertain what provision, if any, was required against the various exposures to this Group. They should also recommend what steps should be taken by management to bring this very major account of BCC into a more organised and controlled supervision.

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Further they should make efforts to meet the client and discuss ways and means to restructure this account into more viable segments which can subsequently be dealt with on 'bankable' terms.

Regarding C - Mr. Masihur Rahman was required to assess each of the slow moving accounts in Grand Cayman, the bulk of which were 'acquired' over the years from other locations, and fully review these accounts with the concerned Accounts Officers jointly with PW to determine that given the new facts coming out of this report what would be the revised provision requirements against these accounts which had earlier been agreed by PW at around US\$20 million. Thereafter he should directly assist Mr. Shahid Jamil in reviewing the accounts of SKA and ARK.

10.00

PW SUPPLEMENTARY REPORT

As mentioned in the preamble PW presented the Task Force with a Supplementary Report covering 12 problem loans and related issues. The Task Force noted that several of these cases had already been covered or referred to in their earlier report, which had already been studied by the Task Force in the course of their review of the first report. The other cases primarily related to advances to shareholders which were both for shares of CCAH or for commercial activities. Loans from ICIC were also included for the first time. The cases referred to were as under:-

1. KIFCO
2. BCP
3. SDCC
4. M.M. HAMMOUD
5. SAIGOLS
6. NUMBERED ACCOUNTS
7. G. PHARAON
8. GRAND CAYMAN
9. SH. ABDUL AZIM AL IBRAHIM
10. FAISAL AL FULAJI
11. IMC/PRINCE
12. AL HAJI SULTAN FADEL

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The Task Force once again allocated the above cases to the individual members of the team for determining the facts of the cases and their findings thereon and where necessary any provision requirements.

For the cases relating to the shareholders these remained with Mr. Shahid Jamil and the approach to arrive at the findings was similar to that mentioned in paragraph 9.00. For other commercial loans the Task Force members decided to evaluate the underlying business, the exposure of the bank and the need for provision, if any in BCC.

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**TASK FORCE REPORT ON
LENDING SECURED ON SHARES IN CCAH**

The Task Force reviewed the files and papers held by the Accounts Executive, Mr Imran Imam, and ascertained the following facts from the records and from the detailed interviews.

1.00 **BACKGROUND :**

In 1982, when CCAH acquired First American Bank shares via two intermediate bank holding companies set up for this purpose (CCAI and FAC), the acquisition was wholly funded by the shareholders of CCAH from their own resources plus a US\$50 million syndicated bank term loan which was obtained by (FAC) First American Corporation.

Subsequently some of the shareholders obtained various loans from BCCI against their investment in CCAH including for business and personal reasons. They also raised loans from BCCI for subscribing for rights issues of CCAH in December 1983. The effective lending by BCCI Group started in 1984.

2.00 **SECURITY :**

2.01 As stated above, BCCI Group has provided loan facilities to some shareholders of CCAH secured on their shares since 1984. By the end of 1989, BCCI had provided total loan facilities of \$850.2m to 10 borrowers against 119,325 shares which make up 41.28% of the shares of CCAH.

The net asset value of CCAH shares at 31st December, 1989 was US\$2,963.50 per share based on the Balance Sheet of CCAH audited by Arthur Anderson & Co, as at that date. It was Management's view that since the shares of CCAH will be acquired at a multiple of its book value, this multiple should be at 2.75 times book value, discounted by 10%, for the purpose of evaluating its value as security. On this basis each CCAH share was deemed to have a security value of US\$7,333.00 and the 119,325 CCAH shares deposited with BCCI as security gave a total value of US\$875.1 million.

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- 2.02 A review of the records showed that the number of shares pledged by some borrowers have changed from year to year due to the various rights issues which has increased the number of CCAH shares deposited with the bank as security (without increasing the percentage of CCAH shares so pledged).
- 2.03 The Account Executive responsible for the CCAH loans secured by CCAH shares has confirmed in writing that all the shares of CCAH are not held by BCCI nor was this the case in the past. This appeared to contradict the comment made by PW which states:-

"In the past bank officials have responded that they hold all the CCAH shares and not simply those pledged, although this year this has been denied".

The Task Force feel that his providing the auditors with a complete list of CCAH shareholders in the past may have contributed to this misunderstanding. Many shareholders of CCAH, like ADIA, who have not borrowed from BCCI against their CCAH shares, have their own share custody arrangements.

3.00 PW CONCERNS :

3.01 Loans Documentation/Loan Files

PW have expressed severe reservations in relation to the quality of loan files and loan documentation. The Task Force in reviewing these files are in agreement with PW that these are exceptionally weak given the size of the individual loans.

The Account Executive has confirmed that promissory notes were obtained from borrowers in 1985 at which time they covered virtually all the borrowings. However, no separate loan agreements were executed for loans advanced since 1986. The loan files reviewed by the Task Force are sparse as the number of lending and repayment transactions appears to be very small although the amounts are large.

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3.02 Drawdown During 1989

Drawdowns in 1989 totalling US\$42 million did not have sufficient back-up information.

The Task Force reviewed the situation and determined as follows:

Borrower	Date	Amount of Drawdown	Date	Amount of Repayment	Additional Information Obtained by Task Force
		\$m		\$m	
1. Sh Sharqui	20.9.89	11.00	-	-	Letter dated 2/4/90 directly from Saudi National Commercial Bank confirming utilisation of funds by respective borrower (copy enclosed at Annexure E).
2. Faisal Fulaij	20.9.89	10.00	-	-	
3. A. Sharafa	18.9.89	<u>14.00</u> <u>35.00</u>	-	-	
4. K. Adham	13.6.89	<u>7.00</u>	3.10.89	7.20	
Total Drawdowns		<u>42.00</u>			

The Task Force found that the above drawdowns of \$35.0 million were allowed in September 1989 and the funds were disbursed without the prior approval of the Board of Directors. The same appears to be the case for the drawing of US\$7m in June 1989. However, The Board of Directors approval for these loans as part of the borrowers' global facility was subsequently sought and obtained. The explanation of the Accounts Officer for the delayed Board approval was that due to the importance of the clients and the urgency of his needs this was done. The Task Force felt that a process should be urgently developed to avoid such defaults.

PW's concern re. absence of written request was fully appreciated by the Task Force. The Accounts Executive continued to stand by his original statement that specific verbal instructions were received from the borrowers for the above drawdowns which appeared to be the 'operating method' in earlier years also.

The Task Force determined that the funds were remitted to Saudi National Commercial Bank (Bahrain) for credit to the borrowers accounts with them in the case of the first three drawdowns listed above. In the case of the fourth drawdown of Sh Kamal Adham, this appeared to be a short term loan taken by him of \$7 million which was repaid by him on 3.10.1989. The first three transactions have since been confirmed directly by Saudi National Commercial Bank. (Annexure E).

The Accounts Executive further insisted that in no case has he ever received or accepted instructions for withdrawals from a loan account of one borrower, from another borrower.

It originally appeared to the Task Force that there was no real control over drawdown and more particularly granting of interim facilities outside of sanctioned limits. While the quality of control and documentation is definitely weak, and the Task Force noted this, however, further review indicated that the limits for these loans were deliberately set by the Board at a low level in order to maintain control over these types of lending. The requirement being to report excesses to the Board on an immediate and ongoing basis. In fact this has often been delayed and short term 'excess over limits' were nevertheless being allowed. In the absence of repayments, the short term loans have consequently become 'core' loans.

CCAH Debentures

CFC purchased CCAH debentures of US\$20 million which were redeemed on 10.1.90. CFC Board approval for this investment was seen. A copy is attached at Annexure F. However, the Task Force determined that new debentures of US\$18 million were issued by CCAH in January 1990 which were also purchased by CFC.

Rights Issue:

The records indicated that a total sum of US\$50 million was paid from the CCAH Share Subscription Account in response to a Rights Issue call by CCAH. The balance in this account as at 31.12.1989 was US\$39 million. The Task Force was informed that this will be apportioned between the shareholders on receipt of their Letters of Acceptances/ Waivers. Thereafter specific limit enhancement proposals, where necessary, will be submitted to the Board for approval in the case of concerned borrowers. The Task Force felt that such funding should have been prearranged; alternatively new shareholders could have been attracted as the underlying investment is attractive.

3.03 Growing Size/Poor Performance of CCAH Related Loans

PW felt that the growing size and poor repayment performance of loans allowed to borrowers against some of the shares of CCAH have resulted in these loans becoming 'core' loans. These loan balances have also continued to increase owing to the application of interest, bank charges and drawdowns for rights shares subscriptions and some withdrawals by the borrowers. The Task Force accepted the concern of PW on this subject.

