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S. Hrg. 102-350, Pt. 1

THE BCCI AFFAIR

HEARINGS

BEFORE THE

SUBCOMMITTEE ON

TERRORISM, NARCOTICS, AND INTERNATIONAL
OPERATIONS

OF THE

COMMITTEE ON FOREIGN RELATIONS

UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

AUGUST 1, 2 AND 8, 1991

PART 1

Printed for the use of the Committee on Foreign Relations



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NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

THURSDAY, AUGUST 1, 1991

**U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
*Washington, DC.***

The subcommittee met, pursuant to notice, at 10:01 a.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry, Helms, Cranston, Brown, and Jeffords.

Senator KERRY. This hearing of the Senate Foreign Relations Subcommittee on Narcotics, Terrorism, and International Operations will come to order.

I would like to begin by thanking Senator Pell, the chairman of the full Foreign Relations Committee for permitting this committee to proceed forward, and not only with this hearing, but with this investigation over the long period of the last few years. I would also like to thank him for the consistent support that he has provided me at moments when I know he felt very strongly that this was not the normal role for this committee.

What we want to try to do today is begin to tell the story. And I think we are going to begin at the beginning in order to lay out factually precisely what brought us to this point, what it is we know in broad terms. There is a great deal more to be said by a lot of different parties in this. I caution people to recognize that this is only a beginning, that there is a lot of testimony yet to come before the entire Congress. There are other committees that will be looking at this issue. There are other entities that will be looking at this issue. And it would be a mistake to draw final conclusions of many kinds until all of that testimony has been drawn.

The nature of a congressional hearing process is such that you cannot do it all at once. You cannot even do it in continuum. There is much that is not told in 1 day that does need elucidation in another day.

We are going to start with the big picture and with a few small pictures that are snapshots inside of this extraordinary banking scandal.

This committee will be hearing testimony in early September from Mr. Clifford and Mr. Altman. I was in touch with their attorney over the course of the last days and we have locked in dates in September, and we will announce those dates formally in the near

future. They will testify voluntarily and without any subpoenas or compulsion. They want to testify and we look forward to hearing their testimony.

In May of this year before the Senate Banking Committee when we held a hearing on BCCI, I shared my belief that I thought this would turn out to be the biggest financial scandal that we had ever seen. The disclosures of recent weeks have suggested that I might even have understated the case.

This is not just another story, of big-time, big-money con artists. It is a story of international lawlessness, of extraordinary greed which is becoming too much the centerpiece of recent history. It is a story of the big guys getting away with things that the little guy could never hope to escape responsibility for, and the little guy winding up getting screwed in the process. It is a story of the abuse of power and the abuse of system. It is a big white-collar crime that facilitates and encourages the two-bit street crime that kills.

BCCI is the most prominent and dramatic symbol of a way of doing business that challenges and diminishes people's faith in Government, our Government and governments around the world. Average people really do not believe, I think, that government is on their side these days. They do not believe that we can or that we want to protect them as we are supposed to do, and certainly that we do not protect them from banks that become the private playthings of the very rich and sometimes the crooked. They do not believe that large and powerful corporations or powerful people play by the same rules or are required to play by the same rules as everybody else. And they are convinced that if you can afford to hire the best lawyers and the best accountants, you can get away with almost anything in the world.

There may be those who say that what BCCI did is somehow a victimless crime. I do not believe that. I do not think it is true. There are a lot of victims. The first is our system in which we have invested so much. And it is a victim because it tears apart people's belief in the system and the ability of the system to work. But it is a lot more than that. How is it after all, that drugs get into the veins of our kids in our streets? Banks have become the facilitators of drug trafficking. Banks are part of the conspiracy where they have engaged in this. Banks that do not live by the rules adopted at the Basel Convention of knowing their customer have been part of the process of putting those drugs into our communities.

The same is true of guns that get into the hands of thugs in our streets, or bombs into the luggage compartments of our airplanes. Banks are often the depository of the secret funds and the secrecy laws that protect that money is often purposefully there to protect the nefarious transactions which surround those kinds of criminal enterprises.

Manhattan district attorney, Bob Morgenthau, who has done an extraordinary job in the course of this case, who is probably the dean of all district attorneys in America, and a man of extraordinary integrity and capacity, he talked about this very thing the other day in announcing the indictments in the BCCI case. He sends thousands of drug users and common criminals to jail every year. But as he pointed out, the people that make the real money, the people who get filthy rich preying on the weaknesses and temp-

tations of others hardly ever get caught. So when corporations like BCCI get away with either corrupting governments and regulatory agents, or by simply evading them while serving as the bank of choice for criminals, drug traffickers, illicit arms dealers, despots, con men, and terrorists around the world, we all lose.

And if and when we turn over the rocks that have hidden the truth about BCCI and its activities for the past decade or more, when we bring to light of day their activities, I think that we have an opportunity to win. It is that simple. I also think, maybe this is a little naive, but I do believe it, that if you can do this and send a signal to people that you can make the system respond, that by doing so you can eat away at a little bit of the cynicism and the anger and the sense of hopelessness that an awful lot of people feel, and which is an attitude that truly corrodes American politics today.

What is amazing, and I guess, frustrating to a lot of us, is that BCCI's day of reckoning was so long delayed. Red flags were present almost from the beginning. In England, the Bank of England in the late 1970's refused to grant BCCI a full-service banking license because BCCI could not produce the financial records to explain its remarkable growth in the United Kingdom. In this country, the New York Superintendent for Banks, and the SEC, to their credit, each blocked an attempt by BCCI to acquire a banking institution in this country. And the Federal Reserve, which had serious reservations about BCCI and the Middle Eastern shareholders who were attempting to take over Financial General Bankshares took the unusual step of holding a public hearing 10 years ago. And that raised some of the issues that we are now reexploring and examining today.

Notwithstanding those efforts, BCCI found a way not only to survive, but to flourish. It found a way to escape real scrutiny by gaining the trust of influential people and using them to maintain a cloak of legitimacy. We are inevitably left with the question of whether the mere presence of these influential people was sufficient to keep lawyers and accountants and regulators from doing their jobs for so long.

Three actions just this past month demonstrate the enormity and the longstanding nature of BCCI's regulatory evasion. The Bank of England submitted to the High Court of Justice Chancery Division a petition to wind it up, affecting it in countries all over this planet. The Federal Reserve levied the largest civil fine in the history, against BCCI, \$200 million. And the Manhattan district attorney indicted the top managers of the bank.

In announcing the indictments, Mr. Morgenthau stated that BCCI operated corruptly for 19 years, that it systematically falsified its records, laundered the money of drug traffickers and other criminals, and that it paid kickbacks and bribes to public officials. He also said that this largest of Ponzi schemes is over, but that we have much to discover about this bank.

We do indeed. Mr. Morgenthau is correct. The crime has been discovered, but the story has not been told. So today we begin to tell some of that story. We will hear from witnesses who have knowledge of how this bank operated in foreign countries and how

it cultivated world leaders, of how central bank funds were placed on deposit, and whether or not those funds can now be retrieved.

We will consider as well whether U.S. agencies could have acted sooner based on information known to them. Two months ago I asked the CIA for a memorandum that it had given in 1988 to former Customs Commissioner William Von Raab, who will testify today, a memorandum about BCCI. That memo was written in 1986. It was described by Commissioner Von Raab as discussing in a general way BCCI's corporate criminality. When I asked the CIA in conjunction with our investigation for that memorandum, my staff was told it does not exist. Later, the CIA told us they had located it, but asked because of its "extremely sensitive nature," that it be held at the Senate Select Committee on Intelligence. It was, I went there and read it, and subsequently requested the declassification of one sentence. And that sentence showed that the information regarding BCCI as a criminal entity, that it already owned American banks, and that we knew that in 1982. It showed that their information had been disseminated to a number of agencies years ago.

I think the entire question about secrecy in government is once again raised by this issue. Too often too many of us have seen instances where information that people want to keep away from the accountability process is merely classified. There is no rightful reason for it to be classified, there is no matter of national security or urgency contained therein, but it is classified, and thereby we have a secret government kept away from people, which is really part of the constitutional process of this country.

I will tell you that in my judgment there is not one piece of that memorandum that ought to be classified, and I have sought its full declassification. And I hope that we can achieve a process that somehow rectifies the imbalance between legislative and executive branch. Truly our country is threatened when there is a branch of government that can hide whatever it does merely by putting a stamp on a piece of paper.

I do not have the answer for why certain agencies or individuals did not respond at certain times in the course of this. And I want to be fair in this process. We are all capable of oversight. We are all of us capable of just missing something. We are all of us capable of being too busy, of having too much on our plate, of not having adequate resources, there are reasons these things can happen. And I am not going to make judgments at the outset of this process as to what happened, except to try to examine and understand so that there is nothing that is hidden when we finish this.

Over the 3 years that this investigative effort has gone on, we have learned a great deal about the structure and organization and practices of this bank. In some ways this investigation is just beginning, and I am certain that we are going to learn a great deal more in the months to come.

I would just take one moment, if I may, I want to thank those who have investigated it thus far, particularly one of our witnesses, Mr. Blum, who will talk shortly who has spent enormous energy and effort on it; and Jonathan Winer and David McKean of my staff who have toiled at great length in order to try to pull these facts together over a long period of time. Senator.

Senator HELMS. You know, Mr. Chairman, if you and I sat down to write a book on such circumstances as this, there is not a publisher in the land that would accept it. This is too bizaare. It is outrageous.

But anyway, we have got the job, in part, of sorting out a welter of facts and fictions and relationships that is almost impossible to sort out. Before I make my comments, I am glad to see you, Mr. Von Raab, we miss you. Mr. Blum, we appreciate your coming.

But John, seriously, about this book business. Just imagine, if you will, that we sat down to write a book, a novel, about a group of drug traffickers and arms smugglers and terrorists and money launders, about 3,000 of them. Just suppose they had names like Noriega and Abu Nidal and Saddam Hussein, and suppose further that they wanted to start a full-service bank to advance their various enterprises, and suppose that they are smart enough to realize that a single bank in a single country, even a small country with convenient banking laws would be too exposed and isolated to escape inquiry by a smart group of bank examiners.

If you put all those factors together, you would come up with the founding concept of BCCI, or the Bank of Credit and Commerce International. Now of course, there is a lot more that we could fill in in this novel that we are going to write, which is going to turn out to be true. These people need a bank based on dollars because dollars are obviously the currency of the world, and their operations are worldwide. So the bank of these crooks and criminals is highly desirous of penetrating the United States. Do you see the plot developing?

Now after a few false moves are repulsed, these crooks and criminals realized that they need to do more than just penetrate the U.S. banking system, they need to penetrate the U.S. political system. So now the plot thickens. Now I have a chart over there that will illustrate just how interwoven this operation is. And I have passed out copies of this chart, I hope to all who want them. You will see that a Pakistani man, no stranger in this town, set up a group of banks and the first one, BCCI Luxembourg was established in 1971. Then he set up BCCI Holdings, also in Luxembourg, in 1974, and then he set up BCCI Overseas in Grand Cayman in 1975. These three banks made up the BCCI group. Then this Pakistani set up International Credit and Investment Corp. Overseas, or ICCI Overseas, also in Grand Cayman.

Now, readers of our book might say, well, why did he need so many banks? According to the indictment handed down in New York this week, the banks were undercapitalized and listed non-existent assets. As one bank was examined, money flowed in for the examiner to count. The money stayed for a while, then it flowed into the next bank in the group under examination. It is known that this Pakistani's associate, Mr. Naqvi, kept two sets of books. The banks operation, what the New York prosecutor called a Ponzi scheme, needed cash coming in constantly through the front door to cover the laundered cash going out the back door.

Now, do you not think our book is coming along pretty well?

Although \$21 billion was taken in from the depositors, many of them, of course, legitimate, the promoters, according to the indictment, skimmed off as much as \$5 billion for themselves. Now, to

cover themselves, these ersatz bankers needed some front men. On the one hand, according to the indictment, they hired a group of Middle Eastern businessmen to pretend that rich oil sheiks owned the bank and were putting their cash behind it. That, however, was part of the scam, of course, because the purported owners did not own the bank. They allegedly had contracts that held them harmless for personal liability.

The other scam was penetration of the U.S. political culture. We know that BCCI illegally purchase First American Bank in this city using the good offices of Clark Clifford and Robert Altman, both of whom maintain that they were deceived. Perhaps they were deceived, but the press reports that in the process of being deceived, the pain of deception was eased just a little bit by a considerable sum of money.

So anyhow, the staff of this committee and many others have analyzed these reports, and based upon the public figures, it appears that Mr. Clifford and Mr. Altman had the opportunity to make about \$33,300,000 in 18 months time—I don't know what that is an hour, but it is a fair amount—based upon insider loans from BCCI to buy First American stock at an inside price, and the later purchase of some of the stock by BCCI at three times the price.

Now, I understand that Senator Brown intends to discuss this in some detail, and I shall listen with great interest. It is my hope that Mr. Clifford and Mr. Altman will provide us with firsthand testimony on these points as well. Now, Mr. Clifford's good fortune was not his alone. It appears that BCCI's group through Credit and Commerce American Holdings, also purchased Burt Lance's National Bank of Georgia and Mr. David Paul's Centrust Savings Bank in Miami, both of which were having, do you not know, urgent cash flow problems.

Now, Mr. Lance's political connections need no introduction to anybody nor do Mr. David Paul's. Not even did our former President, Mr. Carter, escape the kind attentions of BCCI either. The press and other media have already discussed the millions of dollars from BCCI that went to President Carter's charities and the personal assistance that BCCI provided for his high profile travels around the world.

Nevertheless, however embarrassing as these events may be for our friends in the Democratic Party, even more embarrassing to me is the failure of our own administration to take vigorous action against BCCI. In 1987 the Justice Department was on notice that BCCI was a nefarious operation when former Customs Director, William Von Raab, sitting right before us today, turned up evidence of money laundering in Miami which resulted in plea bargained judgments against BCCI operatives. Willie Von Raab provided voluminous information on further BCCI activities which was never followed up.

In fact, Mr. Von Raab himself was followed up, in the sense that the administration made it clear that Willie Von Raab was *persona non grata* in the fight against drugs. I think Mr. Von Raab will acknowledge that he and I went down that road together because I made recommendations for Willie Von Raab to be put in places of responsibility. I know first hand that he was personal *non grata*. It

is a tragedy for this country not to have Mr. Von Raab in an effective, responsible position.

Willie Von Raab was the only one, the only one in the Reagan administration that took vigorous and effective measures against the drug threat and against money laundering. And I am glad to have a chance to say that publicly on your behalf, Mr. Von Raab. I never could understand why Willie Von Raab was not given the Medal of Freedom for his outstanding accomplishments in this regard, but he could not even get a job in the administration despite the firm recommendations from this Senator and scores of other Senators who admire and respect him.

Finally I note that the first solid information that the Senate received about the BCCI problem in testimony before this subcommittee was from a former associate of Mr. Noriega who defected to the United States and gave detailed information against his former employer. In fact, he was a principal witness in the indictment against Mr. Noriega in 1988. And after Noriega was captured, he was a key adviser in evaluating the Noriega papers and preparing the case against that dictator. But the administration has never cared for Mr. Blandon. While Noriega was still in power, officials attempted to get Mr. Blandon deported back to Panama. So I am making this a bipartisan folly. It is not just on one side, it is on both sides.

In recent months, the Justice Department has pursued a merciless vendetta against Mr. Blandon, charging him with stealing U.S. Government property. However, the property in question consists of his own notes about Noriega. It is a mystery why the Justice Department is seeking to bring a criminal indictment against the most important witness the prosecution has against Mr. Noriega and against Noriega's involvement in BCCI. Mr. Blandon, apparently knows too much about the failure of the Justice Department to act. So, I guess, he must be eliminated.

There is plenty of blame to go around in this matter, Mr. Chairman. So let us start the hearing.

Senator KERRY. Thank you very much, Senator Helms. Senator Cranston.

Senator CRANSTON. First, Senator Kerry, I want to congratulate you for the excellent work you have done, beginning sometime back, on unearthing what columnist William Safire has rightly called, "an underworld-wide financial institution." You, Senator Kerry, took on this when many others who should have joined you, particularly within the administration, were looking away. Time has proven you right and the credit is yours for bringing us to this point today.

As a way of opening our deliberation today, I would like to review for a moment just what kind of activities I understand the BCCI has been up to in the last decade, and perhaps longer. Top British banking official, Robin Leigh-Pemberton charged that "the culture of the bank is criminal." According to the London Economist, "BCCI is uniquely baffling and unusually corrupt." Investigators say there is evidence of fund transfers between BCCI and the Atlanta branch of the Banca Nazionale Di Lavoro, the bank involved in the Iraq loan scandal.

This week, as we all know, district attorney Robert Morgenthau charged that BCCI has paid up to \$3 million in bribes to senior officials of the Peruvian Central Bank in 1986 and 1987 in order to capture hundreds of millions of dollars in deposits.

The bank was used by Panama's drug-running dictator, Manuel Noriega. It was used by Saddam Hussein. It was used by Haiti's Duvaliers, by Ferdinand Marcos, and his well-heeled wife, Imelda, and by the South American drug cartels.

BCCI has also been linked to Pakistan's renegade nuclear weapons program, a project reportedly carried out by the help of Libya's Qadhafi, and Argentina's dirty war generals—last seen training the Reagan administration's Nicaraguan freedom fighters.

BCCI is also at the center of a complex affair concerning allegations of illegal shipments of American-made arms to Guatemala's vicious military.

This last item may very well have been the cause of a very special tragedy.

This week a British journalist, Anson Ng, was found shot to death in his Guatemala City apartment. Guatemalan authorities are claiming the murder was the work of common criminals. Independent Guatemalan journalists say that Ng, who had a bullet wound in the head and appeared to have been struck in the neck, had not been robbed, but his personal archives were looted. Three Guatemalan generals are rumored to be behind the illegal U.S. arms shipments. One wonders whether Ng was murdered because his work on BCCI had brought him face to face with the truth.

What has become abundantly clear is that this sinister, criminal enterprise, which Morgenthau has called one of the most complex and secretive criminal organizations we have ever encountered, served as the foreign policy arm of its owners, the rulers of the United Arab Emirates.

Sheikh Zayed, the President of the United Arab Emirates, was an early investor in BCCI and continues to be the principal shareholder in the bank.

The United Arab Emirate connection does not end there, however.

One of Zayed's sons and the crown prince of Abu Dhabi; the Abu Dhabi Investment Authority; the personal holding company of Sheikh Hamad Bin Mohammed Al-Sharqi, the ruler of Fujara, another of the Emirates, and Sheikh Humaid Bin Rashid al-Naomi, the deputy ruler of Ajman, a third emirate, are all shareholders in BCCI front institutions.

According to the Financial Times, "The fraud which lead to the closure of BCCI involved 'representatives of the shareholders,' the ruler, and the Government of Abu Dhabi."

Why is this important?

Beyond the distress caused to BCCI depositors, tens of thousands of whom are individuals and small businesses from the Third World, beyond the lessons BCCI offers to the international banking community, and beyond the damage done to society's fabric when such criminality is carried out on such a scale, there is a further consideration.

The Bush administration has proposed to sell \$682 million worth of sophisticated conventional weapons to the United Arab Emirates.

This bristling bonanza includes 20 AH-64 Apache attack helicopters, the most advanced we have in our arsenal, and 620 Hellfire missiles.

A second proposed sale of M1A1 tanks and Bradley fighting vehicles, was nixed by the UAE leadership themselves. According to an unclassified cable from the U.S. Ambassador to the United Arab Emirates, Edward Walker, published in this week's Defense News, the United Arab Emirates decided to delay its decision on the tank procurement "based in part on the conviction that UAE should not go through a congressional notification process at this time, given the potential for congressional criticism on unrelated subject."

This was clearly a reference to questions about whether the United Arab Emirates would use drug profits laundered by BCCI to pay the United States for these weapons, questions that I raised a few days ago on the Senate floor.

The emiris may not have been very good bankers—after all, they presided over a criminal enterprise seemingly destined to go down in history books as the world's worst financial scandal.

They do, however, show some basic common sense strangely absent in a Bush administration seemingly unconcerned about—shades of Noriega, shades of Saddam Hussein—the potential scandal of arms being paid for with BCCI drug money.

The administration justifies this foolish and indefensible sale of the helicopters and missiles to the United Arab Emirates as a payoff to Sheikh Zayed for his loyalty during the Persian Gulf war.

So inescapably the question arises, why the silence? Why the lack of action on BCCI by this administration, so good at managing the crises they themselves create. During the past years there were no lack of danger signs concerning this full service banking service for terrorists, for drug mobsters, for nuclear proliferators, for assorted rogues and professional confidence men.

Who were they afraid of offending, and why? Or, why were they so incompetent in their pursuit of greed's global reach?

I agree with Senator Kerry's remarks that we can only conjecture about the answers to questions like this. Well-meaning human beings do make innocent mistakes, but we must now seek the answers. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman. I must say I am shocked by your remarks. I believe the purpose of this investigation ought to uncover the facts. I do not think it should be used as a forum to launch a smear of an administration. I think the purpose of a Senate investigation committee is to get the facts out. And I must say listening to the remarks just made, it seems to me that the facts fell victim to the rhetoric.

I think it is appropriate we have these hearings. And I think the purpose of the hearings ought to be to look into what broke down here. The fact that there are crooks and thieves in this world is not a surprise. We live in a world where we know and understand that. What is a surprise is that the United States and its banking system would fall victim to that scheme. It strikes me we ought to make sure that these hearings are balanced, that they are thorough, that

they are fair, and that the outcome of these hearings is one that allows us to correct policy and change personnel where they are necessary.

I am concerned that we make sure that every aspect of the U.S. banking system, whether it is the Federal Reserve, whether it is the Justice Department, or whether it is the system itself, be examined and that all the facts brought out. I note that the Clifford-Altman stock deal, in 18 months saw the stock triple in value. At the same time, the same people were receiving both fees as attorneys and payment as bank officers. It seems to me that this is an area that we need to follow up on, as well as the entire BCCI area.

But Mr. Chairman, I would close with this thought. If we are to do our responsibility, it must be one done in a bipartisan manner, not designed to gain political advantage, but to serve our constituents that I think have a far more important interest here, and that is to make sure the system works properly.

Senator CRANSTON [presiding]. Well, let me respond by saying yes, of course we have to find who is responsible, we have to find what policies and regulatory practices have failed and why, and what to do about them. And I agree with Senator Helms that this is a bipartisan failing in some respects. Yet at the same time we have had Republican administrations in charge of the executive branch, the branch that basically is responsible for regulation and for these matters, for a good many years in the recent past.

The primary purpose of my remarks was to focus on the dire dangers of permitting nuclear proliferation to occur while crooks of the sort that have been involved in BCCI are involved. And my purpose, in part, is to see to it that we change a policy of unwise proliferation of all sorts of weapons in which our own country is involved. And if we find that BCCI and its money launderers are involved in all of that, that gives us a new facet to deal with, of what I think is a genuine policy issue question, one very much on the front burner in our country and in the Middle East, and in the world. Senator Jeffords.

Senator JEFFORDS. Thank you, I certainly believe this committee has the obligation to investigate, but I would hope that we would keep in mind what our role ought to be. The burden has to lie with the Department of Justice to continue along with other law-enforcement agencies to seek out the culprits and the problems that were created in this country.

But I think it is important for us to take a look at what went on and to provide leadership to develop the international methodologies to prevent a reoccurrence. International corporations that can move and operate around the world without any effective regulation is the real problem which this committee should end up dealing with. And as the Senator from California has pointed out, that is true not only in the sense of what we saw with money laundering here, but in the large sense, the more important problems of a proliferation of nuclear weapons and other systems that enhance the ability of nations to make war.

So I would hope that our ultimate goal would be to work toward a system, an international system will effectively regulate these matters without the kind of intervention of the law enforcement

agencies as is being required in this situation. I thank the Chairman.

Senator CRANSTON. Did either of our witnesses have opening statements that they would like to make at this point?

**TESTIMONY OF MR. WILLIAM VON RAAB, WILLIAM H. BODE
ASSOCIATES**

Mr. VON RAAB. It might be helpful for the record maybe just to give some idea how this started off. I am often asked that question. When I took over the responsibilities for Customs in the Reagan administration, I was asked to increase the energy and muscle that was being applied to criminal enforcement, particularly drug enforcement. It became quite clear to me as time went on that the nature of criminal activity was such, and the amount of money involved in it was so sufficient that banking was a much bigger part of organized crime than it had been in the thirties when people could keep their profits in suitcases and spend them in the local bar. And that banks had to play a very, very important role, certainly, in drug crime, and as well as even smuggling arms out of the United States.

So the Customs Service undertook an effort to try to examine some of the illegal banking activities under the money-laundering laws for which it was responsible at the time. It was then called the Bank Secrecy Act, and it was subsequently improved and strengthened by the Congress. And, as part of this exercise, the Customs Service would set up stings around the country in which it would actually go undercover an offer to launder money for drug traffickers.

And in one of these stings, the Customs Service was using BCCI in Tampa.

Senator KERRY [presiding]. May I interrupt you for just one second? I apologize for doing that, but I thought I would get back here more quickly following the Senate floor vote. We do want to put all witnesses who appear here under oath. I think you knew that, so I would just like to swear you, if I can, both of you, before we go on, so that all testimony here will be sworn.

Mr. VON RAAB. Will that be retrospectively as well as prospectively?

Senator KERRY. We will presume that you did not get far enough or with anything complicated enough.

I will just ask you both to rise, if you would. And would you raise your right hand? Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. VON RAAB. I do.

Mr. BLUM. I do.

Senator KERRY. Thank you.

Mr. VON RAAB. So the Customs agents began to use BCCI, among other banks, as a place to facilitate the laundering of their funds, and the BCCI local managers recognized what the undercover agents were doing, although they didn't recognize them for Federal agents. And, they basically offered to assist them and to provide them with even better schemes, and more facilities, and it became clear after a short time that BCCI, certainly as a matter of local

policy, was aiding, abetting, conspiring with, and actively participating in money laundering.

As the investigation proceeded, it became clear to the Customs agents, and now we are talking late 1987, that BCCI itself, apparently, had a corporate policy of involving itself in any kind of activity. It didn't matter whether it was criminal or not. As a result, the Customs Service began a broader ranging investigation of BCCI, largely centered out of it's Tampa office.

Senator KERRY. At that point, when you became aware of this corporate policy, that was as a consequence of what?

Mr. VON RAAB. That was a consequence as our undercover agents talking to individuals who worked for BCCI and who were encouraging our Customs officers, once again, not known as Customs officers, to introduce them directly to drug traffickers.

Senator KERRY. Was Customs alone in that investigation at that time?

Mr. VON RAAB. No, the IRS would have been involved in that because it was typically—any drug money-laundering operation was typically carried out by a joint team of Customs officers and IRS officers. Although, in this case, the investigation was conducted by the Customs special agent in charge, who was Bonnie Tischler at that time, in Tampa.

Senator KERRY. Were the findings with respect to this corporate policy and money laundering memorialized?

Mr. VON RAAB. They certainly would have been written down in the Customs agents' daily and weekly reports. They were never memorialized in a particular report to me that I can remember, although that that information was passed up to me in conversations that I would have had with the individuals responsible for the investigation.

Senator KERRY. Did you disseminate that information?

Mr. VON RAAB. That information would, as a matter of regular practice, would have been passed over to the Treasury Department because they had a liaison officer in the Customs headquarters who, on a daily basis, was made aware of all that headquarters knew in Customs, and then he or she was expected by both Treasury and Customs, to relay what information was felt was important for Treasury to know.

Senator KERRY. This was in 1987?

Mr. VON RAAB. This would have been late 1987. I mean, any investigation like that necessarily begins at a very local level, and it's only as its significance becomes more apparent to the local people that they start to pass more information up top. But certainly by the time we are in 1988, I was aware that this was a very, very significant operation, and that BCCI was a very unusual and probably a highly criminally oriented organization.

It was at this point that I felt that we should, if you will, internationalize our effort and we then put together an operation which we called Operations Sea Chase, or Cash or Currency, and I spoke to my counterparts at British Customs and at French Customs and told them that we had a very, very important case, and that I believed it was important for international law enforcement that we craft an international money-laundering team, almost sort of like Interpol, that would specialize in money laundering. As a result of

which we then put together an investigative unit consisting of several British Customs agents, several French Customs agents, and a larger number of U.S. Customs agents and Internal Revenue Service agents.

This team worked on this in all three countries, although the effort was obviously centralized in Tampa. And it proceeded and we developed a case that ultimately resulted in a series of arrests that took place in Tampa, in London, and in Paris. I think it was in October 1988, fairly well covered by the news at the time because not only was it an important financial—international financial institution, but there were also a number of other characteristics surrounding it. There was a phony wedding and other things, which basically resulted in absolutely complete national news coverage of this particular matter.

From that point on—

Senator KERRY. This was when?

Mr. VON RAAB. My guess is it was the end of 1988, October 1988, something like that.

Senator KERRY. You said other kinds. What other kinds of things?

Mr. VON RAAB. Well, there was a famous marriage that never took place. One of the ways that we persuaded some of the bad guys to come to the United States was to pretend to have the two Customs agents who had masqueraded as boyfriend and girlfriend plan to get married, and so all the bankers and all the drug traffickers planned to come to Tampa to go to this wedding, and they were all arrested at the bachelors' party the night before.

Senator KERRY. I take it not at any strategic point in the proceedings? [Laughter.]

Mr. VON RAAB. No, no. As a matter of fact, one of the particularly bizarre drug traffickers, when he was arrested at the bachelors' party and was told that he was in Tampa, he was under arrest, and they put some handcuffs on him and started reading his rights, turned to the agent that was arresting him and said boy, this is really some kinky bachelors' party. [Laughter.]

But I'm afraid that was the end of the party and he went right off to jail.

So then what proceeded from that is your normal continuing and followup investigations following the initial set of arrests, which took place in Florida, in London—or in England—and in Paris, and this proceeded through 1988. More and more information was developed, and it was carried out under the auspices of the U.S. attorney in Tampa whose name was Genzman.

As 1989 came along, it was clear that the bank was highly illegal in many of its activities and some prominent names started to surface, particularly Noriega, as a client of the bank. At this point there was a number—or, a number of documents that had been produced were seized by British Customs which everyone felt would be very, very significant. Those documents were subject to any number of lawsuits, as to whether the U.S. Government would get its hands on them.

At about this point in time, the Treasury Department decided that I should be removed from the BCCI case, and so I was cut off from any information.

Senator KERRY. What date was that?

Mr. VON RAAB. I don't remember exactly what it was, but it was somewhere, I would say, April 1989. I am not certain when it was, and I only——

Senator KERRY. At what point did Justice become involved with Mr. Genzman?

Mr. VON RAAB. Justice would have become involved certainly before the arrests took place in Tampa, so Justice certainly was involved way back in 1988, and their involvement, of course, is a technical question.

I am sure the agents in Tampa had told Justice about the case before Justice formally accepted the case as a Federal prosecution, but they certainly were deeply involved well into the early part of 1988.

In any case, the other surrounding activity that is of some interest is the Customs Service did make some effort during the early part of 1989 somehow to involve other banking governmental units, and we held one or two meetings on a low level to try to inspire the Controller's office and some of the other sort of Treasury-oriented banking organizations maybe to set up in some cohesive unit to deal not only with the BCCI effort but also subsequently to establish a unit within the Treasury Department that we felt would be useful to deal with this kind of international money-driven, in terms of money-laundering, crime.

Senator KERRY. Is this still 1989?

Mr. VON RAAB. It was still 1989, and I say just parenthetically that the Treasury Department actually, on the day following my resignation, announced the establishment of the Customs-designed center which they called Fin Cen, which I would have assumed would have played a large role in the further examination of BCCI, and I think it is up to this committee to find out what exactly Fin Cen did, but it was Treasury's special coordinating unit for dealing with international criminal banking activity.

To bring the story to a close, I was cut out of the BCCI investigation as I said early or mid-1989, and then the story really comes from the newspapers as to the fact that there was subsequently a plea bargain with the BCCI.

I was annoyed at the time of the arrest in Tampa that there were not more significant indictments brought against higher level BCCI officers and more significant charges brought against BCCI as a corporation. At the time, and it sounded reasonable to me, the Justice Department felt that the evidence that had been collected up to that point was not sufficient to indict on the basis that we wanted to the BCCI itself, and they did not feel that our evidence was sufficient to drag in some of the more senior officials.

I had always hoped at that point that that would happen subsequently. It certainly was the desire of the Customs agents that that happen.

Senator KERRY. Did you note any frustration from the Customs agents with respect to this investigation?

Mr. VON RAAB. The frustration really came more, at least from what I saw, in 1989. They were quite excited about the fact that they got some arrests and were starting off in 1988, so there was an initial flush of great enthusiasm because we really had stum-

bled onto what we thought was—certainly it was in my opinion the most significant case that Customs had ever worked on in my administration, and I was there for 8 years.

In any case, I left the Government at the end of July 1989, and I can only say that I was very disappointed in the fact that the plea agreement that was made with BCCI was not what I think it should have been, and that was tough and holding them up as a bad example to the rest of the banking community. So—but at that point I was not in a position to be arguing with Justice, since I was out in the private sector.

So that is briefly a rundown of how the Government finally got into the BCCI issue and how it dealt with it at least during my term and, of course, I will answer any more specific questions that you or your colleagues have.

Senator KERRY. Before we proceed, let me ask Senator Kassebaum, who has not had a chance to have an opening statement, if she has any?

Senator KASSEBAUM. No, I do not. Thank you, Mr. Chairman.

Senator KERRY. Mr. Von Raab, what I would like to do is come back to questions, but I would like Mr. Blum to draw a larger picture here, and then we will come back with our questions. Mr. Blum, would you identify yourself for the record?

STATEMENT OF JACK BLUM, LOBEL, NOVINS, LAMONT & FLUG

Mr. BLUM. My name is Jack Blum. I am an attorney in private practice in Washington with the firm of Lobel, Novins, Lamont & Flug. I did work for this committee over a period of years, first from 1972 to 1976 doing a number of investigations under Senator Church, and then at your request I came back—

Senator KERRY. What investigations? Just give me a little bit of background.

Mr. BLUM. The most important was ITT. We did an investigation of international banking which included IOS and Robert Vesco. We did—probably the most important of all was Lockheed Aircraft overseas payments. The investigation there created a furor in Japan.

After that, I went into private practice. I was in private practice for 10 years. My first encounter with BCCI came during that period in private practice, when I was working with a private client who wanted to do a business deal with an affiliate of the bank.

I was asked to attend the meeting where he was seeking financing from an American bank, and the client brought up the name of BCCI and the response from the American banker was, we don't want anything to do with that bank. We won't take their letter of credit. I thought it was odd, but my role at that time was not investigator. I just stored the information in the back of my head.

In 1987, I returned to the Foreign Relations Committee at your invitation to work on the investigation of narcotics trafficking and law enforcement and foreign policy. During that investigation, in early 1988, we took the testimony of Jose Blandon, and as you'll recall, Blandon put a chart up that showed what he called Noriega's criminal empire, and at the center of the chart he had BCCI. Suddenly, the information I had parked in the back of my head

years before became relevant, and I began to seek out more information about BCCI.

Mr. Chairman, I understand that the staff has unearthed a series of contemporaneous memoranda which outlined what I found and who I talked to, and I'd ask that those memoranda be made part of the record so that people can understand what was going on contemporaneously.

Senator KERRY. Without objection, they will be.

[The information referred to follows:]

MEMORANDUM

TO: Files
 FROM: Jack A. Blum *JB*
 DATE: September 24, 1988
 SUBJECT: Memcon with Amjad Awan

WARNING: THE CONTENTS OF THIS MEMO ARE COMMITTEE SENSITIVE. DISCLOSURE OF THE CONTENTS OR THE FACT OF MR. AWAN'S COOPERATION WITH THE COMMITTEE COULD ENDANGER HIS LIFE.