The Task Force was however informed that since 1989 the bank has advised the major borrowers to dispose of their shares in CCAH to repay their loans to BCCI. While no specific letters were seen to this effect, the Task Force was able to ascertain directly that the legal representatives of the shareholders of CCAH have retained the services of a major U.S. investment bank to advise, evaluate and assist either in the outright sale or in the merger of the CCAH group of First American Banks with a larger banking entity. If either of these transactions is effected the loans secured by CCAH shares will be repaid from the of sale of CCAH proceeds or the shares replaced of the acquiring bank would be sold to adjust the loans secured against the CCAH shares. In the above situation there would also be no further need for new capital calls on CCAH shareholders which are made through rights issues.

4.00 Balance Confirmation

- 4.01 The balance confirmation letters sent in 1989 by PW to the borrowers whose loans are secured against CCAH shares, is this year for the first time supported by a very detailed schedule which gives the borrowers loan account number, account location, balance as at 30th September, 1989, interest rate, management fees and other charges and details of collateral. This schedule also clearly states the security, cross pledges (where applicable) and confirmation of instructing the management of First American Bank Inc. to examine the possibility of the sale of CCAH shares and most importantly it additionally states that any shortfall in the repayment of the loan on the disposal of CCAH shares will be met by the borrower out of his own resources. A copy of this confirmation letter and supporting schedule is attached at Annexure G.

The Task Force determined that up to 1988 year end balance confirmations appear to be up to date with PW with the exception of AR Khalil and the Ruler of Ajman who confirmed balances up to 1985 in 1986.

- 4.02 For 1989 five borrowers have sent their confirmations to PW but two borrowers have rejected their loan balance confirmations this year even though we are informed they had confirmed their loan balances in some earlier years. The two borrowers who have not confirmed their loan balances this year are the Ruler of Fujairah and Ruler of Ajman. The Task Force was informed that this is the first year in which the BCC Letters for confirmations of loan balances were specifically designed by PW and also mailed by PW directly to the borrower. On specific enquiry as to the cause for the rejections the Task Force were informed that some of the Rulers in UAE do not understand the reason for the departure from previous protocol (previously a senior executive of BCC in the field had to personally call on the concerned Royal family for their confirmation). We intend to obtain from PW a copy of the two confirmation letters (and supporting schedules) which have been rejected by the two Rulers. The Task Force feels that the reasons for their inability to confirm must be ascertained and appropriately addressed to the satisfaction of PW.

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5.00 Ownership Issue

5.01 The Task Force determined, through their review, that in the case of Midgulf and Rubstone, where loans are secured by shares beneficially owned by Mr M M Hammoud, the companies are beneficially owned by Mr Kamel Rahhal and Mr Youssef Cichadah who are business associates of Mr M M Hammoud. A photocopy of the supporting documentation is attached at Annexure H.

5.02 A statement showing that some CCAH shareholders have agreed to take up their allocations under July 1989 Rights Issue is enclosed at Annexure I.

(An annual return of CCAH shareholders is filed by CCAH but their filing is not the responsibility of BCCI.)

6.00 GENERAL FINDINGS OF TASK FORCE ON OWNERSHIP AND FUND MOVEMENTS ON SHAREHOLDERS ACCOUNTS AND RECOMMENDATIONS THEREON.

6.01 The Task Force noted from the two reports submitted to them by Price Waterhouse, on March 14th and April 6th, 1990 that several transactions and fund movements had been identified by Price Waterhouse which were shareholder related and not appropriately covered by adequate documentation indicating its exact nature and purpose.

6.02 These transactions are fully listed in Annexure J and are extracts from the two reports.

6.03 The Task Force reviewed each of these transactions and fund movements, had detailed discussion with the concerned Accounts Executive and saw whatever connected files and documents the Accounts Executives were able to produce which were not satisfactory.

6.04 The Task Force therefore concluded that short of meeting the concerned shareholders directly or obtaining direct confirmation from such shareholders, which would be difficult as the Task Force has no ready access to such shareholders, it would not be possible to conclude whether or not the transactions duly and fully reflected the purpose indicated by the Accounts Executive.

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- 6.05 The Task Force further concluded that pending the independent confirmation referred to above it could be deemed that there are some "interlocking" arrangements as to ownership and funding of shares of CCAH, and in a few cases shares of BCCI (Holdings).
- 6.06 The Task Force is however aware that Management is currently involved in negotiations with certain high net-worth individuals and Investment Institution of Abu Dhabi, who already hold substantial shares of BCCI Holdings and CCAH, to acquire additional quantity of these shares which would make them major shareholders of the BCC Group and CCAH Group. This in itself would 'unwind' more or less all of these possible interlocking arrangements.
- 6.07 The Task Force therefore recommended that this route should be used to solve and clear the concern of Price Waterhouse in relation to the identified transactions/fund movements.
- 6.08 Efforts should however continue to obtain year-end confirmation of balances from shareholders as done in earlier years to the satisfaction of Price Waterhouse.

7.0 OTHER RECOMMENDATIONS

- 7.01 The bank must follow up on the disposal of CCAH shares which the Task Force continues to believe are valuable security. The extensive lendings to the CCAH shareholders, both principal and interest, should be recovered or substantially reduced. While the anticipated disposal of shares is the best basis on which these loans can be repaid, the Task Force has been informed that other shareholders may be interested to buy out the share of those CCAH shareholders who have BCCI loans.

8.00 VALUATION OF CCAH SHARES

- 8.02 The Task Force believes that the valuation of CCAH shares should range between 2.5 times to 2.9 times book value as Regional Banks in South Eastern U.S.A. are in much better financial condition than banks in other regions such as the North East, Texas or the South West of USA. - Furthermore First American Bank shares is a unique multi-state bank holding company with an unmatched commercial banking franchise in Virginia, Washington D.C., Maryland, Georgia, Tennessee, Florida and New York.

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Even though these banks are conservatively managed they have continued to show healthy growth both in assets, deposits and in net profit over the last several years since its acquisition by CCAH as indicated under:

	<u>Deposit</u>	<u>Asset</u>	<u>Profit</u>	<u>(\$m)</u>
1984	3,992	4,754	28.3	
1985	4,821	5,723	30.0	
1986	5,917	7,206	40.3	
1987	7,663	9,613	50.4	
1988	8,380	10,640	80.3	

8.03 On the above basis the sale value ties up with management estimated at \$7,333.00 per share giving a total security value of \$875.1m.

9.00 PROVISION REQUIREMENTS

9.01 A provision of \$30m should be made to cover for the major part of the potential shortfall in security value as against loans outstanding against the unsecured portion of 2 borrowers unless of course the shares are physically acquired by any existing shareholder or any new shareholder in which depending on the acquisition value no provision may be necessary.

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**TASK FORCE REPORT
ON SHEIKH KAMAL ADHAM**

The Task Force met the concerned accounts executive and reviewed several related files and papers and determined as under:-

1. Background

Sh. Kamal Adham has had a significant business relationship with BCCI for a considerable period of time. He is a very eminent Saudi Arabian high network business man who has held very important positions in the Saudi Arabian Government in the past. He is also the brother of Queen Iffat of Saudi Arabia, the widow of late King Faisal of Saudi Arabia.

2. Security

Sh. Kamal Adham has two types of borrowings from BCCI. His CCAH related borrowing (\$105.6m) is secured by deposit of shares of CCAH. (In addition for reasons which we are still enquiring he has pledged some CCAH shares in respect of the borrowing by Sh. Sharqi company and Faisal Al Fulajj).

His non CCAH borrowing is \$207.7m. Against this he has deposits with BCCI of US\$58.9m and has given the bank letters agreeing to pledge of land and buildings in Jeddah and Riyadh in Saudi Arabia valued at \$34.0m (or equivalent in Saudi Riyals).

3. Concerns

3.01 Size of Outstanding Balance/Repayment arrangements:

Sh. Kamal Adham has a total of \$313.3m outstanding to BCC covered by 40 loan accounts. Even though there are no loan agreements each borrowing by Sh. Kamal Adham or his companies is supported by a duly executed promissory note. Loan balances have also been regularly confirmed by the borrower. The customer has also agreed to repayment terms for 1989 and 1990 which deals with the repayment of a part of his borrowing. Repayments amounting to US\$43.2m were made in 1989. Sh. Kamal Adham has also informed the bank in writing that he will repay a further amount of US\$25m in 1990. The Task Force feel strongly that a more organised and viable repayment term should now be finalised with the client.