Awan was born in Pakistan on July 30, 1947. He left Pakistan and travelled to Britain as a political refugee. His wife was born in the U.K. and that made Mr. Awan eligible for a British passport and British citizenship.

Awan's first banking job was with Mr. Abadi when he was the head of the United Bank, a bank that Abadi set up before the nationalization of the Pakistani banking system. Awan left United Bank and was working at the International Resources and Finance Bank, a Luxembourg subsidiary of the Bank of Montreal, when Abadi recruited him to come to BCCI.

Awan's first assignment with BCCI was as the marketing manager in London, a job which he took on December 7, 1978. His job was running the main branch of BCCI in London. Awan explained why the bank grew rapidly in London. He said that at the time it started there were a large number of Ugandan refugees in London who were being treated badly by the major British banks. They did not want to continue dealing with them and found BCCI a comfortable alternative. BCCI became known as "the immigrant's bank", and the fact that it was owned by key figures in the Middle East and run by Pakistanis and other third world nationals was appealing.

Awan held the London job for three years. During that time, Mr. Shaik, his immediate superior, introduced him to Noriega at a dinner party Shaik gave for Noriega in London. Noriega introduced Shaik to President Royo and when Royo came to London, Awan was given the job of escorting him around the city. Shaik had been introduced to Noriega by his friend, the Panamanian Ambassador to London. Mr. Shaik used his relationship with Noriega to get BCCI the license to operate in Panama.

At the end of the Awan's three year term in London, he wanted to take over a branch operation. He was offered a newly opened African branch but opted instead to take over the Branch operation in Panama.

He moved to Panama in 1981. The branch there had been in operation for one year. When he arrived, there was a single office in Panama City and the deposit base of the bank was about \$40 million. Most of the depositors had medium-sized accounts ranging from \$50,000 to \$200,000. The depositors were Lebanese and Palestinian merchants living in Panama. Later, a significant part of the Jewish community in Panama came to the bank. Awan said that many of them had come from Syria to Panama and spoke Arabic.

The bank was almost entirely deposit focused. There was little lending authority at the branch level. Awan, as the branch manager could not make a loan of over \$50,000 without approval from London. Deposits were another

matter. The bank paid the depositors the market rate on their money and Awan sent the money to the Bank's central treasury operation in London where he was credited with an automatic 1% spread.

When Awan arrived in Panama he made a conscious effort to cultivate both President Royo and Noriega. He said that he was particularly interested in getting some of the banking business of the Panamanian Defense Forces. Although Noriega referred some business to him, it was marginal and the efforts to get serious business did not bear fruit until 1982 when Noriega opened an account.

Awan first came to know Enrique Pretelt through the Christmas gifts the bank purchased from him for its significant customers. Pretelt owned the highest class gift and jewelry shop in Panama City. Besides the store in Panama City, he had two shops at the airport and had the concessions for Cartier and other famous lines of crystal and jewelry.

Although Awan pressed him for account business, Pretelt did not come to the bank until the bank opened an operation in the Colon free zone. Pretelt asked the bank for a \$100-\$150,000 line of credit on his name alone which Awan granted. He said that although it was well known that Pretelt was a "wheeler-dealer" the account was satisfactory to the bank.

Awan described the free zone as the smuggling center for all of Latin America and the Caribbean. Electronics, watches, perfume and other luxury goods were imported there and then picked up by the families which controlled the smuggling in the important centers of the region. All the sales to smugglers were for cash and the importers and wholesalers generated a significant demand for letters of credit.

Bilonick came to the bank once before the Inair bust to try to get a \$1 million line of credit. He offered no security for the proposed loan and when Awan asked him about how he intended to repay the amount he pointed to his gold Rolex. Awan said he threw him out of the bank.

Later, Bilonick came into the bank, and through one of Awan's assistants opened an account with a large cash deposit. He then borrowed the maximum he could against the deposit and left the bank. When the principal and interest on the loan reached the amount of the deposit, the bank wiped out the deposit and closed its books on him. Awan says he later learned that Bilonick had disappeared because of his role in the Inair affair.

Asked why anyone would want to borrow against their just-made cash deposit, Awan explained that that was one of the most common transactions in Panama. The account would be opened in the name of a corporation and the borrowing would be by the signatory on the account. Although the bank related the two transactions and indeed used the deposit by the corporation as collateral, all records of the connection between the two disappeared when the account was closed out as collateral for the loan.

Awan did not meet Cesar Rodriguez until 1983, when he was introduced to him by Enrique Pretelt. Pretelt said that Rodriguez was a "business associate" but never described the business they were in. The first request was that the bank finance a fleet of limousines for Pretelt who wanted to start a limousine business in Panama. The bank went forward with that project and

Rodriguez asked the bank to finance the construction of a "bankers club" on the top floor of the Bank of Boston building in Panama City.

Awan thought the idea was a good one and extended the line of credit. He also financed a number of theatrical events for Rodriguez who, as an impresario, brought performers into the country. Finally, Rodriguez came to the bank to find financing for his bid on a \$50-\$60 million hydroelectric project. He was certain that his group would get the contract and that a Polish consortium would be hired to do the construction.

The Polish group never got the contract and the Bank was left with about \$3 million in outstanding loans when Rodriguez's plane crashed in Colombia. Awan says that after the crash the staff of the bank came to him and told him that Rodriguez was a gun runner, had a bad reputation and had been involved in the Inair deal. When he went to Pretelt to complain, Pretelt said that they were no longer business partners and that he, Pretelt, could do nothing to help the bank recover the money.

Awan met Mike Harari at one of Noriega's parties. The word in Panama was that Harari was the Mossad chief for the region. He was believed to have been assigned to Panama after messing up an assassination effort aimed at the Black Septemberist involved in the Munich Olympics massacre. Instead of killing the terrorist, he killed an innocent waiter in Lillehammer, Norway, causing a significant scandal.

Harari was known to be involved in the arms trade, but all of the involvement was assumed to be official. There were a large number of Israelis throughout the region all engaged in arms sales and the all dealt with Harari.

Awan became involved in the sale of Contadora island when he was asked to meet with President Del Valle in New York after he had been transferred from Panama to the United States. Del Valle said that he was sent by Noriega who wanted him to help find a buyer for Contadora Island. Noriega had made the decision to sell the Island and he knew that Awan knew Gaith Pharon, a wealthy Saudi who was a shareholder in the bank at that time. Pharon had an interest in Club Med and the Hyatt hotel chain. Noriega thought Pharon would be interested in bidding.

Pharon took a close look at the deal and decided to make a relatively low bid. Awan said that the problems with the proposal were that Contadora lacked sufficient water, the hotel was run down and at least \$5 million would have to be invested to bring it up to first class standards, there was very limited air service to the island from Panama and the owner would have to run his own air taxi service.

Awan said that Aoki was a friend of Noriega and that he bought the island at a price that was too high, not one that was too low.

Awan said that BCCI stayed out of the arms trade. He said that the bank did not finance weapons deals and that the only proposal he saw regarding a weapons deal was from Iranians who were trying to buy weapons in Europe and wanted to finance them in Panama.

As Awan described it, cash came into Panama from all over the world and all the banks that need cash tapped the Panamanian market. He said that

BCCI stayed out of the cash handling business because it was too expensive. He said that an employee of the bank had been approached by Brinks, which ran the only armored car business in Panama, and was told that for a commission paid to Brinks, the bank could get cash deposits referred to it.

Awan said that the National Bank of Panama charged a 1% cash handling fee and the people at the National Bank always short counted the money sent there by several hundred dollars. Given the low return that Awan could get on deposits by sending them to London, it made no sense for him to pay commission to get the cash.

The bank did not use armored cars to handle the transfer of excess cash. Awan carried the cash himself in the trunk of his car and did not worry about being robbed. He said that Panama at the time was quite safe.

Awan said that the cash business that the bank did was in connection with the Colon branch, where the cash was handled as an accommodation for their customers. These customers were the wholesalers and importers who were selling to smugglers who paid in cash. When asked about the Cuban business in the Colon zone, Awan said that he knew that there was a Cuban corporation in operation there and that the bank had one customer who did a substantial business selling hotel equipment made in the United States to the Cubans. He said he was unaware of the use of Colon as a place to move high tech equipment to Cuba around the U.S. embargo.

Certain banks paid higher than market rates for deposits and seemed far more interested in the cash deposits. These included the Swiss, Colombian and large American banks. The Swiss established regular flights from Panama to Switzerland to carry accumulated currency out of the country so that it would not have to be turned over to the National Bank of Panama.

The questioning returned to the account General Noriega opened with the bank. Awan said that he had been asking Noriega for business regularly when one day Noriega called the bank and said that he wanted to open an account. He told Awan that the account would be the secret funds of the Panamanian Defense Forces and that he, Noriega, would deposit the money and then call Awan to tell him how to disburse it. No Panamanian was to see the account, it was not to be booked in Panama and Noriega did not want any paper kept on it.

Awan said that he had to explain to Noriega that an account could not be opened without some paper and that there had to be an owner of the account who had the authority to make withdrawals. Awan drew up appropriate papers and brought them to Noriega. The papers put the account in Noriega's name.

The first deposit in the account was mostly cash in an amount around \$200,000. There were some small checks in the deposit. Later, the deposits were in the form of both cash and checks with most of the checks coming from the Panamanian Defense Forces accounts and made payable to the bank.

Cash payments were frequently made out of the account. Noriega would call Awan and tell him that someone would be coming to the bank to ask for a cash payment. The person would then show Awan a note signed by Noriega and Awan would then pay the money out. Most of the people who came for

these payments were politicians and the first use of the fund was to buy political figures in connection with the 1984 Presidential election.

As Awan recalled it, the largest amount of cash to be deposited to the account was \$900,000 and the balances in the account never topped \$25 million.

In 1983, the bank issued its Visa card to General Noriega, his wife and his daughters. Payments on the Visa cards were made from the interest that the amounts on deposit generated and the balances were automatically debited to the account. Awan would also use the account to pay travel expenses for the General and members of his party. He would accompany the General on his trips and make sure that there was cash available as needed.

On one occasion the account was used to offset a loan on an apartment in Paris. The total amount of the loan was \$400,000 which meant that the principal amount was somewhat lower. The loan was paid off from the interest the account generated.

Awan left Panama in 1984. He had reached the usual end of tour for a manger and had the additional problem of having allowed the branch to become involved in a multimillion dollar fraud involving fraudulent treasury checks. The fraud scheme started with a reputable Panamanian law firm opening an account in the name of a front corporation. The bank dealt with the law firm because they were reputable and had given the bank good business in the past. The beneficial owners of the account, BCCI was told, were Hong Kong Chinese. The lawyers deposited several million dollars worth of Treasury checks. BCCI refuse to credit them until they had cleared and sent them to the Bank of New York for collection.

When the Bank of New York notified BCCI that the checks had cleared BCCI released the funds which were immediately transferred. Almost the day the funds moved, BCCI was visited by Treasury investigators who said that the checks were fraudulent and that the credit was being reversed. Although some money was recovered the bank lost substantial sums. When that loss was combined with the loss on the Cesar Rodriguez loans Awan did not look too good.

When he was told that he was being transferred to Washington to work in the representative office of the bank, Noriega called Abadi and told him that he wanted Awan to stay in Panama. Abadi said that that could not be done but that Noriega could continue to deal with Awan as his personal banker. In that role, Awan traveled to Panama once every few months, consulted with Noriega on the phone and accompanied him on his visits to the United States. Awan says that his main function was to present Noriega with a statement of his account, showing him what bills were paid and how much cash had been delivered according to his instructions.

In July 1987, Awan was sent to Florida where he became the marketing manager for the Latin American and Caribbean. He was based in the Miami agency. The function of the bank's agency offices is to take deposits from non-resident foreigners. The money is almost exclusively flight capital.

The nominal boss of the Miami operation was Mr. Shafi. He is old and has the job because of his long standing relationship with Abadi. He had little understanding of what was going on and holds his position as a

figurehead. Patrick Lynch was the man in charge of the three Florida offices. Mr. Jindani handled administration and personnel management, Marvin Hancock ran the credit division, and Mr. Hassan was Awan's predecessor as the head of the marketing department.

I asked Mr. Awan if he had ever been approached to launder drug money. He said that the bank had a conscious policy of avoiding drug money and that he was aware of only one situation where that sort of money had been offered as part of a government sting operation. The bank told the people involved that they would fill out the currency form on the deposit and the conversation ended.

MEMORANDUM

TO: Senator John F. Kerry
 FROM: Jack A. Blum
 DATE: October 7, 1988
 SUBJECT: BCCI: The Takedown, Background and Talking Points

Background

During the next three days more than eighty people associated with the Bank of Credit and Commerce International and related companies will be arrested for money laundering and drug dealing. The arrests will be in more than a dozen locations here and in Europe and have been carefully coordinated.

At the same time the bank itself and a variety of accounts which have been identified as drug accounts will be seized here and in London and Paris. The seizures should total more than \$50 million dollars if the police are lucky.

The operation is being run by the Customs service. The Customs Service, the Treasury Department and the Justice Department will have a joint press conference. My understanding is that they are working on snappy graphics and an elaborate show.

This is the centerpiece of a three part drug extravaganza set for next week. The other peices involve large scale arrests directed at the Jamaican posses and a roundup of a large smuggling organization. All of this is timed to preceed the Thursday debate.

The Customs operation is the result of a two year sting operation. Officials of the bank were lured into a house in Tampa rigged up as a recording studio where a variety of drug deals were proposed and transacted. The indictments all come off the undercoverwork and do not really tie the bank back to Noriega. Further, the investigators have a somewhat limited knowledge of the bank's shareholders, business activities and other connections.

Our investigation of the bank began in April of 1987 when we first heard rumors of their involvement in money laundering activities. This was then turned into the public testimony of Jose Blandon, who implicated the bank as part of the Noriega Criminal Empire, and the testimony of Leigh Rich and Mike Vogel who said that they were directed to the bank by Noriega to launder money.

In March 1988 the Committee voted to issue subpoenas against the bank and a number of named individuals. When the Subpoenas were voted the Justice Department asked the committee to delay its investigation because of the undercover operation underway.

We agreed to the delay and told the Department that we did not want to do anything to endanger their work.

At that time I talked to Joe Magri, the Chief Assistant in the Tampa office about the case. I told Magri that we had information about Noriega's involvement with the bank. I tried to describe the international operations of the bank and encouraged the U.S. Attorney to look at the larger international picture. In subsequent conversations I shared a considerable amount of background information about the bank.

I continued to develop information about the bank through a former high level officer who was not involved in the criminal activity but suspected it was going on and quit because he did not like what the bank was doing. [REDACTED]

The attached documents and the deposition should give you all the information you need to handle the press inquiries. In my view once Awan is arrested all our promises about keeping his material confidential are off. I plan to call Altman shortly after the arrests and tell him that all bets are off.

The only piece of information missing from the package is about two other Pakistanis and two affiliated companies who will be taken down at the same time. They are Capcom Financial Services, Ltd. a commodities brokerage firm with offices in London, Miami and Chicago, and its President Mr. Akbar as well as a London based trading company run by Mr. Ali Shaik.

Capcom is owned by the Saudi, Gaith Pharon, who financed Akbar's entry into the business. People who know Pharon are certain that he would know that the company was engaging in illegal activity because he keeps his investments under very close watch. We have met with Mr. Akbar on two occasions he lied about the nature of his activities but gave us some general background.

Ali Akbar was the man who arranged the billion dollar loan to the government of Nigeria. He developed close relationships with the Nigerian government and we believe is involved in the laundering of heroin money through New York and Lagos.

New Material for the Press

We should release the details of the bank's dealings with Noriega, the Awan transcript, and the Noriega hotel bills. You should ask why the government didn't do more to tie up Noriega's money.

Note that the Swiss government has decided not to cooperate in the takedown and complain about the Swiss lack of cooperation.

Note that the Saudis who own the bank are the same people who own First American in Washington. This will not be mentioned by the Feds although the press will be very aware of it.

This bank has close connections with the government of Bolivia and the top people in that government. The President of Nigeria keeps his account with the bank and the bank is close to the Nigerian Government. Note the international implications.

The bank is uninsured and will most likely fail as the result of seizure and the raid because it will be followed by a run while the bank cannot meet. Luxembourg does not back up its financial institutions and no central bank will keep BCCI afloat.

Note that key Saudi shareholders were involved in financing operations for the U.S. in Central America and it is widely believed they were involved elsewhere. This raises the question of whether the bank has intelligence connections. (Sources in the intelligence community have said on an off the record basis that it does have connections.)

This will be the largest financial scandal in world history and repeats a pattern we have seen before starting with Bernard Cornfeld in I.O.S. followed by Vesco then Nugen Hand Bank and Bishop Rewald. IOS was a \$2 Billion dollar offshore fund, this is a \$20 billion institution.

You must alert the debate preparation team that this is going to happen and prepare them for it.

We should take credit for fingering the situation and clearly make the press look at the big picture rather than focus on the busts and the bad guy transactions.

You are set with NBC for Tuesday and the Today show Wednesday morning.

I would stress the questions it raises and insist on full investigation of the related companies and the other connections to governments.

BCCI has very strong relationships in China and is said to be the largest foreign bank operation in that country. Part of the strength of the relationship is based on the relationship between the Chinese and the Pakistanis and the political connections between Abadi and President Zia. [REDACTED] said that when Abadi had his heart attack Zia was told about it and left his dinner table and guests to go to the hospital to be with him.

[REDACTED]

[REDACTED]

[REDACTED] believes that there are regional records on the large deposit relationships which are kept in Miami because the account executives are paid on a percentage of the deposits which they generate. The region must know about these deposits no matter where they are booked so that the individuals involved can be rewarded appropriately.

I asked [REDACTED] if the operation was similar to the Kornfeld-Vesco IOS scam of the 1970's and he said that it was. The difference is that the operation has taken the form of a bank rather than a mutual fund and the techniques for moving money have become more sophisticated than the salement carrying suitcases employed by Kornfeld.

Blum Observation: The Bank appears to be both a major money laundering operation and to have relationships with the intelligence community. Much of what was described by Calvo can be verified by getting the Bank records from the Miami office and from the individuals involved.