3.02 Inadequately Documented Drawdowns

Sh. Kamal Adham was allowed new drawdowns in 1989 for US\$17.6m of which US\$7.0m was repaid (on 3.10.89) as confirmed in Price Waterhouses' report dated 14th March 1990. Against the remaining US\$10.6m of withdrawals, the account executive has shown the Task Force three written requests for withdrawal of funds for US\$2.0m dated 28.9.89 and £1.01m amounting in total to US\$3.65m in US Dollar

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equivalent. (Photocopies attached at Annexure K).

The Task Force found from the files and documents that in the past withdrawal instructions were given on telephone for which a blanket confirmation letter was sent covering drawings from accounts. (See photocopy of letter at Annexure L).

Of late this confirmation of individual or collective withdrawals has not been done depending more on year end confirmation of balance.

The Task Force has expressed concern at the situation and now instructed the account executive that all withdrawals must be evidenced by written instructions by the authorised signatories with immediate effect.

3.03 Value of Security

PW have expressed the view that the advances are not adequately secured.

The Task Force determined that there are two valuations covering two plots of land in Riyadh and a plot of land on Palestine Road, Jeddah being 38617 square meters with a commercial centre, supermarket and large parking area built on it. The valuations of both these properties dated 28th September 1986 giving the properties a value of SR 127.8m (equivalent to US\$33.96m). Two letters signed by Sh. Kamal Adham are on file irrevocably undertaking to pledge the properties to the order of the bank. The Task Force has instructed the account executive to obtain current valuations of the properties and to obtain legal opinion on what further acts are required for perfecting the banks security on the real estate in Saudi Arabia.

The account executive confirmed that the last audited networth statement for Sh. Kamal Adham as certified by Arthur Anderson & Co., dated 29.3.1981, was US\$267m which is on file. This was prepared for submission in the US for acquisition of FAB (copy attached at Annexure M). The account executive also confirmed that he is following up the preparation of an audited networth statement of Sh. Kamal Adham with his financial advisors and expects to receive it as soon as it is completed.

3.04 Excess Over Limit

PW have expressed concern over the repeated excess over limit on this clients accounts. The task force has instructed the account executive to have enhanced limits approved by the Board in place before allowing further withdrawals from the loan accounts. The Task Force was however shown that the credit limit of \$315m which includes the withdrawals of US\$18m, was approved by the Board of Directors on 27.11.89 reference A2\GC\90.

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4.00 RECOMMENDATIONS

The Task Force has instructed the account executive to follow up on the following representations:-

- (i) Obtain legal advice on the enforceability of the pledge of land and property in Saudi Arabia and to perfect it accordingly.
- (ii) To follow up repayments of \$25m agreed by to borrower for 1990 in addition to the interest charged, so that there is a reduction of total outstanding loan balances.

(The Task Force believe that the CCAH secured loan will be repaid on the sale of the CCAH shares).

- (iii) To obtain an audited networth statement of Sh. Kamal Adham as soon as possible after the month of Ramadan.

4.01 The Task Force felt that while the sale of CCAH shares, will greatly reduce the total outstanding loans of Sh. Kamal Adham, the receipt of audited networth statement of Sh. Kamal Adham will go a long way to demonstrate his ability to service and repay his loans to the bank.

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TASK FORCE REPORT
ON A.R. KHALIL

1. The review of this loan account makes really sorry reading and the Task Force feel that PW should have sought better clarification and documentary proofs in earlier years than received by them.
2. The Task Force is of the opinion that more than 80% of this borrowers total exposure of \$150.3m as at 31.12.89 can only be repaid by the sale of CCAH shares which should be actively followed up by the bank. The Task Force was informed that Sh. Kamal Adham has offered to take over the CCAH shares and loans thereagainst from A.R. Khalil but saw no documentary evidence thereof. Apparently this verbal arrangement could not be effected due to the total credit already given to SKA being so large.
3. The balance of ARK's loan should be realised on the sale of his BCC shares held by A.R. Khalil which should be part of the existing restructuring of shareholding being discussed in Abu Dhabi.
4. A.R. Khalil is a high networth Saudi Arabian businessman. The Task Force feel that he should be urgently contacted to unwind his position with the BCC Group.

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**TASK FORCE REPORT
ON SELECTED INTERNATIONAL LOANS/TRANSACTIONS**

GULF GROUP

Background

The Gulf Group is a multinational privately held group of companies owned and controlled by Gokal brothers namely Mustafa, Abbas and Murtaza Gokal with offices and presence in over 40 countries around the world.

During last few years the Group has diversified their business activities and are now involved in shipping, commodity trading, general trading, distribution, manufacturing, financial services, real estate and projects.

A substantial portion of their assets are consolidated in Gulf International Holdings (GIH), a Luxembourg based holding company, with total assets of US\$ one billion and shareholders equity and funds in excess of US\$ 416 million. In addition to this they have businesses partly or wholly owned by the Gokal brothers and members of their family. A report on their business activities prepared by the Gulf Group is attached. (See annexure N). The Task Force presently is unable to comment on that report without making in depth study of the Group.

Their business relationship with BCC is over 15 years old and the facilities extended by the bank have increased substantially during these years.

Liabilities with BCC

(US\$ million as on 31.12.89)

<u>Nature of Category</u>	<u>Limit</u>	<u>Loans o/s</u>	<u>No Cos.</u>
a) GIH (Consolidated) PAD	146.50	235.62 6.84	3
b) Other group a/cs (unconsolidated)	<u>109.50</u>	<u>162.18</u>	<u>8</u>
Total	256.00	404.64	11
c) Dutch Cos. (owned by relations)	10.00	10.15	3
d) Gokal Family Owned (Offshore companies)	<u>25.40</u>	<u>27.24</u>	<u>7</u>
Total	<u>291.40</u>	<u>442.03</u>	<u>21</u>

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GULF GROUP (CONTD)

SECURITIES POOL

Deposits under lien		17.00
Bonds		17.00
Ships (Mortgaged)	33.50	
	<u>11.10</u>	
	<u>44.60</u>	<u>44.60</u>
GIH Shares	382.70	
<u>add BCC lendings</u>	<u>242.40</u>	
	<u>625.10</u>	<u>625.10</u>
Total Value of Securities		<u>703.70</u>

Note:

GIH share value above is based on net asset value of 11.5 million shares pledged. BCC lending added back above are those loans in BCC books which are in the names of companies consolidated in GIH, as discussed with Price Waterhouse. The real value of GIH shares can only be evaluated after in depth study of all companies in the group, both consolidated and non-consolidated.

The borrowings of above companies were discussed with PW on 21-3-90 as also a reasonable basis to assess 1989 provision requirements.

PW Concerns - appendix 1 (4)

PW Ref: para 3 (1)

Important issues raised in PW letter of 12.1.90 to Accounts Manager have been covered in this report.

The following documents received are being provided:

- Break-up of guarantees and borrowings (Annexure O)
- Evidence of beneficial ownership of unconsolidated companies (Annexure P).
- Evidence of beneficial ownership of Gokal family members (Annexure Q).

PW Ref: para 3 (2)

It has been observed by Task Force that the drawings were allowed substantially in excess of limits without Board approvals.

Regarding Capricorn Chartering (pty) Ltd., our enquiry from BCC Australia shows that they had discounted acceptances under letters of credit opened by BCC Grand Cayman and consequently, as per normal practice, did not show as customers liability. They also had similar credits from D.G. Bank Hong Kong and treated on the same basis.

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GULF GROUP (CONT'D)

PW Ref: para 3 (3)

Board approvals for certain individual companies have been examined by TF. No satisfactory explanation has been given for not giving Group liabilities.

Regarding mention of wrong places of domicile in respect of board approvals of Pilot Petroleum and Marcotrade International. It has been explained that this was due to similarity of names of Liberian and Grand Cayman companies with those of Swiss and US companies. Anyway the board approvals of the two companies was obtained with correct account titles and were declared part of Gulf group. Therefore it could not have served any purpose. Examination of the file also shows that in case of Marcotrade International Ltd., it is self evident that 'Ltd.' company cannot be a Swiss company. Hence, it appears to a case of oversight or carelessness rather than anything else.

PW Ref: 3 (4)

Assurances given in the past were based on the promises made by the client which were not reported to be honoured. The increase in the liability is mostly due to application of interest and charges during March '89 to Dec '89 which again were not serviced by the client.

PW Ref: 3 (5)

Presently the audited balance sheet of GIH and other securities as mentioned above can be the only basis of any evaluation. Debt servicing capacity would be studied in depth together with restructuring of loans.

PW Ref: 3 (6)

Enquiries by Task Force reveals that Pilot Petroleum Corp. (USA) is beneficially owned by Gokal family as per chart provided in annexure R. However, it may be noted that there are no reported lendings by BCC to this company.

The relationship of the Gulf Group with the offshore companies is explained separately under 'offshore companies'.

Also refer report on "offshore companies" for further follow up action taken by the Task Force.

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- a) Management of Companies by Gulf Group or their nominees.
- b) Significant inter-related transactions.
- c) Ultimate beneficiary of funds/financing
- d) Signatories on these accounts are people connected with the Gulf Group either by relationship or by employment.

We are told that it is not possible at present to obtain any written acknowledgement of interest from alleged beneficial owners. For reasons stated above, Task Force is of the view that all such companies should be considered Gulf Group risk until concrete proof of beneficial owner is obtained and the risk considered acceptable. In the meantime the Gulf Group should assume the responsibility and provide support of their guarantees and other securities already with BCCI.

As mentioned in earlier part of this report, enquiries from account managers have also revealed that offshore accounts of above category, in addition to those listed in Price Waterhouse Note are maintained at Kuwait and Uruguay. All such accounts with loan balances as on 31.12.89 are listed in annexure G totalling US\$ 79.53. These balances should be incorporated to the total of offshore accounts.

PW Ref: Para 3 (2)

Majority of the offshore lendings domiciled in Grand Cayman, the Bahamas and Panama have operated close to limits. Excess-over-limit, where allowed, were not in conformity with normal procedures.

PW Ref: Para 3 (3)

It has been observed that in some cases drawdowns have been allowed despite excess over limits and without CCD approval. Regarding credit approval procedure for Grand Cayman proposals, Task Force has been informed that due to tax reasons, Grand Cayman credits approval was never part of normal CCD routine.

PW Ref: Para 3 (4)

PW observations that in some cases excess over limits without Central Credit Committee approval was allowed in 1989 despite representation to the contrary seems correct.

PW Ref: Para 3 (5)

Other than mortgage of ships and a property valuing in total approximately US\$74 million, there is no tangible security. Therefore Price Waterhouse concerns regarding collectability are valid in the absence of proof and full financial details of the alleged beneficial owners.

SUMMARY

	<u>\$m</u>
	(Balance 31.12.89)
- Grand Cayman, Panama, Nassau (as per PW list)	173.39
- Bahrain	10.65
- Kuwait	75.34
- Uruguay	<u>4.12</u>
	<u>263.50</u>

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Against the above loans tangible securities in ships and a property amounts to approximately \$74 million.

In view of above observations of the Task Force, it was decided that efforts should forthwith be made to contact the Gokals and clear the above relationship. Mr. Abbas Gokal of Gulf Group was approached by a member of the Task Force. He was asked to verify and acknowledge the financial responsibility of all listed offshore companies for the reasons explained. Task Force was able to obtain such confirmation (Annexure O) and extension of personal guarantees and agreement that GIH shares held by BCCI should also to cover outstandings in these companies (Annexure O).

Consequently, Task Force has, for the purpose of credit risk evaluation in the absence of detailed financial information on each company separately, consolidated the position is as follows:-

		(US\$ million)
<u>Liabilities</u>		<u>31.12.89</u>
a)	GIH (consolidated)	242.46
b)	Other Group Accounts (unconsolidated)	162.18
c)	Dutch Co.	10.15
d)	Gokal Family owned	<u>27.14</u>
	Sub Total	442.64
e)	Offshore companies	<u>263.50</u>
		705.53
<u>Securities</u>		
	Cash & Bonds	34.00
	Ships mortgaged	44.60
		<u>66.00</u>
	Property	110.60
		<u>8.00</u>
	Total Tangible Security	152.60
		<u>152.60</u>
	Net exposure	<u>552.93</u>

The remaining net exposure of US\$552.93 million can be deemed to be covered by the 92% shares of GIH and personal guarantees held by BCCI.

Recommendations

- a. Net asset value of GII shares under pledge and as reflected in the audited accounts of GII should be discounted at 50% margin due to lack of financials of all the companies individually and details of receivables.
- b. On the basis of (a) above the uncovered net liability is \$119.5 million (please see Annexure S). Accordingly US\$120 million should be provided immediately pending further study.
- c. BCC should set up a high powered team to complete detailed study of the group including all unconsolidated companies and make recommendation for further evaluation and restructuring.

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**TASK FORCE REPORT ON
MAHFOUZ FAMILY**

- 1.00 The Task Force reviewed the loan files of the Mahfouz family, particularly regarding the loans covered in Appendix 1 (6) of PW's briefing note of 14th March 1990. The documentation in the files had not been completed for the two outstanding loans. These loan accounts were discussed with the Accounts Executive. As noted in PW's report the previous loan of US\$100 million to the members of the Mahfouz family was prepaid before the final maturity date during 1989. Proper documentation had been obtained for this loan by the Bank. Two loans which are now outstanding were subsequently disbursed for US\$100 million and US\$46.4 million from BCC (Emirates) and BCCI S.A. Bahrain respectively on 2nd October 1989. Both these amounts were remitted to NCB, New York for credit to the account of the borrower Sh. Khalid Bin Mahfouz with NCB in Jeddah.
- 2.00 The Task Force noted that both these withdrawals were not supported by written payment instructions from the customer but the remittances from both these accounts went to Sh. Khalid Mahfouz's account with NCB, Jeddah. The balances in these two accounts at the year-end have been subsequently confirmed by the borrower.
- 3.00 The Task Force noted the concerns highlighted in PW's report and agreed that the level of placements with NCB was high. This is partly due to the fact the BCC has a reduced number of correspondent banks with whom it can do two-way business. The Task Force is trying to ascertain whether the placements were within the due from bank limits approved by the Board of Directors. Nevertheless the Task force felt that the level should be suitably reduced after further review.
- 4.00 In assessing Sh Khalid Mahfouz the Task Force determined that he continues to be a high net worth entrepreneur with business interests in both Saudi Arabia and abroad. The customer also places substantial deposits with the bank from time to time. At the year-end US\$46 million was placed as deposit by him. This was however withdrawn in January 1990.
- 5.00 The Task Force found that the share register of BCCI (H) still reflected his holding of shares at 20%, over the year end. It was unable to conclude whether any interlocking arrangement existed between Sh. Mahfouz and any other shareholder. However the Task Force is aware that the proposed restructuring programme for BCC shareholding involves acquisition of Sh. Mahfouz's 20% share by institutional investors in UAE. The Task Force believes this would greatly relieve the doubts and concern of PW and perhaps some of the interlocking arrangement(s).

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**TASK FORCE REPORT ON
SH. MOHAMMED BIN RASHID AL MAKTOUM**

- 1.00 The Task Force reviewed PW's note, regarding this borrowing and noted the comments that he is the effective Ruler of Dubai and is a very high networth person.
- 2.00 Against his drawdown totalling US\$145 million in 1988 Sh. Mohammed repaid US\$50 million during the same year. Even though the facilities extended to Sh. Mohammed are clean he does have substantial deposits with BCCI S.A. in Luxembourg which totals US\$109.8 million at the year-end. His borrowing however is not secured by a lien against these deposits.

The Task Force noted PW's concerns regarding the absence of loan agreement, promissory notes and lack of drawdown instructions in writing.

No audit confirmation was received for 1988 despite management assurance in 1989. The Task Force is of the opinion that the confirmation must be obtained for this borrowing by the Regional General Manager of the Middle East Region or one of the senior account executives in the Middle East Region who maintain liaison with Sh. Mohammed. The lack of proper documentation should be remedied by the Middle East Regional Office.

In the Task Force's opinion it was inappropriate to provide a new overdraft facility particularly if, as suggested by PW it was linked in any way to his subscribing to the rights issue of the bank. The Task Force feels that efforts should be made for either the new overdraft facility or Sh. Mohammed to be repaid or his rights issues may be sold as part of the restructuring of the shareholding that is presently underway. Equally if there are any interlocking arrangements regarding CCAH or BCCI shares between Sh Rashid and any other shareholder this should be unbound in the process of the existing shares restructuring now in hand in Abu Dhabi.