The key players are:

[REDACTED]

2. Bank of Credit and Commerce International Overseas Limited, Miami Agency 19th Floor 1200 Brickell Avenue

3. Bank of Credit and Commerce, Latin American Region, 15th floor

[REDACTED]

Senator KERRY. But I would like you to describe it yourself at this time.

Mr. BLUM. Certainly. The first piece of luck I had in the investigation was to find a very senior BCCI officer who was in the process of disengaging from the bank.

Senator KERRY. When was this?

Mr. BLUM. This was in the spring of 1988, probably early March. He met with me in Miami and said, look, I'm getting out of this place. You have to understand the business of this bank is dealing with roughly 3,000 high net worth criminal clients, that most of the other activity, the branch activity, the myriad corporations, is not real banking business for them. What they do is fully service these 3,000 clients.

He went on to say, for example, that they'd bought a bank in Columbia, and the purpose was to get access to the drug cartel money, to be in a position to service the drug cartels. He went on to describe the relationship between the bank and General Noriega.

He identified for me the man in Miami who handled Noriega's accounts, Amjad Awan. He identified all of the senior staff in Miami familiar with Latin American operations, and he said that Noriega's money was being managed by Awan from Miami and that there were records in Miami relating to his activities as a money manager.

Senator KERRY. Now, we are talking about 1988, the summer?

Mr. BLUM. We are talking about 1988, the spring of 1988, while we were then holding hearings on Noriega and money laundering.

Senator KERRY. You committed that to writing at that time?

Mr. BLUM. Yes, and there's a memorandum, and the memorandum reflects roughly what he said.

Senator KERRY. Well, do not let me interrupt. Keep going with what you discovered.

Mr. BLUM. We then—I came back to the committee and requested that the committee authorize the issuance of subpoenas against the bank and against the named individuals for records relating to Noriega and other matters. The committee unanimously voted those subpoenas, and before the subpoenas were in fact granted and issued I communicated with the U.S. attorneys in both Miami and Tampa.

The problem was this. We knew there were pending indictments of General Noriega. We also understood that if we gave a Senate subpoena with a 30-day return date, if these people were as evil as we thought they would destroy the documents, and I wanted to make sure the U.S. attorneys had the opportunity to get a search warrant, go in and get the necessary paper on Noriega, so that if there were moneys available that they could reach they could seize them and they could get the record of his financial dealings.

When I called Miami, I was referred to Tampa. I talked to Mr. Joe Maigre, who was then the deputy in Tampa, who told me there was an undercover operation underway, and that was the well-advanced operation C-Chase that was described by Mr. Von Raab.

I was not told the nature of the undercover operation. What I was told was that agents' lives were in danger, and that he—and then he was followed up by the Department of Justice in a formal

way—requested that we defer the issuance of the subpoena until we got a go-ahead, or else we would jeopardize this very major undercover operation. There's a memo that discusses that request and the followthrough to it.

We deferred on the issuance of the subpoena, but I said to Maigre, look, what I'd like you to do is give me the opportunity to tell the agents working the case the depth and the seriousness of the problems with this bank. Based on my conversations with the witness in Miami and other information I had then gathered, it was clear that I could add something.

Maigre arranged a conference call in which I talked to all of the undercovers and the supervisors working the case. None of them were ever identified on the phone. I subsequently learned the names of a few of the people who were in the room, but the conversation was fundamentally with Maigre.

In the course of that, we laid out some of the history of the bank, the nature of the criminal clientele, and the connections the bank had. I invited them to come back at me with questions. The invitation was never followed up.

In July—this is now July 1988—we were beginning to reach a point with the subcommittee where it was clear that unless we began to act quickly to issue the subpoena the work of the subcommittee was coming to a close. The investigation had been voted for a 2-year period. My commitment with the subcommittee was for 2 years, and we simply had to get on with that subpoena or we weren't going to do it.

We called the Department of Justice and the Department of Justice, for reasons I do not know, said go ahead. There is no problem with Tampa. I made that call. Kathleen Smith was on another line. She was working with me. Tampa signed off, and we went forward with the subpoenas.

As soon as those subpoenas hit Miami, my phone began to ring. The first call was from a woman in London who wouldn't identify herself and said there's a man you ought to talk to. His name is Ali Akbar. Mr. Akbar has important information about the bank. Call him. Here's his number.

I called Mr. Akbar and he said yes, he did have important information, that he had worked for the bank and he had run its central treasury operation. I asked, would he be willing to come to Washington to talk to me about it, and he said yes, he would, if I would fax him a letter inviting him—and that letter is one of the documents, I believe, that has been released—he would be over immediately, and 2 days later he was sitting in my office.

Senator KERRY. Let me just interrupt you to say that that letter will also be made a part of the record.

[The information referred to follows:]

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United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, DC 20510-6225

July 26, 1988

Mr. - Akbar
Capgem Financial Services, Ltd.
9-13 St. Andrew Street
London EC4
England

Dear Mr. Akbar:

Thank you for taking the time to talk to me on the telephone today.

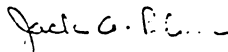
As I indicated during our conversation, the Senate Foreign Relations Committee's Subcommittee on Terrorism, Narcotics and International Operations has been actively investigating certain international banking issues. Your name has been suggested to us by an expert in the field who has told us that you might be able to provide helpful information and insight.

My colleague Kathleen Smith and I are most anxious to talk to you at an early opportunity and would like to arrange a meeting at a mutually convenient time and place. We would prefer meeting you here in Washington, although we are prepared to meet you elsewhere in the United States or in London.

Please let us know as soon as possible what your schedule is like so that we can make the necessary arrangements.

We are looking forward to meeting with you and again thank you for your cooperation.

Sincerely,



Jack A. Blum
Special Counsel

Mr. BLUM. Mr. Akbar began to talk a bit about the capitalization of the bank, and hinted that there were very, very serious problems and that the bank's high officials were extremely nervous about the investigation that I was undertaking. He was clearly trying to find out what I knew, and we did a little bit of that investigative horse-trading.

Then he said, by the way, I'm a good friend of Mr. Awan, the man you have subpoenaed, and you may not know this, but the subpoena was misdirected. A wrong Mr. Awan got the subpoena. The Marshals Service gave it to the wrong guy, and now the lawyers for BCCI are trying to tell him to leave the country so he won't have to get served with a subpoena. I think that I can arrange to have you meet with him. I'm going to go down to Miami and see if he won't follow their instructions and whether a meeting can be set up.

He went to Miami, and I agreed to meet him 1 week later, or several days later, in New York, and I met him, and we had lunch at the Intercontinental Hotel. I am delighted to say that I paid for lunch, and I later found out that that was a \$30 million lunch, because according to reports that have recently been released, Mr. Akbar was paid roughly \$30 million not to deliver to the committee computer diskettes which would have laid out in detail the fraud at the heart of the bank.

Mr. Akbar arranged the meeting with Awan, and another week later Mr. Awan came to my home in Annapolis.

At that time, another very interesting thing happened. I have some very close friends in law enforcement here in Washington who called me, and they told me that they were close friends of undercover workers in the operation in Tampa, and they wanted to pass a warning to me that I shouldn't allow Mr. Awan near my home, and I said, why is that, and they said these people are murderers, drug dealers, they're actually dealing in the narcotics, and you're taking a great risk.

I had talked to him on the phone. He certainly seemed pleasant enough, and I thought under the circumstances the risk was worth it. We met and talked for probably 8 hours at my home. There's a lengthy memo that goes into some of what he said.

He was clearly playing games. He gave me some information but not all, and in that conversation it became clear that this bank was a major criminal enterprise with many, many problems.

He arranged—I told him that I wanted him represented by counsel. I gave him a list of lawyers.

Senator KERRY. Would you share with the committee, perhaps at that point—when you said many, many problems, a major criminal enterprise, give us a sense, then, of what you knew about this bank. What was motivating you then? What kind of knowledge did you have that said, this is worth taking risks, this is worth pursuing? Why should we care about it?

Mr. BLUM. Well, first we had information that it was Noriega's bank, which was in itself pretty significant. But then he goes on to say, look, this bank is tangled up in a wide range of other activities and it's dealing with criminals all over the world. That it's not just here, it's in many other places that they are handling drug money.

But on top of that he went on and talked about the ownership of First American Bank. He talked about meetings that were held in Europe where First American Bank was described as part of the BCCI empire. He discussed the relationships between BCCI and various Governments, and all of this led me to believe it was a very major business.

From there, we made arrangements for him to get private counsel and proceeded to take his deposition, I believe in very early October, and that deposition was released publicly the day after the takedown on Operation C-Chase.

Senator KERRY. What date would that have been?

Mr. BLUM. That probably would have been early October. I don't have a precise date. It would have been around October 6 or 8, something like that.

Senator KERRY. 1988?

Mr. BLUM. 1988. This was just prior to the committee really closing down because of the coming election. Again, there's a contemporaneous memo of the events surrounding the release of the information.

By then, I was also getting calls, back channel calls and helpful calls, from former employees of the Washington office of BCCI, and here, remember, we had a subpoena out with a return date. An extension was granted on that subpoena, and the return date was set for September.

While that process of document collection was underway—and we were visited by Robert Altman and another partner of his, Mr. Kovens and assured there would be complete cooperation. They expressed great mystification at the reasons for our request—while the search for these documents was underway, I began to get calls that Mr. Naqvi had flown over from London and the documents had been shipped up from Miami and were being shredded in the Washington office, that there was a team of people at work shredding documents that were due us under the subpoena.

I talked to Mr. Altman who assured me nothing like that could be going on, that they were still trying to find documents, and again with great protestations of cooperation kept telling me they couldn't find anything. The problem was at that point we ran out of time. There was nothing more I could do. To get contempt, you need a committee. The committee was not to meet again, and we discussed various options. The only option was to turn what we knew, again, over to Federal authorities.

Again pursuant to your request, I contacted the authorities in October, after the takedown, to say we had more information, did they want it? They said they'd be back in touch, and there was no further contact at that point. They never followed up to get the further information we had.

We then began the process of wrapping up the investigation, as you will recall, and that included writing a report, cleaning up all kinds of things, boxing the documents, and getting them to archives.

In the last week of March 1989, while I was in the process of cleaning out my desk, literally, I received a telephone call from a former client of mine who said, I was just talking to this guy who was very highly placed at BCCI, and he brought your name up, and

he said that your investigation almost brought the house down there and that there was a full court press to make sure that it did not get anywhere, and I said, would this guy talk to me?

I arranged then with Customs and IRS to have a hotel room wired in Miami, to meet this guy to find out what he had to say and why this was going on. Customs and IRS wired the room. It was in the Embassy Suites Hotel near the Miami Airport.

There were many sort of funny scenes, one of them when the agents discovered that Embassy Suites uses cinder block between rooms, and you can't drill through cinder block to run a wire through the wall so they had to figure out how to get the wire through the wall.

But we then debriefed this guy for 3 days—3½ days—and in the course of that debriefing he laid out in exquisite detail the false capitalization of the bank, the question of strawmen holding stock, loans to the strawmen to pay for the stock but the loans would never be collected, the use of the bank to purchase First American, National Bank of Georgia, Independence Federal in Encino, CA—he went through the litany of things you are now reading about, perhaps not to the final level of the so-called black unit in the bank, but he was extraordinarily knowledgeable.

I have never identified him. The Customs Service and the IRS have kept his name secret. He genuinely fears for his life. But in any event, this man's tapes were then in the hands of Customs and IRS.

At the end of the 3-day period, I said to him, look——

Senator KERRY. Mr. Blum, let me just interrupt you. Just so the continuity here is right and clear, the tapes were in their hands at what time, now?

Mr. BLUM. Well, this is now March.

Senator KERRY. The debriefing.

Mr. BLUM. The last week of March 1989.

Senator KERRY. At that time, efforts to secure the documents under the subpoena were continuing through Mr. McKean and Mr. Winer.

Mr. BLUM. Yes, and further you will find in the documents that are made a part of the record I communicated to you the materials I'd heard about this fellow along with certain other memoranda which I believe, to protect him, are still being kept confidential. I do not believe they are part of the package, but you have, and had at the time, those memoranda.

Senator KERRY. Correct.

Mr. BLUM. We then proceeded to have a conversation. This fellow in the hotel room and I, and I said, look, you're in a very serious jam. You were very close to extraordinarily illegal activities. I think you should become a cooperating Government witness, and after working on him for about 2 hours—and all of this is on tape—I persuaded him to go to Tampa with me.

Customs and IRS accompanied us on the plane. We flew up to Tampa and met with a team that consisted of other Customs and IRS agents and two representatives of the U.S. attorney's office. The agents were quite excited. They seemed ready and eager to go forward.

I had lengthy conversations with at least one of the assistants, Mark Jakowski. He was eager to go forward. They seemed very excited by the new information they received and by the evidence.

Two weeks later, off the Senate staff by then, moved out of my office, I made a second set of arrangements for the—an earlier witness who I'd encountered to come back, meet me in Miami and do the same thing, and we went through the same routine. This time we tried a hotel with more hospitable walls, and we flew with him back up to Tampa where he talked again to further agents, laid out his story, and agreed to cooperate with the Government as a witness.

The strange thing is that after that effort to put this all in the hands of the Justice Department—and I might add that at the time I went to Miami, at the instruction of the chairman I shared with the agents working the case materials we had gathered, memos I had written and other materials we had gathered, so that they would have a complete picture of what we knew.

I waited for something to happen, and what happened was, I started getting calls from the two guys I took to Tampa who said, they're not following up. Then I talked to the agents, and the agents said well, we're very busy. We're working on preparations for the trial.

No follow up, and I began to worry that something was very wrong with this case. In—I now believe it was late May, I decided that I would bring this matter to another jurisdiction, and that was New York. Our Federal system mercifully allows for parallel activity. If the State government fails, the Federal Government is there, and vice versa.

Senator CRANSTON. Could I ask what you thought was wrong in that jurisdiction? Why did you think it necessary to change?

Mr. BLUM. I thought that if this evidence was before them and they had so few agents that they couldn't follow up on this—and the other problem was, Senator, they had seized so many documents from that bank, the agents told me they paid \$30,000 to make one xerox copy of the documents.

When I got to Miami and met the team, they had 1½ IRS agents on the case, period, full stop. They had no one reading the documents, and they were not following up in any way I could understand, and I believe that with that level of effort, they were never going to get to the evidence that I brought them, and I thought this was really significant.

So I went up to New York and I talked to Bob Morgenthau and essentially told him what I knew. On the basis of the same evidence, essentially, and he ultimately communicated with the same witnesses, he produced the indictment that you read about the other day.

Senator KERRY. Let me just interrupt you. We had already previously had Bob Morgenthau into the committee to testify regarding the New York link, had we not?

Mr. BLUM. We had talked to him. We had had him here as a witness on the issue of money laundering.

Senator KERRY. Prior to that time?

Mr. BLUM. Prior to that time, that's correct. Morgenthau really did the investigation. He finished out the piece that I couldn't. He

found the additional witnesses, and using a grand jury was able to seriously subpoena documents in a way that was not possible from where I sat. I then continued to be interested in this essentially as a private citizen, and there are several additional pieces of information.

Because of my involvement, I became a magnet for people who were interested in the problem and I got to meet even more people who were associated with the bank and become involved in more of the bank's problems.

As a footnote, Mr. Von Raab tells you about the flap that occurred when certain documents from British Customs became public in the United States. Well, I was—in the summer of 1989, July 1989, my wife and I were on our way to Europe for a month's vacation and we were literally—the cab was in the driveway, the bags were about to be loaded, and the phone rang. Customs, Internal Affairs. We have to talk to you. It is absolutely urgent.

I said, nothing I can do. The plane's leaving. We are on the way to the airport. If we don't make this flight, my marriage is finished. They said, we'll meet you at the airport, and sure enough, two Customs Internal Affairs agents came to the airport, and they didn't want to know about what was going on in Tampa or who didn't follow up or why.

They wanted to know, what did I know about how NBC got these documents that I had never seen, and they were so anxious to find it out, they held the plane for half-an-hour, and of course my fellow passengers must have wondered who I was, with Customs holding the flight to talk to me while they're waiting for the takeoff.

I was surprised at the vigor they pursued the leak, and the lack of vigor they used in the rest of the investigation.

There were additional pieces that began to come clear, and they became clear because the witnesses continued to talk to me and I met yet other witnesses. The people who talked to me talked about a variety of issues that have not yet been surfaced, and I'd like to tick off a few of them because it may give you some idea of the directions in which this investigation may go.

First, on the banking issue—

Senator KERRY. Just before you get to that, so that we are clear in the continuum here, during the period of early 1989, that was the period when the report that the subcommittee put out was being completed, is that correct?

Mr. BLUM. That's correct.

Senator KERRY. Then subsequent to that, after the committee report came out, when you were no longer formally assigned to the committee or part of the committee, you continued, however, I believe, to discuss matters with staff on the committee?

Mr. BLUM. I continued to talk to David McKean and Jonathan Winer.

Senator KERRY. During that period the committee, I believe, continued to try to get its subpoena enforced, but was very frustrated by the inability to get the documents which eventually Bob Morgenthau was able to get hold of.

Mr. BLUM. I think the frustration about getting documents from people who say they're cooperating fully was pretty enormous. There would be—even in the period of the late or early fall of 1988,

there were protests yes, we're cooperating fully, and then documents we knew existed never materialized. So that was a terribly frustrating piece of business.

Senator KERRY. Now, what were these matters that you suggested you had been learning about since that the inquiry should focus on?

Mr. BLUM. Well, I should double back and mention one other thing. When the plea agreement was entered into by the Department of Justice in January 1990, I was personally infuriated.

I had taken what I considered to be considerable risk and gone to, I thought, great length to put serious evidence in front of the Department of Justice. The agents knew. The assistants well knew—well knew—that there was more to this case, and that plea agreement said, in relevant part, that the bank would not be prosecuted for matters then known to the U.S. attorney for the middle district of Florida.

The problem was that everything on those tapes were matters then known to the U.S. attorney for the middle district of Florida. I could not understand that plea agreement.