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- 6.00 The total number of slow moving accounts which received such funds during the year was 7 out of a total number of 30 slow moving advances. The total amount received into these accounts was approximately \$27 million.
- 7.00 After further review with the concerned account officers a comprehensive statement was prepared for the seven accounts for determining the increased exposure if funds had not come in and recommending the revised amount of provision necessary. This statement is given at Annexure U.
- 8.00 As a result of the increased provision made in these accounts the total provision in Grand Cayman branch (including for the four accounts which were previously not finalised) would rise from the originally agreed figure of about \$23.0m to approximately \$50.6m.
- 9.00 The Task Force then sat with Price Waterhouse to individually review each case and agree the increased provision. Price Waterhouse, while agreeing with the concept and the broad figures had the following reservations:
- (a) They requested further review by the Task Force in relation to three of the accounts before provision for these three could be finalised.
 - (b) In two other cases Price Waterhouse feels that additional provision may be necessary in view of the ongoing weakness of these cases over several years. This could add another \$5m or so of additional provision for Grand Cayman.
- 10.00 The Committee have decided that they will further review the accounts mentioned above and come to their final recommendation for provision in the next few days.¹

¹ Since done. Please see page 53.

**TASK FORCE REPORT
ON SLOW MOVING ADVANCES IN GRAND CAYMAN BRANCH**

PW had expressed in their first report and more so in their supplementary report that in view of the uncertainty in relation to the quality of operation effecting the different commercial accounts maintained by the branch and particularly those which has any fund movement in it, it was necessary for the Task Force to review the various accounts individually and more particularly those listed by PW to determine whether they correctly reflected the balance position and whether any provisions were required therein.

The Task Force reviewed the position and report as under:-

- 1.00 As mentioned in Section 2.03 of our report, Grand Cayman branch is currently holding approximately 30 slow moving accounts that it has acquired over the years from other locations of the BCC Group. (No new account has been transferred in the last three years). These accounts are managed by specific account officers nominated for the sole purpose of follow-up with the concerned clients and to evolve ways and means for their recovery, including their restructuring programme and new business possibilities wherever feasible.
- 2.00 The Task Force was informed that each year Price Waterhouse reviews the status of these accounts in detail and discusses with the account officers the additional provision requirements in relation to each case for the year. We were further informed by the account officers that up to 1988 the exercise has been relatively smooth and provisions have been mutually agreed each year.
- 3.00 During the current year's review of these accounts PW were not fully satisfied with some of their inward receipts during 1989. To assess the exact quantum of such inflow into slow moving accounts at Grand Cayman from external sources, the Task Force requested Price Waterhouse to provide a complete list of movement in all the slow moving accounts during 1989. This list was supplied by Price Waterhouse and is given in Annexure T.
- 4.00 The Task Force discussed these inflows with the accounts officers. The accounts officers while continuing to hold their views that they would have come from the clients were not able to provide full details of these inflows.
- 5.00 The Task Force therefore decided to review all cases of slow moving accounts where funds had come in and determine what would be their notional outstanding balance if the inwards transfers into these accounts were not received. On this basis they would want to reassess what would be the revised provisioning level for 1989, notwithstanding that the provision assessment on such accounts had already been completed for the year between Price Waterhouse and the concerned account officers.

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TASK FORCE REPORT ON
KUWAIT INTERNATIONAL FINANCE COMPANY

1.00 KIFCO - OFFSHORE ACCOUNTS

The Task Force, while reviewing and responding to the first report of PW had already started its own investigation to determine if any accounts had been initiated in KIFCO from Grand Cayman or London which were in the nature of 'offshore' accounts of the type referred to by PW in their report. In the course of this, the Task Force obtained a draft balance sheet of KIFCO as at 31 December 1989. This is enclosed at Annexure V. The Task Force noted that the total loans and advances of KIFCO as at 31.12.1989 was KD 48.908 million (\$146.7 million). The Task Force enquired from all accounts officers dealing with 'offshore' accounts whether any such accounts had been parked in KIFCO. The results of this are reported already in the section dealing with Offshore Loans. (Item 5 of PW's first report). The amount of such loans was determined to be US\$75.3m which has now been grouped with the Gulf Group offshore loans. (Please see page 28-30).

In order to further determine whether the rest of the advances in the books of KIFCO relate to KIFCO's own operation communications were exchanged with KIFCO and their external auditors and this matter was satisfactorily ascertained. See exchange of communications at Annexures W/1 to W/ _____

2.00 OTHER LARGE ACCOUNTS

In order to determine the health of the remaining portfolio of KIFCO's own advances, the Task Force required KIFCO to give details of all large accounts in excess of \$5m which was the same level of information previously sought by the external auditors, Ernst & Whinney and subsequently PW. A list of such accounts was duly received from KIFCO and the total amounted to \$90.5m covering 15 accounts of which 6 accounts amounting to \$34.8m are already covered in 'offshore' account list mentioned in 1.00 above. The Task Force has now requested KIFCO to give a write-up on each such account. However, the preliminary communications suggest that no provisions will be required against these accounts. We expect to get the individual reports by the second half of this month. See Annexure X/1 to X/ _____ for communications exchanged with KIFCO on this subject.

3.00 INTER COMPANY BALANCES

PW indicated to the Task Force that it is their understanding that there is a difference between the inter company balances reflected by BCCI (Overseas) vis-a-vis KIFCO and the confirmation of balance to Grand Cayman by KIFCO. This matter was investigated by the Task Force and the reconciliation obtained showed that there was no significant difference between the two units barring year end usual transactions outstanding. (Annexure Y).

4.00 LOCAL AUDITORS

PW required to know why they can not be auditors of KIFCO or fully review its operation. The Task Force enquired into this matter and was supplied copies of several communications exchanged between BCCI and KIFCO in relation to the termination of the 'Management Agreement' between BCC and KIFCO in 1986. As a result, KIFCO's Board of Directors has extensive independent powers, including appointment of local auditor's and maintenance of secrecy of data. The local auditors who were affiliated to Talal Abu Ghazala, are known to be one the leading audit firms in the Middle East. However the Task Force was unable to assess the quality of their work. The Task Force nevertheless have requested KIFCO that there should be better communication between the local auditors and PW.

Regarding the proposed visit to PW the Task Force is informed that only the Board can give specific authority either to the Task Force or any external auditors (except their own) to visit and review the records of KIFCO. Effort are accordingly being made to contact Mr. Faizal Fulaij, Chairman of the company to seek such permission.

The Task Force however felt that since all the BCCI connected 'offshore' loans, as well as all the major other loans of KIFCO itself, had been reviewed by the Task Force and since direct confirmation received from the external auditors of KIFCO that all the other loans are KIFCO's own and under local management (where no significant provisions were sought in 1989 as per KIFCO's audited accounts in 1989) further review can be deferred to 1990 given the time constraint under which the Task Force is working.

5.00 IZ COMPANY FOR EXCHANGE

The Task Force was able to ascertain that the IZ Company For Exchange is a small subsidiary of KIFCO and has a very low level of activity, mostly as a foreign exchange bureau for currency transactions. The Task Force is seeking to obtain a copy of the company's balance sheet for December 31, 1989. The Task Force has not yet been able to obtain details of transactions for which Price Waterhouse are seeking clarification. Task Force will seek further information from KIFCO.

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TASK FORCE REPORT
ON BANQUE DE COMMERCE ET DE PLACEMENTS (BCP)

- 1.00 PW has stated in their report that Swiss secrecy laws have prevented them from obtaining information relating to certain customer accounts, by the incumbent auditors. Task Force finds itself equally helpless for the same reasons.
- 2.00 Task Force has however enquired from Mr. Imtiaz Ahmed, (Executive-in-Charge, Central Credit Division, who is also a member of BCP Board), regarding the year end loan portfolios. Mr Ahmed confirms that the loans over five million referred to by PW's supplementary note, do not pertain to any common customer of the BCC Group.
- 3.00 The Task Force believes that PW can obtain further reasonable satisfaction from Dr. A. Hartmann who is also Chairman of BCP's Board and a member of BCC Audit Committee on above and any other BCP related matters.

FD0100064

**TASK FORCE REPORT ON
SAUDI DEVELOPMENT AND COMMERCIAL COMPANY (SDCC)**

- 1.00 The Task Force has obtained only limited amount of information on SDCC upto now.
- 2.00 The relationship appears to have started many years ago when Mr. A.L. Kazandar was operating in Saudi Arabia on behalf of BCCI seeking to obtain a direct banking presence for BCCI in this country.
- 3.00 In the meanwhile the Saudi Development and Commercial Company was established in July 1974 with a capital of SR 7m primarily for construction and real estate activity and trading and trade financing, the latter with ability to handle the financing of import of other Saudi entities by using its own credit line established originally with Al Jazirah Bank and subsequently with Bank Al Saudi Al France under cover of BCCI.
- 4.00 The shareholding has altered somewhat during the last several years and is currently set to be as under:-

1. Mr. Abdul Aziz Yousef Yasin	- Businessman	39%
2. Mr. Ali Salmeen Basmair	- Businessman	33%
3. Mr. Abdul Latif Khazandar	- Banker	21%
4. Sh. Ali A. Bughshan	- Businessman	8%
5. Mr. Abdul Aziz Suleman	- Chairman	
	Al Jazirah Bank	7%

All the above individuals are stated to be high networth individuals and hold responsible positions in the country. The Task Force has not yet had an opportunity to meet any of the share holders. However Mr Khazandar and Sh Ali Bughshan are well known to some of the Task Force members.

- 5.00 SDCC has over the last several years constructed several buildings and apartments and own a valuable plot of land.
- 6.00 It has also directly invested in several companies, including:-
1. Credit & Commerce Insurance Co. - Saudi Arabia (CCI)
 2. Arab Investment & Commercial Co - Morocco (AIC)
 3. Saudi Egyptian Co. for Investment and Finance - Cairo (SECIF)
 4. BCCI Financial Services (Pvt) Ltd. - Dubai (BCCI(F)S)

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It is known to the Task Force that CCI is one of the leading insurance companies in Saudi Arabia and that SECIF is an active investment and finance company in Egypt with leading insurance companies and high net worth private investors as co-shareholders.

7.00 SDCC has availed of various credit facilities from BCC more or less on an ongoing basis.

The balance as on 31.12.89 of various accounts have been stated as under by PW and were found to be correct as under:-

BCCI O/S Grand Cayman	\$14.7m
BCCI SA Bahrain	<u>\$ 4.8m</u>
	<u>\$19.5m</u>
Placement by BCCI Grand Cayman on roll over basis	<u>\$25.5m</u>

Both the above credit lines had approval of the Central Credit Committee partly on the security of shares and partly clean and the Task Force was able to see documentary evidence of this.

8.00 The Task Force was not able to ascertain balances stated to be reflected in ICIC's books to which it has no access. However PW who audit ICIC will probably have identified the correct balance of \$8.3m.

9.00 The Accounts Officer concerned in SDCC affairs was able to give some information (in reasonable detail), including on investments of SDCC. (In this context the Task Force is directly obtaining from Cairo the latest balance sheet of SECIF or other valuation statement). However regarding the operative account which was apparently set up for SDCC to finance import business on its own account and on behalf of other Saudi clients who use this credit line for imports made by their companies, the information was scanty.

10.00 This business was stated to have started several years ago with BCCI SA (UK) with Mark Lane Branch being directly involved in maintaining the account and the related documents. The Task Force is seeking to obtain some old records from Mark Lane Branch to get a better feel of the nature and volume of this import-related business.

This account has since moved to Grand Cayman. Since the departure of a senior nominated officer from BCC two middle ranking officers and some of the Saudi investors are directly handling the relationships.

11.00 Regarding the placements from Grand Cayman the Task Force was able to ascertain that this placement has formal approval limit, expiring on 30.6.1992

for US\$15.0m subsequently raised to \$30.0m. However excesses have been allowed upto \$35.0m. In 1989 the placement has been reduced from \$35.0m to \$25.0m and is currently being rolled over regularly on short term basis. The Task Force recommend that the line should be further reduced and much more actively monitored.

12.00

The Task Force felt that given the time constraint in its finalising the report, the review of SDCC should be more effectively carried out in 1990 and in the meanwhile in consultation with PW it agreed to set up an ad hoc provision of \$10m for 1989.

In this context the Task Force however felt that the valuation given by PW on SDCC's investment in Cairo (SECIF) is excessively conservative and could be higher, which would reduce the net exposure. However this can not be firmly determined till the Valuation Report comes from Cairo. A computation prepared by the Accounts Officer (Annexure Z) has also been ignored by the Task Force since it is not being supported by any locally vetted set of accounts of the company.

FD0100067

4.00 Hammoud - Other a/es

4.01 Invesco

Loan :

Allowed in 1987 US\$ 7.00 million. Present o/s \$8.50 million.

Background

The above company was set up by business associates of Mr. Hammoud, with the purpose of acquiring business & assets of M.A.H. Jabali, who had facilities for US\$10.00 million in Egypt. Jabali was dealing with AEG electrical goods in Egypt and Lebanon. The party encountered problems in business and was trying to sell the business to repay stuck up Liability with BCC (Misr). Mr. Hammoud & his business associates in Lebanon (INVESCO) became interested to take over Jabali's business & assets & liabilities.

In arrangements with Jabali, Invesco agreed to purchase the outstanding loan at a significant discount i.e. for US\$7.00 million only. BCCI agreed to this new loan to INVESCO to be repaid over 6 years (expiry 31.12.92). This was done with the approval of Central Bank of Egypt.

Invesco have already shifted electrical goods to Lebanon and stored them in a warehouse in Beirut as there is demand for these goods in Lebanon.

Directors/Partners

- (1) Mr. Jamal A. Rahal
- (2) Mr. Issam Y. Youness
- (3) Mr. Saad Eddine Saab

Existing Security

- | | | |
|-----|------------------------|-------------------|
| (a) | Stock valuing | US\$ 1.00 million |
| (b) | Debtors | US\$ 1.00 million |
| (c) | Mortgage of Properties | US\$ 7.50 million |
- in Beirut in favour of nominee of the Bank Mr. Hammoud

Existing Repayments Arrangement

- (a) Sale proceeds of Stocks in Lebanon
- (b) Sale proceeds of properties in Lebanon.

FD0100069

4.02 Middle-East Commercial Agencies (MECA) SAL

1. Background

The above company was set up with the purpose of acquiring 14 stuck up accounts from BCC (Misr), which had borrowings of about US\$30.00 million & LE 4.00 million. All the borrowings were bought by the above named company at a substantial discount of US\$8.00 million. The acquisition was done with the permission of Central Bank of Egypt.

BCCI Cyprus allowed the Loan to fund part of the acquisition. The present outstanding is US\$6.2 million (as on 31.12.89). It is unsecured but covered by Personal guarantee of the directors who are business associates of Mr. Hammoud.

Apparently one of the principal purpose of acquiring the various business accounts in Egypt through Invesco and MECA, by Mr. Hammoud, (and his business associates) was to have a significant local presence in Egypt as they saw a lot of business opportunities in this country.

Through this process they have now established a new local company with the intention to follow through the recovery and restructuring the businesses and accounts purchased. Services of an officer of BCCI has been seconded to this company to assist the process of recovery which we are informed is slow. However this important foothold in Egypt has given Mr. Hammoud and his associates new opportunities in Egypt.

5.00 Price Waterhouse Concerns

1. Absence of critical information

The Task Force has been informed that Mr. Hammoud is the business associate of the directors of all the three companies. The property mortgaged in Lebanon is held in the name of Mr. Hammoud as nominee of the bank. PW has already seen documentary evidence of all the securities.

2. Management representations

Task Force is informed that previous representations were based on the available record with no formal evidence/connection with Hammoud. As a result of discussion with Account Executive, Task Force is now in a position to say that these companies are part of the Hammoud Group.

FD0100070

3. Evidence of recoverability

Although the Loans are covered by Securities as stated above but Task Force agrees with the concerns expressed by PW as no information/ evidence is available on borrowing companies to support the lending. No repayment and even interest has not been serviced in the a/c of Invesco.

Price Waterhouse has already reviewed the securities. According to the Account Executive total outstandings are covered by securities of properties and shares.

In view of the above the Task Force recommend that any question of provision against these accounts should be considered in 1990. In the meanwhile greater efforts should be made to activate these accounts.

ICIC exposures have not been dealt with in this report.

TASK FORCE REPORT ON SAIGOLS

Summary of Outstanding Balances

	<u>31 December 1989</u>				
	<u>\$ Million</u>				
	Gross	Suspense	Provisions	Repayments	Net
Grand Cayman	20.9	(3.5)	(2.0)	(1.5)	13.9
Bahrain	8.5	-	-	(2.2)	6.3
BCC Emirates	<u>1.8</u>	<u>(0.2)</u>	-	-	<u>1.6</u>
Total Exposure advised by BCCI	<u>31.2</u>	<u>(3.7)</u>	<u>(2.0)</u>	<u>(3.7)</u>	<u>21.8</u>
ICIC Exposure	<u>12.9</u>	-	-	-	<u>12.9</u>

1.00

BACKGROUND

The Saigol Group is one of the major industrial and trading groups of Pakistan. After the nationalisation, of substantial part of their assets in 1972 and their bank (UBL) holding in 1974, they sub-divided their business into smaller groups, which was completed by 1987. Mr. Rafique Saigol, Chairman of the group and his brother Shafique Saigol are controlling the principal businesses.