To this day, I can't understand that plea agreement and, Senator, I know you and others went to the floor to complain about it at the time it was entered, but I think I can now add a piece so that people can really understand the dimension of my upset at the time that agreement was entered into.

Senator KERRY. Please do.

Mr. BLUM. I also in that period of time heard all kinds of rumors and reports about myself, and that is a kind of awkward business to hear.

For example, I was told that lawyers for BCCI around the time of the plea agreement walked into one Senator's office, asked him to do a floor statement saying it was a great agreement, and when he said, but wasn't there some problem at Foreign Relations, wasn't there an investigator who worked on it, I was told that they said, oh, he was fired. He was running off on his own and doing things that nobody wanted done, and you shouldn't pay any attention to that.

I tried to track that down. I brought that to the attention of Senator Kerry. We didn't have a real way to get a handle on it, but it was very distressing because there were an army of people working in Washington on all sides trying to say this bank was a wonderful bank, the people involved in it were honest, good, and true people, and that anybody who said they were the criminals that I was making them out to be had to be crazy.

I think the record today speaks for itself on that subject. I think the record is also clear—

Senator HELMS. Excuse me.

Mr. BLUM. Yes?

Senator HELMS. I will direct this question to the chairman and to you. Did you make a matter of record at the time the identity of the lawyer and the Senator?

Mr. BLUM. I would be happy to share that in closed session. I have subsequently attempted to contact the lawyer. He denies it. I don't want to go into it in public session at the moment.

Senator HELMS. Well, I do not care whether he is trying to embarrass anybody or not. I am in favor of embarrassing.

Mr. BLUM. Well, I don't have enough to be sure that the anecdote is absolutely accurate, and I don't want to embarrass those people. I would be happy to tell you about it in closed session and allow you to follow up, but I think there ought to be an opportunity for the people involved to describe what happened.

Senator HELMS. I think we should, Mr. Chairman. Thank you. Go ahead.

Mr. BLUM. The areas that I think are going to open up that are still totally unexplained are, this business was a factory. This bank was a factory for the creation of falsified letters of credit.

In the last number of weeks, I've had the opportunity to go to Miami and review files, some public files in the so-called *Bilbeisi coffee* case. Those files indicate that BCCI had a very strange letter of credit business. The letters of credit only went from one BCCI bank to another BCCI bank. Instead of charging a half point, which is a normal bank rate for letters of credit, they were charging 12 points.

The letters of credit appeared to be to falsify documents to aid in smuggling, and false valuation of goods for Customs purposes. The point being that a letter of credit is sort of a basic indicia that you have paid what you're supposed to have paid and the goods that are supposed to be there are really the goods, because a bank has to check the box to make sure that the goods are the goods, and you paid what you're supposed to have paid. These people would apparently create letters of credit for anybody for anything.

It turns out that the record of BCCI in that area was brought to the attention of the U.S. attorney for the southern district of Florida by the attorney in the case being brought about that smuggling against BCCI, and he offered no response.

Further, a review of the record indicates that no effort was made to prosecute any of the people involved until an IRS agent almost at the end of the term of the grand jury himself insisted that a case be brought against the arms smuggler who was involved in it, one Munther Bilbeisi, and that has received considerable attention.

There's a story about it in last Sunday's New York Times and there's no need for me to go into detail.

One other matter that I feel is one that will come up is a matter of Third World debt. I began to hear that BCCI had gone into the business of brokering Third World debt.

That would mean that if a country had obligations that it defaulted on, was not going to repay—20 cents on the dollar perhaps would be the value—you could find the right middle man and, working through BCCI, connect with the head of the government and get them to decide that this particular debt would be paid 100 cents on the dollar, and maybe there would be a swap involved, that you would have to make an equity investment in the country, but if you worked with BCCI, the equity investment would be announced but never made, and BCCI would illegally handle the conversion of the currency.

That, I think, is very major business. I think it runs to billions of dollars, and I think the people working this have been so immersed in the internal fraud of the bank they haven't begun to look at

nondeposit loan relationships or beyond straightforward arms dealing and money laundering.

Senator KERRY. Mr. Blum, we now have records which will subsequently be forthcoming on BCCI and the swaps with a number of central banks, and there is evidence—you are familiar with the situation in Peru and other countries. You might want to talk a little bit and give members a sense of what this really means.

Mr. BLUM. Well, the people I talked to at the bank would say, this was a bank that was very strange, because it needed deposits all the time, and if you're running a Ponzi scheme you need more and more cash in to support the whole system of fraud that you've generated.

What it meant was that BCCI people would go out and bribe central bank officials and high government officials to get them to deposit their country's foreign exchange at BCCI, and in exchange for whatever amount of money, suddenly the foreign exchange reserves of a country would be put there and put to use, and I am assuming that once these relationships developed with the people who controlled the central bank, the issue of debt equity swap and Third World debt became a very simple matter.

There are other issues that are very much unresolved. People repeatedly told me that this bank was a product of the Afghan war, and people who were very close to the Mujahadeen have said that many of the Pakistani military officials who were deeply involved in assisting and supporting the Afghan rebel movement were stealing our foreign assistance money and using this bank both to hide the money they stole, to hide and market American weapons that were to be delivered that they stole, and to market and manage the funds that came from the selling of heroin that was apparently engineered by one of the Mujahadeen groups.

This is an issue that has largely been unexplored in public. It's an issue that should be. It's a major issue of oversight.

Senator HELMS. Now, Mr. Blum, in executive session, are you prepared to give us those names of the people?

Mr. BLUM. Yes, indeed, and indeed, I have given some of those to the Department of Justice at length, and again, some of it is in memoranda in your possession.

Senator HELMS. Well, I think we ought to finish this loop in executive session, because you are getting down to it.

Mr. BLUM. I'll be happy to come back to do that, because I know you have a very heavy schedule.

But you know, the other areas here are, this organization apparently—and I talked to one of the people who said it was part of what they called their black unit—served as a Federal Express service for the delivery of various things, and as he described it, that was weapons, drugs, arms of different kinds, and gold and currency, for anyone who wanted it, wherever they wanted it delivered. What he said tied back to other things people at this bank had told me.

I think that the Department of Justice now has the obligation to carry forward with the case, and I am certain, based on what I've heard, that there are a lot of people working on it.

I should return to one aspect of the case which I think people would want to know about. That is, the discovery that CenTrust, a bank in Miami, was a virtual subsidiary of BCCI.

Senator KERRY. What was that, I am sorry? I missed that.

Mr. BLUM. CenTrust, a large savings and loan in Miami which failed, left the taxpayers with a \$2 billion hangover, was a subsidiary of CenTrust.

That may not have been the only S&L subsidiary of CenTrust. CenTrust was involved in a wide range of dealings, and in those dealings appears to have had contact with people at other S&L's through Independence Bank in Encino, and this is an area that requires substantial further investigation.

Senator KERRY. Jack, let me just ask you, because you have raised a question and I have said let the chips fall where they may in this thing, and I am going to do that. It is a matter of record that I knew David Paul previously when I was chairman of the Campaign Committee. That is a matter of fact. The question I ask you, and you are under oath, is when did you first learn of any linkage between BCCI or CenTrust?

Mr. BLUM. As I left the committee in March 1989.

Senator KERRY. 1989?

Mr. BLUM. 1989, and you will recall I told you when I found that out, and told you about it.

Senator KERRY. Correct.

Mr. BLUM. I recall your shock.

Senator KERRY. Now, with respect to—well, I don't want to cut you off if you were going to finish on one other aspect, but I would like to try to get in some questions.

Mr. BLUM. Well, I think the subject is so wide and difficult, I think it would be useful if I simply stopped talking and turned to questions, because there are different aspects of this, and I'm prepared to try to answer as much as I can as you feel it necessary.

[The prepared statement of Mr. Blum follows:]

PREPARED STATEMENT OF JACK BLUM

Mr. Chairman and Mr. Ranking Members, and distinguished members of the Committee: Thank you for giving me the opportunity to testify before the Subcommittee today about my involvement in the investigation of BCCI.

When I left my job as Special Counsel to the Foreign Relations Committee in March of 1989, BCCI was the most important piece of unfinished business I left behind. I am delighted that this business is finally being finished.

What I propose to do this morning is to review the chronology of the BCCI investigation, outline what I learned, and detail the steps I took to bring the case to the attention of the Department of Justice. It is my understanding that the Subcommittee has released the memos I wrote about the investigation at the time it was in progress. Those memos will add substantially to a full understanding of what occurred.

In all, I have worked for the Senate for 14 years. My first employer was Senator Philip Hart of Michigan. Six of those 14 years were with the Foreign Relations Committee—first from 1972 to 1976 and then from 1987 to 1989. My first work with Foreign Relations was with Senator Frank Church on the investigation of Multinational Corporations. The subcommittee he chaired, and to which I was assigned, investigated ITT's role in Chile, multinational oil companies, international banking—including the *IOS/Vesco* case, and the Lockheed foreign bribery affair.

My first contact with BCCI came in private practice in the early eighties when a client of mine tried to do a business deal with a BCCI affiliate. In the course of seeking financing we learned to our amazement that major American banks refused to accept BCCI letters of credit. My client sought a different business partner.

I returned to the Foreign Relations Committee after a 10 year stint in private practice in early 1987. My agreement with the Chairman at that time was that I would work on the investigation of drug law enforcement and foreign policy which he proposed for 2 years.

My knowledge about BCCI's reputation remained dormant until the day Jose Blandon testified about General Noriega's "criminal empire". He identified BCCI as part of that empire and told the subcommittee that BCCI was central to his operations.

When I heard BCCI's name mentioned I tracked down a senior BCCI executive who was then in the process of leaving the bank. He told me the bank was in business to service roughly 3,000 criminal clients in addition to General Noriega, and that the rest of the bank's operations were a cover for this, its central business. Based on his information which I memorialized for the Committee, the Committee voted to subpoena the bank's records in March, 1988.

Before the subpoena was issued I called the prosecutors handling the *Noriega* case to be sure that the action we were about to take would not interfere with the Department's ability to trace Noriega's money. As a result of the call I was told that there was an undercover operation under way and the Department formally requested that we delay service of process.

In March of 1988 I called Joe Maigre, the Deputy in the Tampa U.S. Attorney's office and told him that we knew that BCCI was Noriega's banker, we knew who was handling the money and we knew where the records were. He arranged a conference call with all the agents in the undercover operation. I briefed them fully on what I knew.

In July of 1988 the Justice Department informed us that they no longer objected to the subpoena for BCCI. I drafted, and the chairman signed the papers.

While we were waiting for the return of service I was contacted by another former BCCI officer, Ali Akbar who offered me further information about BCCI. Specifically he told me that the bank had a "capital problem" and that its accounts were less than accurate. He also arranged to have me meet with Amjad Awan. Awan provided more information.

Messrs. Altman and Clifford appeared as BCCI's lawyers and requested a 30 day extension on the subpoena. It was granted. They also said they represented Awan and that Awan could not testify because he was transferred out of the country. I knew better because I was talking to him.

In October, I deposed Mr. Awan, who was then represented by separate counsel, this was done without the knowledge of Mr. Altman. At the same time a bank insider called to tell me that documents were being destroyed at BCCI's Washington office. Unknown to me, Mr. Awan was making similar statements about obstruction of our investigation to undercover Customs agents.

Unfortunately, no one from Justice ever advised me of this fact.

At the same time we were hearing about the destruction of documents Messrs. Altman and Kovins were assuring us that they would cooperate fully and that they were totally surprised by our suspicions.

In October, after the Tampa arrests, we were contacted by another BCCI ex-employee who told us of the use of the Miami office for drug money laundering and of his fruitless efforts to get the Federal government to act. His testimony and Awan's testimony are part of the Subcommittee's printed public record.

Ultimately, in March, 1989, I arranged with agents of the Customs service to have a hotel room in Miami wired. Through a mutual friend I arranged to have a senior former official of the Bank, a man close to Abedi, the banks' chairman meet me. We talked for about 10 hours over a 3 day period.

He laid out the entire story. It included BCCI's ownership of 1st American, the lack of capital, the loan and stock transactions and the stealing by insiders. I persuaded him to become a government witness and flew with him to Tampa. I introduced him to the Assistants on the case and was assured that they would follow up.

Two weeks later I did the same thing with a second witness.

The witnesses and the agents continued to talk to me and it became apparent that little or nothing was being done to follow up on the allegations. When I realized that I went to the New York county District Attorney, Robert Morgenthau. His investigation began with the same evidence and the same witnesses the Federal government had in its possession.

I was personally outraged by the government's January 1990 plea agreement with the bank which included a clause barring further prosecution for "matters then known by the Department of Justice". The agreement precluded the use of the material I had furnished the Tampa team in any further case against the bank.

Drug dealers need money launderers. BCCI was the biggest of the launderers. On the day it was finally closed in the United States, the money on deposit here totalled over \$900 million. My guess is that little of that was legitimate. The people who protected this bank on all levels must be held accountable—at least as accountable as the street dealers, and the “kingpins” who face the death penalty under recently passed legislation.

I will be pleased to answer any questions you may have.

Senator KERRY. Let me ask you an additional question, if I can. Mr. Von Raab, Mr. Blum has described his reaction with respect to the plea agreement and you expressed something with respect to it. Were you in concurrence with his judgment on that agreement at that time?

Mr. VON RAAB. I think it was a shameless agreement. It had a number of terrible aspects. First, before the plea agreement, the international banking community had begun to recognize that BCCI was a pariah, if not a criminal enterprise. They were beginning to stop doing business with BCCI in many cases, and so the dynamic was such that BCCI was basically being spurned.

When the plea agreement was made, that dynamic was turned around and BCCI was not exactly welcomed back into, but it reappeared as an accepted part of the international banking community. It was a disaster in terms of the punishment that should have been meted out to both the officers of the bank and the bank itself.

The amount, the fine that was levied or the asset forfeiture, depending on how technical you want to get, was only about \$15 million, which was actually less than the bank had made from its money-laundering activities. And so the bank didn't even have to return to the American taxpayer its profits from the illegal activity.

Now admittedly, this, in relative terms was a big fine, but it was only with respect to other banking fines, but no one had ever seen a crime quite like this. So I mean, the Federal Reserve's suggestion of \$200 million is probably closer to the mark, although I suppose the real punishment for BCCI should be maybe in the billions of dollars.

Mr. BLUM. If I could interrupt, just for a second, my understanding is that that \$14 million was not even the bank's money. It was the profit that the agents had created in the drug deals.

Mr. VON RAAB. That is what I am saying. It was the profits.

Mr. BLUM. It was the profit from the drug dealing.

Mr. VON RAAB. Then obviously the individuals who were really responsible, that is the higher level officials who promoted the policy weren't touched by this exercise. They weren't punished and then last and no one knows the problems that this would cause and that is, that the U.S. attorney in Tampa, the middle district of Florida basically had his arms tied with respect to any further prosecution of the bank for those matters of which he had knowledge.

So I mean, it was a real triumph by the Washington power broking establishment. I mean, we talk about a black unit within the bank itself, I mean, there is a gray unit in Washington that was working this case for all it was worth.

And let me tell you, whatever the Washington brokers got for their involvement in protecting BCCI against the Federal Government, they earned every million dollar that they received.

Senator KERRY. Now, Mr. Von Raab, I have asked some questions as we have gone along. I want to get my colleagues into this.

I just want to ask you one other area and then I am going to pass the baton here, but with respect to the CIA memo, how did you come to see that memo and what were the circumstances under which you—

Mr. VON RAAB. Thank you for asking this. This issue has come up so many times. When I was preparing in the final stages of the investigation to announce the *BCCI* case, and I wanted to get more information about BCCI, both for my own purposes as Commissioner of Customs and also to answer questions responsibly to the press, I rang up the agency. I rang up Bob Gates.

And I told them what we were doing and I asked him what he knew about BCCI and he quipped that it was known among his colleagues, the agency, intelligence services as the bank of crooks and criminals international.

And that he said that he was certain that the agency had some—

Senator KERRY. When was that? What was the date?

Mr. VON RAAB. This would have been September or October 1988. It would have been sometime, a short time before the takedown.

Senator KERRY. Before the takedown.

Mr. VON RAAB. And I don't remember exactly what it was, but it was a telephone conversation. It was not a person-to-person meeting and it was a spontaneous act on my part. I am not an old friend of Robert Gates.

Senator CRANSTON. Can I interrupt? You started to say, he said the agency had some, and then?

Mr. VON RAAB. Yes, I am sorry. I was backing up. And so he provided me, he said I will send you a piece that we have done on BCCI, and shortly thereafter came over to the Customs intelligence unit, which was typically the way agency documents would be passed over, I don't remember it that well, but a five- to seven-page paper produced by the agency, typical, first-call agency printing job, that described sort of the origins of the bank, its MO.

Who they thought the owners were at the time and characterized it in terms that implied that certainly it was involved in lots of questionable or at least criminal activity.

It didn't prove to be particularly useful to us as an investigative tool. It was useful to me because I got a sense of when the bank was formed, what its corporate structure was and although I think the information was probably somewhat inaccurate in terms of who the owners were, it gave me a sense of the type of people that owned the bank, should I have been asked that question.

And that was the complete loop with respect to the now famous conversation between Bob Gates and me with respect to this memo and his knowledge, as he told it to me of BCCI.

Senator CRANSTON. Did he say anything about the agency's relationship with BCCI?

Mr. VON RAAB. No. There was no—I didn't ask him about it and he didn't tell me about it.

Senator KERRY. Senator Helms.

Senator HELMS. Let us get back to the British Customs seizure of a large amount of BCCI documents. What can you tell the committee about what happened to those documents and the relations between the Treasury Department and Customs, relative to those documents?

Mr. VON RAAB. Yes. Well, as part of Operation C-Chase, the British Customs Service served warrants on the bank's offices in London and collected a fair amount of documents.

The U.S. Government, meaning the Customs Service very much wanted those documents to further its prosecution in Tampa. We made those requests. We were aware, because of comments that had been made by British Customs agents to U.S. Customs' agents that among other things there was information in those files about Noriega. That obviously made it even more interesting and exciting.

The documents were subject to a number of lawsuits in Great Britain in an effort made by BCCI to prevent the documents from being given to the United States. As the lawsuits progressed, the final result was that the documents were turned over the United States through the Customs Service.

However, some time before the documents were turned over, I was prohibited by the Treasury Department from receiving any of these documents. The documents were sealed up by my own Customs' agents. I will admit that they did manage to pull one or two or three documents which they gave to me as a sort of sentimental favorite, which did describe in some minimal detail Noriega's, at least, some accounts he had.

But the bulk of the documents, which were substantial, I mean, there were boxes and boxes and boxes, were loaded up, sealed with some sort of duct tape, what have you, and were sent directly to the Treasury Department; and I was, although I was not told personally, the agents were told that I was not to have any information on the BCCI case and that was the period in which I was actually cut out of the case and that was some time before I left the Treasury Department.

Senator HELMS. The staff has just handed me a photostat of a speech I made on the Senate floor on October 14, 1988, in which I discussed what you had been doing.

Mr. VON RAAB. I wonder if that speech did me any good or whether it was bad for me.

Senator HELMS. It probably hurt you, which was not its intent.

All right. Now on this September 1986 CIA document, there was a report this morning, I believe it was, that Treasury was on the distribution list. Is that right?

Mr. VON RAAB. There was a regular routine scheme in which various intelligence documents were circulated among the so-called intelligence community, which were certain departments and certain agencies.

Without confusing the issue too much, the Customs Service was not "in the intelligence community" because the Treasury Department was. And that meant that any highly classified documents were given to the Treasury Department and it was its job to refer them to the Customs Service if they felt it was of interest to the Customs Service.

Which meant we couldn't get documents on a routine matter from the agency. We could ask for them, but they always went through the Treasury Department. So it is likely that that document would have been given to the Treasury Department in a normal course of business. Whether it actually was received by Customs, I don't know the answer to that because some of the documents that Treasury got, it didn't pass on to the Customs Service.

Senator HELMS. Willie Von Raab didn't get it from Treasury?

Mr. VON RAAB. I didn't receive that document from the Treasury.

Senator HELMS. Willie Von Raab got it from the CIA.

Mr. VON RAAB. I got it directly from the CIA, that is right.

Senator HELMS. That is the point. Somebody had been screening what the Commissioner of Customs is going to see.

Mr. VON RAAB. Yes. Without implying anything sinister, there was a screening process. They regarded it as administrative in nature, but they could make a judgment as to what Customs would see.

Senator HELMS. Let me ask you, I am not asking you to toot your own horn, and I know the answer to this, wouldn't it be fair to say that Customs and not the Department of Justice came up with the idea of Operation C-Chase? Didn't that come from you?

Mr. VON RAAB. Well, you are forcing me to be somewhat parochial, but in any Federal prosecution there is an investigative agency and the Justice Department prosecutes the case. The investigative agency could be the FBI. It could be DEA. It could be Customs.

In the case of Operation C-Chase, the sole investigative agencies were the Customs Service and the IRS. Any involvement of any Justice investigative agencies was purely a matter of assistance, maybe serving a warrant one day or what have you.

The operation was conducted under the supervision of an agent, a woman by the name of Bonnie Tischler in Tampa and the involvement of the Justice Department in the BCCI investigation in Tampa was solely as a prosecuting arm.

Now that is significant, but Customs and IRS were the supportive investigative agencies. And so in law enforcement parlance, this would have been called a Customs case and if anyone had suggested that this was a Justice Department case, they would have been punched out by the Customs agent that was working on it.

Senator HELMS. I just wanted to get that on the record.

Mr. VON RAAB. So that is how it works.

Senator HELMS. Now while I went over to vote, I was filled in on your discussion about the phony wedding sting operation.

Mr. VON RAAB. That is right.

Senator HELMS. Now didn't the Customs officers risk their lives in doing this?

Mr. VON RAAB. There is no question but that the nature of the drug traffickers involved, the level of money, influence, power that all of the Customs agents who were undercover were risking their lives, because the people they were playing with were mean, tough, and had killed people before and would they had found out what was going on, they would have certainly thought about killing the agents. There is no question they were risking their lives.

Senator HELMS. They arrested the crooks at this so-called bachelors party and it is not a fact that it was a Customs officer, not the FBI, who arrested the BCCI money launders?

Mr. VON RAAB. All of the arrests that took place in the hotel which was the putative site of the bachelor party were made by Customs officers with some IRS officers as well.

Senator HELMS. Right. But it was the Customs officers who seized the BCCI documents, right?

Mr. VON RAAB. That is correct.

Senator HELMS. And when it was all over, did not Customs turn the defendants and the seized materials over to the Justice Department in one little neat package for prosecution? Isn't that about the size of it?

Mr. VON RAAB. In the simplest, but accurate terms, all of that information would have been turned over by Customs to the Justice Department by virtue of its working with the U.S. attorney's office who would receive all of these documents.

Senator HELMS. Now Mr. Blum, you figured into this thing too, and you interrupt and fill in anything that I am leaving out.

Now there were the bond hearings for these BCCI defendants in the *Tampa* money-laundering case in 1988, right?

Mr. BLUM. That is right.

Senator HELMS. And the assistant U.S. attorney stated that the defendants had bragged in secretly taped conversations and you know all about that, that they had the approval of BCCI's board of directors to engage in money laundering of drug profits. Is that correct?

Mr. BLUM. Now those tape recordings, and this is something that I would like to make very clear, there are two different sets of tape recordings.

One is the set of tape recordings made by the Customs undercover in the course of the investigation. Those tape recordings ended at the time of the takedown. They were no longer meeting with them and recording.

Those tape recordings make some of the most interesting reading you will ever pick up, because what you get is the people that this committee serve subpoenas on talking to the Customs agents about what they are going to do about our subpoena and what they are being told by their lawyers.

And if you read that tape you will find that Amjad Awan says to a Customs undercover that he is being advised by the BCCI lawyers, in this case, Robert Altman, that he is going to leave the country for Paris, never to return so that he does not have to answer the subpoena and talk to us.

Senator KERRY. Would my colleague yield for a moment?

Senator HELMS. Sure.

Senator KERRY. In the affidavit which will be made a part of the record and I will label these, we will leave the record open for labeling so they are in consecutive order. But the affidavit signed by David Burris, who is the special agent with the IRS that you are referring to, said in his affidavit said, quote: "Your affiant believes the following statutes have been violated based on the information in this affidavit: Title XXI, United States Code, Narcotics Conspiracy; Title XVIII, United States Code, General Conspiracy; Title

XVIII, United States Code, Financial Transaction Money Laundering; Title XVIII, United States Code, Transportation Money Laundering; Title XXI, United States Code, Using a Communication Facility in the Process of Committing Another Offense; Title XXI, Travel Act; and Title XVIII, United States Code, Obstruction of the Senate Investigation."

And there were subsequent paragraphs referring specifically thereto.

[The information referred to follows:]

AFFIDAVIT

Sept, 1988

David H. Burris, have been duly sworn, states as follows:

Your affiant states that the facts stated in this affidavit are personally known by your affiant or personally told to him by individuals identified below.

I have been a Special Agent with the Criminal Investigation Division of the Internal Revenue Service for 11 years. For the past 7 years I have been assigned to investigate narcotics money laundering cases jointly with the U. S. Customs Service.

I have been assigned to an investigation referred to as Operation C-Chase since July 1986. This investigation has involved the U. S. Customs Service, the Internal Revenue Service Criminal Investigation Division, the Federal Bureau of Investigation, the Drug Enforcement Administration and authorities in the United Kingdom and France. The investigation has utilized a U. S. Customs Service undercover operation to gather evidence against numerous individuals and corporations. I have been assigned as the Internal Revenue Service case agent since the case was initiated. In that capacity I have become personally familiar with the evidence described in this affidavit and have summarized that evidence herein. Since this affidavit is made for the limited purpose of obtaining a search warrant, I have not set forth each and every fact learned during the course of this investigation.

Your affiant believes that the following statutes have been violated based on the information in this affidavit:

- a. Title 21, United States Code, Section 846 (Narcotics conspiracy)
- b. Title 18, United States Code, Section 371 (General conspiracy)
- c. Title 18, United States Code, Section 1956(a)(1) (Financial transaction money laundering)
- d. Title 18, United States Code, Section 1956(a)(2) (Transportation money laundering)
- e. Title 21, United States Code, Section 843(b) (Using a communication facility in the process of committing another offense)
- f. Title 21, United States Code, Section 1952 (Travel act)
- g. Title 18, United States Code, Section 1505 (Obstruction of a Senate investigation)

The following information relates to financial transactions conducted by a banking system, a financial service company and others, and undercover contacts with officers of the banking system, the financial service company and others. Almost all conversations with the officers and others were tape

a) AWAN says BCCI will not backdate documents to allow Musella to receive the \$725,000 (USD) frozen in his Panamanian account because they fear losing the bank's charter in Panama if the backdating is discovered by a new government.

b) Musella told AWAN that a lot of South American clients are flying money out of the U. S. to Colombia where they are later using the cash to pay people in Bolivia and Peru who are actually "involved in cooking their stuff".

c) AWAN said that BCCI and five other banks are being scrutinized by a U. S. Senate subcommittee because of matters arising from the NORIEGA indictments. AWAN says that he personally will be looked at because he was the Manager of the Panama branch when the American (Steven KALISH) says he was doing business with Noriega and had dealings with BCCI. AWAN said he doesn't recognize KALISH, but it is possible he could have done business with him. BCCI found out about this investigation because they have friends who are close to the Subcommittee's activities.

d) AWAN said that BCCI has bought and controls First American Bank and National Bank of Georgia through private individuals. The banks were bought, through individual names rather than BCCI because BCCI could not buy the banks and run them due to U. S. law. Former Secretary of Defense, Clark CLIFFORD, is one of the persons who is working on behalf of BCCI to gain control of these U. S. banks.

e) Musella tells AWAN that one of Musella's Colombian clients, Jorge OCHOA sent NORIEGA a coffin with a note. The note said that if the OCHOA's lost any of their money in Panama, NORIEGA would be needing the coffin.

71. On March 29, 1988, Musella and Amjad AWAN had a conversation in a limousine in New York City. That conversation included the following:

a) AWAN said that the stock of BCCI is privately held, primarily by groups of individuals based in the Middle East. The biggest block of stock is owned by the Pakistani group of which AWAN is a member. About 20% of BCCI's stock is owned by a Saudi group.

b) The president of BCCI had a heart attack about a month ago. He had his heart attack a few days after AWAN spoke with him in New York concerning, among other things, BCCI's activities with General NORIEGA. AWAN went to New York after travelling to London to give the BCCI board a full report concerning the bank's transactions with NORIEGA.

c) Last March, AWAN and several of his banking associates spent several days in Las Vegas with General NORIEGA.

72. On March 30, 1988, Musella and Amjad AWAN met in Room 1005 at the Sherry

directors concerning Saintsea Shipping Limited and Berens Limited.

b) BILGRAMI advised Musella to close the Saintsea account at BCCI Paris because the Panama BCCI Saintsea account is in a risk position because checks on that account are given to Musella's clients.

c) Musella explained that one of his clients generates \$50 million per mo BILGRAMI asked Musella if it didn't bother him that he dealt with these individuals because BILGRAMI knew them or suspected them to have rather difficult dispositions. LE
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154. On September 8, 1988, Musella met with Akbar A. BILGRAMI at the Mia BCCI office located at 1200 Brickell Avenue. BILGRAMI furnished Musella the original articles of incorporation and particulars of directors which Musella had provided to BILGRAMI the day before.

155. On September 9, 1988, Musella met with Amjad AWAN at the Grand Bay Hotel in Miami, Florida. They discussed the following:

a) AWAN said that BCCI had received three separate subpoenas from the U. S. Senate Subcommittee. The bank received a subpoena for records of all transactions conducted on behalf of Panamanian corporations. AWAN said that he had been subpoenaed individually as had Mr. SHAFI (the General Manager of the Latin American Division of BCCI). AWAN said he believed he had been subpoenaed because of his former association with NORIEGA.

✓ b) AWAN said that the bank and its attorney, Clark CLIFFORD, advised that AWAN should be transferred to Paris to slow down the Senate investigation. AWAN said that he could hurt the bank badly if he were to fully cooperate, but he will not.

c) AWAN said that he will speak with a friend of his in Panama in an attempt to remove all but the most essential records of Musella's account activity at the Panama branch of BCCI because of the Senate subpoenas.

156. On September 15, 1988, \$63,010 in U. S. currency was picked up in Miami Florida from Juan TOBON (Transaction #102, hereafter: #102). This currency transported to Tampa, Florida by government agents and deposited to the FNB account in St. Petersburg, Florida. A total of \$63,480 was transferred into Berkeleyville Limited account at BCCI Panama by check drawn on the FNB account. September 16, 1988, Musella was given \$1,000 in currency, \$2,000 in traveler checks, and was told that TOBON's funds had been converted to pesos on the "black market" in Colombia. These pesos were transferred to the account of Jairo TOBON (TOBON's brother), account #350010542 at Banco Canadense Sucursal Poblado as follows: a check was issued against account #039-27588-8 of Judi'

Senator HELMS. Mr. Blum, I want you to repeat carefully and slowly what you said about Mr. Altman and the statement about leaving the country for good.

Mr. BLUM. Well, this was what Mr. Awan told me about what he was being advised by the BCCI attorneys——

Senator KERRY. Would it be more helpful——

Mr. BLUM. The transcript——

Senator KERRY. The transcript speaks for itself and that has been released to the public.

Mr. BLUM. But in addition——

Senator HELMS. Excuse me, Mr. Chairman, but this is a lot better than a transcript, to tell you the truth. It will get people thinking about it. You go ahead.

Mr. BLUM. Both the transcript and my conversations with Awan, he repeated the same thing, which was he was being advised to leave the country, go to Paris, and stay out of reach so that we would not be able to serve a correct subpoena on him and he would not have to testify.

Senator HELMS. Advised by whom?

Mr. BLUM. By his attorney and the people representing him at that time, and they said they were representing him——

Senator HELMS. Who was——

Mr. BLUM. Robert Altman and his partner, Mr. Kovins and of course, the senior partner in the firm, Mr. Clifford.

Senator HELMS. Mr. Chairman, I am going to finish up. I need another minute or two.

Now I want both of you to tell me why you think the Department of Justice accepted this minor plea bargain and did not assign a task force to prosecute aggressively the higher officials of the BCCI?

Mr. VON RAAB. That is part of the larger question which this committee is trying to drive at and why not much happened and why didn't much happen for 3 years.

Senator HELMS. Thank you.

Mr. VON RAAB. So the first indication that not much was happening was this bad plea bargain. I believe that it was a combination of a general softening of resolve in the senior U.S. officials by the incredible pounding they were taking.

The result is that senior U.S. policy level officials were constantly under the impression that BCCI was probably not that bad because all these good guys that they play golf with all the time were representing them.

Second, the Justice Department was very, very concerned about its Noriega prosecution. They wanted the best evidence they could possibly get to prosecute Noriega. It was believed that BCCI was a repository for great evidence against Noriega and if you look at the plea bargain you will see that one of the parts of it was a cooperation by BCCI with respect to providing cooperation to get evidence that may have been in BCCI against Noriega.

I believe that the Justice Department was blinded by that possibility and they saw the case much too much as a place to collect evidence in another case and this was compounded by just a lackadaisical and sort of worked over, tired Treasury Department and Justice Department that resulted from the constant pounding it

was receiving from the influence peddlers who either had been flattered, bought, or were just plain on contract by BCCI.

Senator HELMS. I noticed you were nodding your head.

Mr. BLUM. I should say that the way I described—

Senator KERRY. May I just say, before you answer the question, let me just ask you this, has Noriega been indicted for money laundering?

Mr. BLUM. As far as I know that is not one of the counts.

Mr. VON RAAB. They didn't get much out of this agreement with respect to BCCI, and so that was a—

Senator HELMS. I do not know why I am laughing, it is a tragedy.

Mr. BLUM. The description I would give of what happened was high price anesthesia. What happened was, everybody was hired and we know understand the bill for the legal defense of the *Tampa* case, which included a guilty plea by the bank to all but one count and convictions for all of the individual defendants totalled \$35 million.

Senator KERRY. Mr. Blum, with respect to those five defendants, is it your understanding—do you know, not your understanding, but do you know whether or not their legal bills were paid for by the bank?

Mr. BLUM. All of the individual defendants' legal bills were paid for by the bank.

Senator KERRY. So the corporate entity got away and the five individuals had \$35 million worth of legal bills paid for by the bank.

Mr. BLUM. Absolutely.

Senator KERRY. Were there some condos involved or something?

Mr. BLUM. Well, now what happened was the individual defendants never spent much time in jail prior to their conviction. The bank arranged to have them live in a condominium in Tampa which were procured by the bank and they were under guard by local police in Tampa who were off-duty policemen.

And that kept them out of the prison culture where they would have quickly come to understand that the only real out for a guy in the position they were in is a plea bargain, and as a result, it is my understanding, and I have heard this from a number of people connected with the case, although I cannot say it is firsthand knowledge, that there was never a serious effort to plea bargain the individual defendants.

I do not personally buy the *Noriega* case theory. The *Noriega* case theory to me is one that does not hold up, because after all you had the bank. You had the records, but moreover, we, this committee, told all the people involved about General Noriega and who his banker was in March 1988, and no one followed up on that information.

I find it very hard to figure out why they are disinterested in 1988, in the spring, but so interested in January 1990 that they give everything else away with respect to the bank.

Senator KERRY. Senator Pell. Let me say first, there is a vote on. I understand we have back-to-back votes. We have another witness from the Federal Reserve and I have the Banking Committee markup. So we are running into problems. But, Senator Pell.

The CHAIRMAN. Thank you very much, Mr. Chairman. I appreciate tremendously the kind remarks you made during your opening statement.

And as you said, I was reluctant at first to authorize the investigation that you requested early in 1987. I was uncomfortable at that time with the idea of departing from the committee's traditional role of overseeing foreign policy, getting into investigations of criminal activities which were properly under the purview of other committees.

I was persuaded though that the foreign policy implications were so compelling that we approved the investigation, and provided substantial staff and resources.