The activities of the group, presently, consist of the following companies:-

1. Mohib Textile Mills Ltd: a spinning mill consisting of 37,000 spindles located at Muzzaffargarh in Punjab province of Pakistan. It employs about 1,000 workers and produces annually over 9 million lbs. of cotton, viscose and polyester yarns.
2. Kohinoor Consultants (Pvt.) Ltd: a company located in Karachi with branch offices at Lahore and Islamabad, specialises in providing consultancy services and represents leading foreign machinery manufacturers of the world.
3. Kohinoor Trading (Pvt.) Ltd: a trading company located in Karachi, primarily exporting textiles to USA, EEC, Far East, Middle East and Africa. Recently, it has set up its own weaving factory for cotton textiles in Karachi. It also imports man-made fibres and yarns, pulses, cement, plastic moulding compounds, chemicals. Turnover year ended 30th June, 1988 about Rs 200 million.
4. Rashed al Rashed (Cement division): a Saudi partnership between Rashed Airashed & Sons group of Saudi Arabia, Ssangyong Cement Co. of South Korea, and the Saigol Group, has become the largest distributor of cement in the Kingdom of Saudi Arabia. Originally, it started out by importing cement in bulk from Japan and South Korea but since last year it has switched over to selling locally produced grey cement, importing only white cement from Ras Al-Khaimah in UAE. It sold about 1.74 million tonnes of

cement in 1988 valuing about SR 250 million. The receivables on 31st December 1988 amounted to SR 83.6 million.

5. Trans Saudi Establishment: transport business in Saudi Arabia. Started in 1983. It has concentrated on the cement trade and is now planning to expand into other fields such as food grains and petroleum products. This turnover during 1988 was SR 25 million. Assets on 31 December 1988 were valued at SR 9.3 million.
6. The latest venture of the Group is a proposal to Compania Dominicana de Aviacion, the national airline of the Dominican Republic, to provide management support in association with Pakistan International Airlines.
7. The Group also owns a large agricultural farm in Punjab province, Pakistan. The market value of this land is estimated to be about RS 60 million.

2.00 Security

Personal Guarantee of Mr. Rafiq Saigol & Shafique Saigol.

3.00 Concerns

3.01 Evidence of Recoverability

The position of accounts at Grand Cayman, BCC (E), Bahrain & ICIC has since been discussed at length with PW including issues involved which were covered in PW's first report.

Task Force is of the opinion that in the past Saigols have not honoured their commitments. Due to unsatisfactory conduct of the accounts, and concerns expressed by PW existing situation cannot be allowed to continue. We must discuss with the clients to service the interest and obtain definite repayments schedule so that liability is repaid gradually within the agreed period. No further facility should be allowed unless it is secured by tangible securities or it is to finance specific transactions of self liquidating nature duly supported by documentary evidence.

3.02 Provision

In the meanwhile Task Force recommends that the existing provision of US\$2.0m should be raised to \$15.778m for 1989 for the total Saigol Group of liabilities to BCCI.

3.03

In this context the Task Force reviewed the two loan accounts totalling \$10m initiated in 1989 in Bahrain on which PW had expressed concern. These were Fallaha Said Mansouri and Saif Hamad Ghumran.

Detailed discussion with the Country Manager in Bahrain and the Accounts Officer indicated that while 'front' companies had been used for this purpose, Saigols had apparently been involved with Khamis (a UAE party) to monitor new business in UAE (textile/chemical?) to generate profit and commission to pay off the outstanding loan account of Al Khamis in UAE. Since the proceeds of the loans had been used to pay off the Al Khamis loan and no business had been as yet initiated by Saigols the Task Force recommended that the full amount of \$10m should be provided against.

FD0100073

**TASK FORCE REPORT ON
NUMBERED ACCOUNT NO. 11011103**

The Task Force enquired into this account and determined from the records of Grand Cayman that Mr. S.M. Akbar had authorised this remittance from Grand Cayman to the debit of the account of Sh. Al Sharqui, i.e. Mashriq Holding Company, which is beneficially owned by the Ruler of Fujeirah. This is not the account of Sh. Ibrahim which may have been inadvertently noted by Price waterhouse due to commonality of names. On further discussion with the Accounts executive we were informed that this loan has been given in Marshriq Company as a part of their global limit. The Task Force found that the manner in which this numbered account loan had been disbursed and is currently being managed is wholly unsatisfactory, however it is our belief that in the share restructuring now in hand in Abu Dhabi any excess drawings by shareholders will also be considered for settlement.

FD0100074

TASK FORCE REPORT ON
THE PHARAON BROTHERS

1.00 Wabel Pharaon

Wabel Pharaon is a Saudi businessman who is the youngest brother of Dr. Gaith Pharaon. He has been a minor shareholder of BCCI in his own right since the early eighties. His holding in BCCI Holdings increased when as per PW's report, Dr. Gaith Pharaon sold his shares in BCCI Holdings to him. As per the share register of BCCI Holdings Wabel Pharaon now owns 8,599,631 shares which was 11.55% shares of BCCI Holdings. The shares have a valuation of US\$343.98m based on the price at which shares were last sold by a shareholder.

The bank has no lending to Wabel Pharaon. He has however loan facilities from ICIC of US\$75.4m against a pledge of 2.5m shares of BCCI Holdings. The Task Force believes that either Wabel Pharaon should clear his loan with ICIC or if in any way he is a nominee of any other shareholder such shareholder should directly acquire these shares and clear or at least significantly reduce the outstanding loans.

2.00 Dr. Gaith Pharaon

Dr. Gaith Pharaon is a leading Saudi Businessman who has wide range of business interests and investments from Macao to the United States of America. A write-up on Dr. Pharaon which gives his background and wide ranging business interests is given in Appendix AA.

FD0100075

The loans to Dr. Pharaon have been approved under a global facility by The Central Credit Committee and the Board of Directors. However, the loan balances at 31.12.1989 were \$100m in excess of his limits. His borrowings are stated to be always from specific trading transactions or for acquisition. The purpose is always explained to the account executive. The major part of his BCC exposure is secured against shares of other companies and deposits. Unsecured exposure as on 31.12.89 was in excess of US\$100m.

The Task Force has instructed the account executive to obtain Dr. Gaith Pharaon's net worth statement to demonstrate his creditworthiness and ability to service and repay his borrowings.

3.00 BCCI Share Transactions

Wabel Pharaon

Wabel Pharaon acquired 105,321 shares of BCCI Holdings (Luxembourg) SA from Mohammad Taufiq Jiddan according to the Luxembourg share register. PW's questions were the financing for this purchase came from and why Wabel Pharaon purchased further shares when he is apparently trying to reduce his exposure in ICIC. The Task Force does not have access to ICIC's records, nor to Wabel Pharaon who could provide his reason for doing this. However the same comments, as made by Task Force in para 1.00, also apply here in general terms.

FD0100076

Dr. Galth Pharaon

PW's report states that \$5.4m is the amount debited to overdraft a/c of Dr. G. Pharaon representing purchase consideration for 111,709 shares of BCCI Holdings (Luxembourg) SA sold by Suhail Faris Al Mazrui. There are no instructions from Dr. Pharaon or from the seller of the shares supporting this drawdown or transaction. This transaction has not been recorded in the shareholders register of BCCI Holdings (Luxembourg) SA up to now. The Secretary of the Board confirmed that share transfers are only registered when the shares are lodged for transfer along with duly executed transfer deeds, with the bank in accordance with normal practice and that this had not happened for these shares.

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**TASK FORCE REPORT ON
GRAND CAYMAN RISK FACILITIES (ADDITIONAL ACCOUNTS)**

1.00 This section is an extension of an earlier part of this report (see Section 8).

PW in their Supplementary Report raised some additional accounts on which they expressed dissatisfaction on the level of provision, though in several cases these provisions have already been agreed for 1989 with the local branch management/CSO accounts officer(s).

2.00 In response the Task Force collected as much papers and files relating to these accounts as they were able to do within the constrained time period; The Task Force also met the concerned accounts officers.

Thereafter they jointly reviewed each case with PW. Each case was fully discussed and specific provision set up by mutual agreement on each such case. As a result, additional provision amounting to \$ ____ m were added to provision earlier agreed for Grand Cayman branch by Price Waterhouse and the Task Force as per section ____ page 34 and 35.

Detail Statement of Risk Facilities and Provision is given in Annexure B.