I congratulate you for your hard work in unearthing activities that are troubling to all of us, and hopefully this hearing and ones to follow will help to achieve that goal and I look forward to being of any help that I can as you move into this cesspool and trying to clean it up.

Senator KERRY. Mr. Chairman, I really appreciate that. I want to thank you and Gerry Christianson. I know you have taken some flack on occasion for some of the salesmanship that Jack Blum referred to in the city, and I appreciate the fact that you have allowed this committee to do this. Senator Jeffords.

Senator JEFFORDS. Thank you.

Mr. Von Raab, I am sorry. I missed your testimony. I just dropped in on this committee, and so I am trying to get into the middle of things.

There is one comment that you made with respect to the plea, that the USDA down there had its hands tied by the agreement and the power brokers in Washington, DC.

I wonder if you would amplify what you meant by that.

Mr. VON RAAB. Well, as part of the agreement they basically agreed not to prosecute the bank or the individuals for anything that was—I am not sure what the exact words were, but anything which the U.S. attorney there already knew about.

And that was a lot. I mean, most of the documents were there. And it is not an unusual agreement, where you really have finished off an investigation and you are trying to tie up loose ends and you are getting some meaningful cooperation.

But it was unbelievable, considering all of the loose ends and possible directions in which this could go to agree to exempt from the prospective scope of any investigation or prosecution all of the information that was available or was known to the U.S. attorney there.

It is once again a tribute to the influence team that was marching up and down the Eastern seaboard helping BCCI keep its neck off the block.

Senator JEFFORDS. Were they just pushing their influence peddling in Washington or did they also—

Mr. VON RAAB. No, there was a team in Tampa as well. They were Washington lawyers, but they were operating there.

Senator JEFFORDS. Do you remember any of the lawyers names that were there?

Mr. VON RAAB. I cannot give you, maybe Mr. Blum knows who were actually down negotiating the plea agreement. But it is all the same crowd.

Mr. BLUM. I think to give you the flavor of how much was given away in that agreement——

Senator KERRY. Let me ask you a question, were any former Justice prosecutors involved in that lawyering team?

Mr. BLUM. I believe there were a number of them. One of them was Larry Barcella for the bank; John Hume for Amjad Awan, but I really don't know the full range of people who were involved.

Mr. VON RAAB. If you were to get BCCI's roladex for its influence peddlers, you would have the blue chip list of Washington influence peddlers.

Senator KERRY. Let me ask you something, sort of getting at that, and I apologize to my colleague.

Senator JEFFORDS. That is all right, follow it up.

Senator KERRY. I hate to say this, but what is unusual about that? I mean, doesn't every big corporation come to Washington and hire the biggest and best and hire people who can get them what they need?

Mr. VON RAAB. I don't know what is unusual about it. I was in my office when a friend of mine from Hill & Knowlton came to me and he said, Willie, he said, BCCI wants to hire Hill & Knowlton and they want me to work on it.

And he said, what should I do? And I said, don't work on it, it is a sleazy operation. Well, the result was, Bob Gray and Frank Maniewicz worked on it. My friend left Hill & Knowlton.

So, it should not happen, and I think that the nature——

Senator KERRY. Let me ask you a further question. I agree with what you said, but, and here is the but, what if others didn't ask you that question or had not sort of asked that and therefore didn't know and along comes a big bank, but they aren't privy to the investigations. They aren't privy to the insider reports. They aren't privy to anything you knew and hadn't had the good fortune to ask you.

So along comes a client and they ask, gee, this is a big client. It is a big bank. It is all over the world. Why shouldn't we represent it? I am just trying to flesh this out a little bit.

Mr. VON RAAB. It happens all the time. It should not happen, and maybe the BCCI case will be the example that will cause someone to change this influence peddling culture, to try to ask some reasonable questions of the integrity of the people that they are going to be representing.

I have no problem with someone representing a company on a policy issue, but this is a criminal matter involving really, really bad conduct.

Senator KERRY. What you are really suggesting is a kind of due diligence standard that needs to be exercised, is that correct?

Mr. VON RAAB. I think so, yes.

Senator KERRY. I am sorry. I thank my colleague.

Senator JEFFORDS. Who was running the showdown in Florida from Justice?

Mr. VON RAAB. The U.S. attorney is a fellow, was a fellow by the name of Bob Genzman, who was new on the scene. He had just

come out of Washington and so he was the titular sort of head of the operation.

Senator JEFFORDS. He wasn't the district attorney.

Mr. VON RAAB. He was the U.S. attorney for the middle district. He was the Federal prosecuting, senior prosecuting attorney for the middle district of Florida. He reported directly, in effect, to the Attorney General through the normal staff procedure.

But as a practical matter, the Customs Service was running the investigation up until the point that the arrest took place and then the U.S. attorneys office more or less took over the lead.

Senator JEFFORDS. Mr. Blum.

Mr. BLUM. Senator, the failure is not limited to the U.S. attorney's office in the middle district.

Senator KERRY. Mr. Blum, let me just interrupt you for a second to say that I am going to go vote. Senator Cranston apparently is going to stay through that and he has some questions and then I will return. Excuse me. I will ask them to hold the vote for you, Senator.

Mr. BLUM. To finish, there are failings as well in the southern district of Florida. The southern district has been aware for at least 14 months, possibly longer, that CenTrust, the very large S&L, \$2 billion down the hole, the president with a yacht as large as a destroyer, an office worthy of the Emir of Kuwait, this was a subsidiary of BCCI, illegally.

That case has been in the hands of the U.S. attorney for the southern district of Florida, there is yet to be an indictment.

Senator CRANSTON [presiding]. Which case is that? Would you repeat that?

Mr. BLUM. That is the case involving CenTrust and the illegal ownership of CenTrust, of which David Paul was president by BCCI. They have known all about this. We are now well over a year and some into it. The Fed was able to put it together. I certainly heard about it and figured it out.

Everyone else who has looked at the records of a perfectly public, private lawsuit has been able to figure out. Where are the prosecutors? I can't understand it. Are there more important cases in the southern district than a \$2 billion S&L fraud tied to this criminal mess? What he is doing?

When in the southern district, again, this smuggling case involving Bilbeisi was put directly to the U.S. attorney in 1989. Nothing was done. And the only way something happened was when IRS on its own pressed the matter and the public record shows that.

Someone should be asking the IRS what they went through to get that case on the table. I would call the IRS agent and say, what were we up against?

Senator JEFFORDS. Your testimony is terribly disturbing from both of you and I have got to run over and vote. I think I am a cosponsor of this amendment, Mr. Chairman. So maybe you can pursue this line. I will be right back.

Senator CRANSTON. Mr. Blum, I want to say first that I admire your courage in taking the risk that you took, knowing that the sort of people you were investigating wouldn't like what you were up to.

Was there any time when you felt that you were under surveillance or that others working with you were under some sort of surveillance?

Mr. BLUM. Well, the most recent period has been the most interesting. I have a telephone which is one of the more interesting set of electronic noises you can find anywhere, and that started roughly when the publicity on this round about BCCI started.

But I don't think that I have been directly under surveillance and I don't want to overstate any of that issue. I have, however, heard of an instance where there may have been an effort to get the book on me, that a private detective may have been hired by BCCI to investigate my personal life, to see if there was anything they could find on me to discredit me. And I have made that information available appropriately.

And I would be happy to share that again with the committee in executive session.

Senator CRANSTON. What is your view or your theory about why so little was done by those who might have done more to investigate and prosecute?

Mr. BLUM. This scandal is an embarrassment to everybody who has anything to do with it. It is like the cesspool overflowing on the front lawn. There is culpability all around. There is culpability by foreign governments, within our own Government.

People know that they dealt with some of the same influence peddlers and fixers. There is a trail here in which almost everyone who touches it, says, my God, this is going to wind up sticking to me. And I think there is a kind of overall sort of distaste for getting into it because they know where all of these different pieces lead.

Now you could talk about some of the pieces: Iran Contra. These people were the original bankers who helped establish the bank accounts for the enterprise. They worked in providing arms in Central America. They were Noriega's banker. This reopens a raft of Iran Contra related questions.

There is the bribery in Guatemala. The generals in Guatemala and the issue of what happened there. Why was a retired senior U.S. military officer working with this crook to sell weapons in Guatemala?

When I look at the range of people and issues and countries involved, I am not at all surprised at the reluctance. Everyone wanted it to go away. The Bank of England desperately looking at the biggest scandal in history. How do you explain yourself as a regulator when you have a bank that for 15 years has cooked the books, totally cooked the books?

To give you the flavor of that, one of the most difficult problems I face and everybody else who has looked at paper in this case has faced, is the paper doesn't mean anything. That is say normally you try to follow a paper trail. You match a document with another document.

You try to figure out the corporate structure. You figure out who was an officer. What these people did was steal the money and invent the paper. What you would do would be anytime there was a hole in the balance sheet, you would invent a depositor, invent a borrower, put the paper in place and hope like hell that nobody

would ask questions as to who they were or where they were or what they borrowed.

And I think that that, the enormity of it is so embarrassing, it's not at all surprising that there have been multiple proposals for packaging all of the bad loans and letting them rule of Abu Dhabi bail them out, anything, get it off my front lawn.

Senator CRANSTON. What is your opinion of the handling of the case by the U.S. attorney in Miami, Mr. Genzman?

Mr. BLUM. I've told him to his face, I think it is worse than abysmal.

Senator CRANSTON. Do you have a view, an answer to that same question about Mr. Genzman?

Mr. VON RAAB. Well, Genzman had a problem. He was new. He was scared. He was inexperienced. He had a red hot case on his hands. He really was nervous about taking any decisions himself, and he was referring all kinds of decisions to the Justice Department.

So I just think that his failed performance was a function of basically a lack of backbone and experience. So apart from that, I think he did a good job.

Senator CRANSTON. Mr. Blum, do you have a further comment?

Mr. BLUM. I have a further comment here. I have some documents which I would like to have made part of the record, a deposition of Adolfo Calero in the lawsuit in Miami which involves this arms dealer, Munther Bilbeise in which the bank is a defendant.

And that lawsuit rather outlines some of the connections in Central America with the bank, and I would ask that this be made part of the record.

Senator CRANSTON. That will be made a part of the record.

Mr. BLUM. Also, the general who was down there helping sell the arms, Gen. James Vought, was deposed in the same case, and I would like to have that deposition made part of the record.

Senator CRANSTON. That will go in the record.

Mr. BLUM. Finally, the letter that was sent by the attorney for Lloyds in this case with a copy to Richard Thornburgh, that went to Dexter Lehtinen and that lays out what ought to be done and the problems here, and the investigation that should have been undertaken by Dexter Lehtinen.

Now the important issue is this, and I tell you it's an important issue for everybody who looks at this case: The records have to be preserved. There are records everywhere. There are records in London. There are records in Miami. There are records at the Fed. There are records, I am sure, in the Middle East and in Pakistan.

People are trying to destroy, hide, and lose those records as we speak; 3 weeks ago there was a large fire in a warehouse in London. My understanding is several firemen were injured fighting it. That was BCCI records.

There are a lot of people who will be embarrassed by those records. I think every effort should be made, both by this committee and by the courts to protect the records that exist from destruction and make sure that the various agencies and committees that investigate don't come and find empty boxes.

I would remind everyone in this room that this committee has already seen what can happen within our own Government. We

were in Miami in the spring of 1988. We were approached by a DEA informant, in fact, Deborah DeMoss of the minority staff was the one who he approached.

And he had a box of BCCI documents he was trying to remove from Panama. He brought them to the American Embassy in Panama City. He sealed them. He came up here independently. He said if he was caught smuggling them out, they would kill him.

He got to Miami and the DEA headquarters. The box had been opened. The documents were missing. We raised it in the hearing. DEA said we have an internal affairs investigation. To my knowledge, the documents were never found, no one was ever prosecuted.

Senator CRANSTON. Can I add on the matter of the documents, the records this committee has subpoenaed, a subpoena is supposed to mean you get what you request, and that we have received as a result of those subpoenas are uniquely fragmentary and very incomplete. That's the sort of response we get from this sort of a bank.

Mr. BLUM. Well, you have to understand that they begin with the proposition of being complete criminals, so the notion of well, we will face contempt. What is contempt when you are up for murder, delivery of weapons, and heroin dealing?

And it really is trivial. That is the least of the crimes you have to worry about, so why bother sweating a mere contempt citation from Congress.

Senator CRANSTON. One more question about U.S. Attorney Genzman, who in Justice would have been supervising his work in this matter?

Mr. BLUM. U.S. attorneys report to the Attorney General.

Senator CRANSTON. What did you mean when you said a bit ago regarding CenTrust? You said the Fed was able to put it together.

Mr. BLUM. Well, the Fed, in its most recent release, has linked the two banks and has made it clear, based on the records in its possession that CenTrust was effectively floated past an audit in Atlanta by the Home Loan Bank Board with money from BCCI and in connivance with key BCCI people.

The Fed has that out as a public document. It has been known for months and months and months and the U.S. attorney is nowhere.

Senator CRANSTON. In your opinion, did the Fed have a similar opportunity to be aware of what was transpiring in connection with the acquisition of First American and Independence Bank in California.

Mr. BLUM. I really am not familiar enough with the situation at the Federal Reserve to tell you what they knew or what they should have known, and what in fact they should have done about it.

I can say this, I have heard that the Fed has its share of extraordinarily interesting documents, and you might want to ask them about an audit they did of First American Bank which I have heard includes information about payoffs in Washington and the lists that they appear to have seen of people who were paid off by the bank and where those lists are and who they have given them to.

Senator CRANSTON. We will most certainly follow that lead. As you know, when pressure began to be put on Panama's General Noriega for his participation in illicit narcotic operations, many of these enterprises moved south and particularly to southern South America.

What can you tell us about this and do you make a connection between this activity and the decision of BCCI and people like Mr. Pharaon to invest in countries like Argentina, Chile, and Uruguay.

Mr. BLUM. I think the Argentine connection, in particular, needs careful examination. Mr. Pharaon moved south as the money opportunities moved south. He has engaged in debt equity swap. He has been involved in a wide range of dealings, financed by BCCI in Argentina and I would argue that that merits careful investigation.

I don't have personal knowledge of it, but I can tell you from the patterns I have seen emerge, that an investigation would be fruitful.

Senator CRANSTON. There was talk a few years ago, back in Argentina, of setting up an offshore banking zone. Do you believe that proposal had anything to do with Mr. Pharaon's presence in Argentina?

Mr. BLUM. The first I heard the idea, believe it or not, of an offshore banking zone was when Robert Vesco tried to persuade Mu'ammarr Qadhafi to open one up. The idea of a place where there was no bank regulation at all has appealed to international crooks and con men for a long time.

I have talked to people from Argentina who maintain that that was a particular project of Mr. Feron's. That he wanted an international bank zone between Paraguay and Argentina and that he would have an opportunity to move in there.

I really don't know more about it than the comments I have heard.

Senator CRANSTON. There have been allegations that Argentina, during its military rule, and Libya under Qadhafi, and Pakistan used BCCI in their efforts to construct a nuclear device. Do you have any information on that?

Mr. BLUM. I don't, but again, the people involved in BCCI who I have talked to, have suggested that that was probably the case. They don't have firsthand knowledge. What has to happen is this has to be probed through. We have to get those bank people. They have to be put under oath and they have to be given the opportunity to tell the story.

I think we are going to find out an awful lot. Look, I was told in one meeting about BCCI helping finance and ship scud missiles from North Korea to Syria; assist in the movement of Chinese silk-worm missiles from China to the Middle East; handle the financing and the payoffs involved in the purchase of Chinese armaments in many parts of the world.

I found it extraordinary that the Government of China, and apparently it had to have been the Government of China, intervened to block the closing the Hong Kong branch of BCCI.

Mind you, the Bank of England close it one day and BCCI Hong Kong waited another several days. And I can't help but wonder if that was not to give certain people the chance to get their money out of the bank.

Senator CRANSTON. I mentioned a bank in California that was involved with BCCI and just for the record, I would like to note that California and Florida and the District of Columbia, are not the only States that have banks of a BCCI connection. Other States where we have discovered that sort of a connection include Tennessee, Maryland, Virginia, New York, and Georgia.

This case seems to have far-reaching foreign policy and defense implications, as well as financial and drug and criminal aspects.

Have you seen any evidence that pressure has been brought to bear by the State Department in connection with any of these activities?

Mr. BLUM. Yes, Senator, I know of one instance in which an agent tried to get permission to travel to a foreign country to interview people about Mr. Feron, and the State Department refused him permission to go. The State Department gets a final signoff on the travel of law enforcement people to foreign countries.

There is a second thing which I found utterly astonishing, serendipitously, when I left the committee in March 1989, I was invited by the U.S. Information Agency to travel to Thailand and Pakistan to talk about narcotics law enforcement issues.

When I got to Pakistan I found the Ambassador was rather upset with the idea of my coming because he figured out that I was associated with the BCCI matter. My visit then planned to Islamabad was quickly canceled and I was advised not to talk about BCCI while in country.

Senator CRANSTON. Advised by whom?

Mr. BLUM. By the USIA people, and I believe there were a series of unclassified cables that lay that out, but more astonishingly, I talked in country to State Department people who said, oh, yes, we know all about the linkages between the government and the bank and all kinds of things, and it was clear that the State Department in Pakistan was way ahead of the Justice Department in Tampa.

I would guess that there is a need for closer coordination between the two.

Senator CRANSTON. There seems to be a need for a lot more coordination on a lot of fronts.

Do you recall at any time during the summer of 1988 receiving a phone call from the Ambassador of Nigeria?

Mr. BLUM. I did.

Senator CRANSTON. Could you describe that conversation?

Mr. BLUM. He said my President had asked me to call, what can you tell me about BCCI? It is rather astonishing when you are a member of the Senate staff and an Ambassador of a country calls you by name and says, the President of his country called him to call you.

I have never met the President of Nigeria.

Senator CRANSTON. Did you, during the same time, receive a phone call from President Seaga of Jamaica?