FD0100078

**TASK FORCE REPORT
ON IBRAHIM FAMILY**

- 1.00 Executives in charge of this relationship presently is Mr. Bashir Chowdry, Regional General Manager for UK. He has informed the Task Force as follows:-
- 2.00 Shaikh Abdul Aziz Al-Ibrahim is brother of first wife of King Fahad of Saudi Arabia. He has 5 brothers and two sisters and is the head of the family. His relationship with BCC is 7-8 years old. He is reported to have substantial real-estate investments in USA, UK, Spain, Morocco and South of France besides Saudi Arabia.
- 2.01 He is considered a high networth individual and has maintained good deposits with BCC in various currencies.
- 3.00 The Executive in-charge confirms that this account has been regularly discussed with PW's UK partner every year. Deposits in the name of Shaikh Abdul Aziz Al-Ibrahim (US\$133 million as on 31.12.89) fully covers the borrowings. Other family members have deposits totalling \$19.29 million at year end.
- 4.00 However, the Task Force is of the view that balance confirmation of all accounts must be obtained at least once a year in view of substantial balances and turnover. The Account Executive has informed the Task Force that such confirmations can only be obtained during his next visit to London.

FD0100079

TASK FORCE REPORT ON
PRINCE/IMC GROUP

- 1.00 The Task Force reviewed the comments of PW and determined that this case has been under discussion with management for several years.
- 2.00 The Task Force felt that this was a very complex project and not only involved BCC, but also ICIC, who had a major stake in the project through various subsidiary companies which have either acquired equity or have provided loans to this hospital project. It would therefore be difficult to come to a quick conclusion of finding.
- 3.00 Nevertheless the Task Force collected all the previous material on this project, including many financial papers and files and noted as under:
- Total loans from BCC Group to Prince/IMC was \$105.6m
 - Total loans from ICIC to Prince/IMC was \$ 46.3m
 - \$151.9m
 - The Hospital owing company had assets of \$105.2m
(before revaluation)
 - Gross earnings of the Hospital operating
company were: 1989 £22.175m
(estimated) 1990 £22.200m
- 4.00 The Task Force decided to set up a Special Team of two finance officers to unwind the interlocking arrangements and financing and to assess the potential shortfall in the loans given by the BCC Group to this project. This team will complete their work in 4 weeks.
- 5.00 As the project is a complex one and firm report of the study team will take time, it was agreed after full discussion with PW, that a provision of \$9.5m should be set up for the 1989 as 'computed' by PW to cover for possible shortfall.
- This case will be further reviewed in 1990.
- 6.00 The organisation structure of Prince/IMC Group and it's funding is given in Annexure CC and DD respectively.

FD0100080

**TASK FORCE REPORT
ON HAJI ALI SULTAN MOHAMMAD FADEL**

1. SUMMARY OF OUTSTANDING:-

GC			
Original (31.1.85)	<u>US\$ 10.63</u>		Expiry 18.12.89
Renewal (6.10.89)	<u>US\$ 12.00</u>		Expiry 31.12.90
Present O/S (GC)		US\$ 12.20	
Bahrain			
Original (31.12.88)	<u>US\$ 5.00</u>		Expiry 23.3.90
Present O/S (Bahrain)		<u>US\$ 6.20</u>	
<u>Total</u>		<u>US\$ 18.40</u>	

1.00 **BACKGROUND**

Haji Ali is a leading businessman of Oman and is regarded very high in official, social and business circles. (Please see Credit Report of Standard Chartered Bank, Commercial Bank of Oman and Bank of Muscat). (Annexures EE/1 to EE/___).

His Majesty Sultan Qaboos of Oman assigned him in the past prestigious assignment including vice chairman of Consultative Council (equal to parliament) and chairman of the Federation of Chambers of Commerce of Oman.

The details of some of his assets are reported to be as follows:-

(a) Property in Madina Qaboos	US\$ 12.0m
(b) Other properties	US\$ 4.0m
(c) Properties outside Oman	US\$ 2.0m
(d) W.J. Towell	US\$ 10.0m
(e) N.B.O.	<u>US\$ 16.0m</u>
	<u>US\$ 44.0m</u>

He is reported to have investments in the following as well:-

- (a) Oman International Bank (Largest bank of Oman)
- (b) Taylor Woodrow, Oman (in partnership with Taylor Woodrow UK).
- (c) National Beverage Company
- (d) Muttrah Cold Storage
- (e) Oman National Dairy Product

FD0100081

He is reported to be in a position to avail of clean facility of US\$15 to US\$20m from any bank in Oman. The security held by BCC is more as a comfort.

2.00 SECURITY

(a) GC	1,080,000	Shares of NBO	9.9% of the issued capital.
(b) Bahrain	<u>700,000</u>	Shares of NBO	
	<u>1,780,000</u>		(37% NBO shares are held by his company W.J. Towell & co.)

3.00 CONCERNS

- PW have wanted some tangible evidence of recoverability.
- On examination of files and records Task Force has observed that US\$3.73m was paid by the Borrower during this period, but it covers about half of the amount of interest/charges debited. Last payment received was US\$1.00m on 27.3.89. During this period bonus shares were also received as additional security.

The conduct of the account has not been satisfactory and we agree with the concerns expressed by the PW, in this respect.

Task Force is informed that average value of shares has been calculated @ equivalent of US\$9.00 per share on the basis of the major transactions which took place in 1986. Task Force has also been informed by the Account Executive that although two other small transactions between the two shareholders also took place at a lower rate also but was by special arrangement under buy back. No documentary evidence to this effect has been made available. While the Task Force is of the opinion that average value of \$9 per share (on the basis of the last major transaction) may be considered on the high side, it would however also be unreasonable to calculate it purely on the basis of net asset value as indicated by PW, due to the following reasons.

- (a) NBO is the 2nd largest Bank of Oman
- (b) Initially NBO performed functions of Treasury of Govt of Oman. It still plays a leading role in all the major financial activities in Oman including participation in syndication of Govt FC Loans.
- (c) All the shares are tightly held by few shareholders and are not traded as there is no stock market.
- (d) Haji Ali Group holds majority shares of NBO and the value of such block shares is always much higher than the value of a small number of shares sold under some special arrangement.

Task Force is of the opinion that there is substantial value in the security of shares. In case BCCI wants to enforce the Security it would be possible to sell the shares to local investors.

PW concerns are understandable because interest has not been fully serviced but it would not be right to assume that he does not have the capacity or willingness to pay.

Account Executive has received confirmation from NBO that Haji Ali does not have liability with other banks and his name does not appear in Central Bank risk bureau records.

Latest balance confirmation in respect of both accounts have since been received and shown to PW.

4.00 OTHER CONCERNS

- PW recommendation to treat loan as BCC investment.
- Task Force does not agree with PW comments that the Loan is to be treated as an investment of BCCI, written down to the net assets value of NBO.
- It is not possible for BCCI to acquire these shares which Haji Ali purchased from BOA because of the following reasons:-
 - A. Haji Ali had purchased these shares we are told, to become majority share holder.
 - B. Local regulations prohibit foreign shareholding to exceed 49%.

Account Executive should, in consultations with the client obtain repayment schedule and regular servicing of interest on quarterly basis.

Task Force recommends that provision at least to the extent of unpaid interest of US\$3.5m may be made. However we are informed that management has agreed to make a substantially higher provision.

FD0100083

**TASK FORCE REPORT ON
FAISAL SAUD AL FULAIJ**

- 1.00 Faisal Saud Al Fulaij is a Kuwait businessman of high networth. He is a former Chairman of Kuwait Airways and has wide business interests. He is also Chairman of Kuwait International Finance Company.
- 2.00 His loan exposure to BCCI as at 31.12.89 amounted to US\$112.9 million which is secured against 16,710 CCAH shares of CCAH. These shares are valued by the management of the bank at US\$122.5 million. He is one of the original shareholders of CCAH and has taken up a number of rights issues since the acquisition of FAB in 1982. He also owns 1.1 million shares in BCCI Holdings (Luxembourg) S.A. which are valued at US\$45.6 million.
- 3.00 Mr. Fulaij has borrowings amounting to US\$35 million from ICIC against some shares of BCCI Holdings and other companies as listed in PW's supplementary briefing paper. In the absence of access to further details of ICIC operations the Task Force is unable to conclude the basis of this funding. However as shown in Annexure FF the total combined exposure of Faisal Fulaij in BCCI and ICIC is covered by his combined holding of CCAH shares and BCCI shares. No provision is therefore necessary. However his credit lines should be reviewed and suitably scaled down.

FD0100084