Mr. BLUM. We had a hearing, and that was another time in which BCCI was mentioned, in which one of our witnesses testified that there had been a lot of money laundering through Grand Cayman. His name was Lee Ritch, and one of the things he said was that high officials in Jamaica, particularly Prime Minister

Seaga, then Prime Minister Seaga, had done it through Grand Cayman.

I received an astonishing telephone call from the Prime Minister himself lambasting me for allowing this guy to make a remark he made absolutely off the cuff. I think it was to an open-ended question from Senator Kerry.

I think now we discover that Jamaica had central bank deposits at BCCI. The Jamaica state oil company, JamOil banked with BCCI and a series of people closely connected with Jamaica have been BCCI's good customers in Boca Raton.

I think that bears further investigation and discussion.

Senator CRANSTON. Apparently, the Government of Jamaica had connections with BCCI too, is that correct?

Mr. BLUM. That would be the central bank deposits, yes.

Senator CRANSTON. You mentioned that a faction of the Afghanistan guerrillas, the Majahadeen were involved in heroin trafficking. Could you tell us which of the factions were?

Mr. BLUM. Again, this is from people who are involved in it, but I don't have firsthand knowledge. It is the faction controlled by Hecmonti Ar, which is the faction we have supported. There has been some reporting on that. I think there should be a lot more.

Senator CRANSTON. Can you tell us anything you know about BCCI's relationship, if there is one, to narcotics trafficking next door to Afghanistan—in Pakistan and in China?

Mr. BLUM. It is very hard to say except that the people I talked to at the bank, again, one who was a participant in the black unit, said the branch networks in China were established to service the needs of people who were smuggling heroin out of southern China. BCCI was one of the very few private banks operating in southern China.

As far as the relationships in Pakistan, people have said that that is the core of the matter, and that we should be looking, at an investigative matter, about the links between the bank, the Pakistani Government and the Pakistani military, and particularly the links with the money we have expended in support of the war in Afghanistan, through that military.

Senator CRANSTON. Do you have any indications that the late military strongman, dictator Zia, tolerated or benefited in any way from these activities?

Mr. BLUM. I have been told that Zia and Mr. Abedi were very close friends, to the point where when he had a severe coronary, it is said that Zia left a State dinner to be at his bedside. Beyond that I can't offer you anything.

Senator CRANSTON. Given the revelations that were made yesterday by Senator Kerry concerning CIA knowledge of BCCI activities, and looking in retrospect, what do you think was the relationship between BCCI and U.S. Government agencies, including the CIA and any others?

Mr. BLUM. Senator, I am very terribly reluctant to speculate about who and which and how. I know that there are many people, particularly at the CIA, who thought very badly of this organization.

Whether there were other intelligence people who were involved in it is very hard to sort out, however, we can say that there are

links back to what appear to have been the old network that was being run out of the NSC, and whether that continued, whether there is information in this bank that that network continued, I can't answer. But I think that is a matter for serious inquiry.

Senator CRANSTON. Thank you very much for your responses.

Mr. BLUM. I should add one thing on the nuclear weapons issue you asked me about. The man involved with the bank that is now being sued in Miami, Bilbeisi, was in fact involved in an attempt to sell enriched uranium to South Africa, from South Africa, and that was supposed to go into a Middle East country, and there are documents to that effect in the case in Florida.

Now whether the bank was involved in it, I can't say, but Bilbeisi's brother was the branch manager in Jordan and Bilbeisi was the reason for their operation in Boca Raton, and he was at the center of whole range of business that the bank was involved in.

Senator CRANSTON. Was that supposedly going to a Middle East country, en route to South Africa?

Mr. BLUM. No, it was from South Africa to a Middle East country.

Senator CRANSTON. Did the Hong Kong and Shanghai Bank have a relationship with BCCI, as far as you know?

Mr. BLUM. I really can't speak to that. I haven't seen the documents.

Senator CRANSTON. I want to get back to you with one question a bit later, after I—a joint question for you and Mr. Von Raab, and Mr. Von Raab, I want to compliment you too on your perseverance and your diligence and the fine record you have of trying to get to the bottom of things, and working so hard on fronts like this.

There have been allegations that Argentina, during its military rule, and Libya under Qadhafi, and Pakistan—this is a question I put also to Mr. Blum—used BCCI in their efforts to construct a nuclear device.

Obviously, given the fact that the administration is now unable to certify that Pakistan does not have a nuclear device, this charge is very, very grave. Do you have any information on this?

Mr. VON RAAB. No, I don't have any information on it.

Senator CRANSTON. In 1983 a Dutch court convicted Dr. Abdul Quadir Khan, the chief of Pakistan's nuclear program, on charges of stealing blueprints for a uranium enrichment factory.

A similar plant was then built in Kahuta in Pakistan. According to the British newspaper, the Guardian, Khan's lawyer, a former Pakistani justice minister, was paid by the bank. Do you know anything about that case?

Mr. VON RAAB. No, I don't.

Mr. BLUM. I don't either.

Senator CRANSTON. If you do at any point, please say so. In 1984, Nazir Vaid, and two other Pakistanis were indicted in Houston with attempting to buy and ship to Pakistan high speed switches, instruments that could be used to trigger nuclear weapons.

According to the Guardian, the trio offered to pay in BCCI supplied gold. Do you know anything about that?

Mr. VON RAAB. That would have been a Customs case. I don't recall from the time when I was there and the case was being conducted, that BCCI came up in that, but in fairness, BCCI was not

quite the household word that it is today and therefore, it may or may not have.

And I think the best way to look at that would be to ask the present Customs administration to review that file and see whether it came up. I am sure if it did it is still in the file.

Senator CRANSTON. I would like to ask about just two more cases. In 1987, two Americans, Rona and Arnold Mandel were, together with a Hong Kong businessman named Leung Yiu Hung, indicated by the U.S. attorney in Sacramento, CA, on charges of illegally exporting to Pakistan nearly \$1 billion worth of oscilloscopes and computer equipment for Pakistan's nuclear program.

It's reported that 15 shipments were made between July 1982 and August 1983 through Mr. Leung's Fortune company in Hong Kong to a Pakistani company called Aftab Bros. Do you have any evidence of BCCI's involvement in that transaction?

Mr. VON RAAB. I don't have any evidence of their involvement or lack of involvement. I just don't know the answer to that.

Senator CRANSTON. I am told there are court records to that effect.

Finally, a Pakistani born Canadian, Arshad Pervez, was indicated in Philadelphia of conspiring to export to Pakistan restricted specialty steel and metal which can enhance a nuclear explosion. According to court documents, BCCI was involved in financing that particular deal. Is that case familiar to you?

Mr. VON RAAB. The case is, but BCCI's connection, I am not aware of it, but it is quite possible. As Mr. Blum indicated, that was one of the lines of business that they had was basically helping to finance and make easier deals like that.

Mr. BLUM. Senator, the problem that we are all having in dealing with this bank is that, go back to the first proposition: It had 3,000 criminal customers and every one of those 3,000 criminal customers is a page 1 story.

So if you pick up any one of those accounts you could find financing from nuclear weapons, gun running, narcotics dealing, and you will find all manner and means of crime around the world in the records of this bank.

And what we have to do is kind of find some structural framework in which to look at the various issues raised by the bank, and I think one thing that we have to be absolutely certain of is that the records of these 1,000 criminal clients are maintained and that is the thing that I think is the most important of all.

Senator CRANSTON. One final question. You said earlier, Mr. Blum, that the bank was a factory for falsified letters of credit. I thought that Mr. Von Raab might have information on the shipments to Pakistan because of the issue of false Customs declarations and the question I would really like to put to both of you is whether you know of transactions of this sort of nuclear devices or otherwise that were financed with false letters of credit from BCCI?

Mr. BLUM. I don't. I just can say to you that the letter of credit business they maintained was like none other in the banking world.

Senator CRANSTON. Do you have any information?

Mr. VON RAAB. No.

Senator CRANSTON. It seems to me that it is a logical speculation that that was the case.

Mr. Chairman, that completes what I wanted to do at this point.

Senator KERRY [presiding]. Thank you very much, Senator, and thank you for carrying on during the break. I appreciate it very much.

Senator Jeffords.

Senator JEFFORDS. I will pass.

Senator KERRY. Senator Simon.

Senator SIMON. Mr. Von Raab, you mentioned that you were squeezed out of the information circle in the Florida situation by the Treasury Department.

Mr. VON RAAB. Right.

Senator SIMON. Why were you squeezed out?

Mr. VON RAAB. That's a tough question. They felt that I was overzealous in my drug enforcement efforts and they were uncomfortable with the degree to which I worked with Congress and the press in trying to push some of the cases.

And so in this case, they felt once again that I was pushing the case too hard publicly. I am not suggesting that they were opposed to my pushing the case with agents, but they felt that I was being too cooperative with the news, too cooperative with Congress. I don't agree with them.

I felt and still feel that one way to get good response on a law enforcement case is to be as cooperative as you can with Congress and with the press, because that in turn brings more pressure on that, gets you more agents, makes people more nervous.

And it was basically a fundamental disagreement between Treasury and me as to how the Customs Service should be run. They wanted it run quietly, on a much more low-keyed basis and I felt that drug enforcement had to be run at the highest energy level. We split there, and one of the areas in which we had a disagreement was on the BCCI case.

Senator SIMON. Mr. Blum, would you agree with that assessment?

Mr. BLUM. I really don't know what happened. I know that the public zeal for drug law enforcement tapered off considerably as we moved into the new administration, and the issue began to get a much lower profile attention.

I think what happened may have been associated with it, but I really don't know what happened inside the Treasury Department. I have heard that the battalion of lawyers involved went to great lengths to isolate people who were very hot on this case. I simply don't know whether they got to anybody at Treasury.

Senator SIMON. Mr. Von Raab, do you know who at Treasury made the decision to keep you out of the information circle?

Mr. VON RAAB. No, but it would have—I mean, I reported to the Secretary of the Treasury, so it certainly wasn't some GS-9. It was certainly, at least him or his deputy.

Senator SIMON. It had to be at the very highest level?

Mr. VON RAAB. Yes.

Senator SIMON. And who was Secretary of Treasury at the time?

Mr. VON RAAB. Brady.

Senator SIMON. Mr. Blum, and I regret, I was over voting when the two African questions came up, one while I was here, South Africa. Was this a South African bank that was involved or one of the branches of BCCI—

Mr. BLUM. What happened was an arms dealer who was connected with the bank, whose brother was a branch bank manager, who was a major bank customer, was involved in an effort to sell the enriched uranium from South Africa to the Middle East, and that is in documents which are in the court in Miami.

Senator SIMON. And was there any South African governmental involvement?

Mr. BLUM. I really can't speak to that. I can only speak to the telexes that this arms dealer had. So what you have to do is look at that and then go back and see whether it married any kind of reality on the other side.

There is one cautionary note I should put forward here. What we have discovered in looking at documents is, sometimes these documents don't mean anything. So for example, inside the bank you will find documents saying so and so borrowed \$400 million.

Well, they didn't. The loan documents in the files were created for the express purpose of creating assets on the books where there were none, and it's that kind of thing that is very, very troubling.

Senator SIMON. I think you are getting a little additional information there. [Pause.]

Mr. BLUM. Yes, one other thing I am reminded of by a friend and colleague is that Bilbeisi sold weapons from Jordan to South Africa and he has a long record as an arms dealer and he was a close colleague of the bank's.

Senator SIMON. And this would have been approximately at what time period?

Mr. BLUM. In the 1970's, 1975, mid-1970's.

Senator SIMON. So it was well before the de Klerk regime?

Mr. BLUM. Right.

Senator SIMON. And my colleague, while I was over voting asked about Nigeria. I chair the African subcommittee, and if you don't mind—

Mr. BLUM. Well, BCCI is the largest private bank in Nigeria. BCCI has more branches than any other bank in Nigeria and BCCI lent the Nigerian Government \$1 billion to get around requirements put on it by the IMF.

There are extraordinarily close relationships at all levels of the Nigerian Government with BCCI. And what I had pointed out was that I had been called when this investigation was going on by the Nigerian Ambassador who had been asked to call by the President to say, what's happening here? What are you guys doing with respect to BCCI?

I don't know that that is probative of what his interest was, but the bank had an enormous set of connections in that country.

Senator SIMON. One of the things, Mr. Chairman, that is involved here, there are those in developing nations who said, our only resource in terms of getting funds for our needs has been BCCI.

Mr. BLUM. Those countries who put their money with BCCI and their trust with BCCI, I think have been looted and now that the

bank is closing, they will see that this was not an assist to the Third World, but rather a looting of the Third World by some very rich people who made themselves all the richer, and in the process of doing that looting, also brought all manner of crime and corruption to their countries.

And I don't think this was any benefit to the Third World at all.

Senator SIMON. No question about it, but what it means is that by our failure to be diligent and do what we should, we have imposed an additional penalty on the poorest of the poor in the world.

Mr. BLUM. Absolutely, and I will point out one other thing, take a country like Argentina, Argentina has more external assets, that is to say, Argentines hold more wealth outside of Argentina than Argentina owes to all of the banks it's borrowed from.

And the story there is that Argentina's economic development has been starved by flight capital. When a bank like this comes along and says, we will help you get your money out, we will move all the money you want by suitcase or otherwise. We will convert the money. They are destroying the opportunity of that country to develop and that is exactly what has gone on in places like Argentina and Peru and all over Latin America.

And we have been here before. The same thing happened with Robert Vesco and IOS and the history of Latin America has been major banking institutions facilitating the movement of capital out of the continent and leaving the continent with the begging bowl and the World Bank and other public institutions which have to make up the difference.

And I think a lot of this has to do with bank regulation and bank policy.

Senator SIMON. And the net result is that people who are desperate, you mentioned Peru for example, massive economic problems there, and those problems have been compounded by our lack of diligence here.

Mr. BLUM. I think that that is very much the issue, and we owe, we owe these countries and ourselves, the obligation of regulating, because they certainly couldn't regulate BCCI.

Senator SIMON. I have no further questions right now, Mr. Chairman.

Senator KERRY. Thank you very much, Senator Simon. Senator Jeffords.

Senator JEFFORDS. No further question.

Senator KERRY. Senator Cranston.

Senator CRANSTON. What can you tell us about the knowledge or lack thereof of BCCI activities in the Third World countries by the World Bank and IMF officials?

Mr. BLUM. Well, one of the areas that is going to have to be examined carefully is BCCI maintained a huge representative office in Washington. That representative office spent a lot of time dealing with the World Bank.

I am very curious about the nature of those dealings. I don't know what was going on there, but I would certainly like to. I know too that the BCCI people spent a lot of time cultivating the U.N.

Perez de Cuellar was flying around in their airplane when the U.N. couldn't afford to transport him in appropriate style, it was

the BCCI jet that carried him around. The U.N. lost money in BCCI.

They obviously got very close to the major international organizations and institutions, and the question is, to what end and for what purpose?

Senator CRANSTON. Let me finally put this question to both of you. The premise first, it is bad enough that we have this corruption and criminality in financial circles in our country and elsewhere. It is bad enough that many innocent individuals have lost their fortunes or a significant part of their fortunes by making ill-advised deposits in this bank.

It is worse that poverty in the Third World countries which can contribute to world unrest and grave dangers has been aggravated, not reduced, by the activities of this bank. It is still worse that one of the worst plagues of the human race right now, narcotics, has been served to spread by this bank; and finally, it seems to me that it is worst of all that the grave threat of nuclear weapon use has been enhanced by BCCI's involvement and transference of nuclear technology from one place to another and one country to another.

What advice can the two of you give us as to what policy and regulatory steps we should try to institute to reduce, if not abolish, the danger that this sort of thing can happen again?

Mr. BLUM. I would start off by saying that we are now confronted with an extraordinarily serious question, and that is, can the system cleanse itself? Will there be the will to follow these trails to ground? Will there be the resources?

Will the various prosecutors and agencies of Government in fact cleanse themselves and not be so embarrassed by past errors that they find it difficult to really do the mop up and the clean up?

I think that is the first question. The second one is we can't go to sleep at the switch. You can't tell the regulators, look, this is business, we are not going to look at it. You can't walk away.

Banking is the kind of business which is almost like a religion, you believe in money. You believe in banks. You believe in the way it works, and when someone comes along and perverts the entire system, the only protection you have is government and regulation.

And I must say that this country now has been given the opportunity to learn that lesson, painfully, over a long period of time. We have had S&L's, commercial banks, insurance companies, and now this which just for ugliness surpasses everything, not dollars, but for sheer ugliness surpasses anything else we have seen.

You can't not mind that store.

Senator CRANSTON. Mr. Von Raab?

Mr. VON RAAB. Well, there are two other points that strike me. One is that regardless of the slowness of law enforcement in responding, it is quite clear that they didn't have a mechanism or anything else with which to deal with this.

I mean, we have basically relied on the press, Congress, everyone else to develop information, and yet, the Government itself, you would think, could start to pull together some of that information.

I, in a small way, tried to establish this very minimal international money-laundering team which we called Operation C-Chase, and the Treasury Department began to fumble with the issue of a central repository for collection of data, passage of data back and

forth, and communication among those agencies that have responsibility for dealing with international financial enterprises.

Someone has to breath some life into that because the problem with international financial transactions is more and more significant with respect to any activities, criminal activities, whether they be the bilking of Nigeria's treasury or whether they be arms deals from one country to the other.

And our executive branch doesn't have any legitimate cross-departmental coordinating effort. I think Treasury is on the right line, maybe that is the right place to put it, but someone has got to try to pull together a cooperative effort, collect the data. And this—I don't mean it is expensive, I think it is more a matter of leadership on the part of some cabinet secretary to pull this together.

Senator KERRY. Well, is FinCen not envisioned as that entity?

Mr. VON RAAB. It is supposed to be, but all it has done so far is rent some space and it hasn't gotten the cooperation of anything outside the Treasury Department. It has not received any leadership that I have seen from anyone other than the people that work directly in it.

So I think that should be looked at as to why we don't have something that could at least pull some of this that you are trying to pull together—I mean, it's very nice that you are doing it, but really it should be the executive branch.

And then second, I just think it's a real problem in Washington, and that is foreign influence being brought to bear on the executive branch, whether it's a matter of tariff rates on trucks coming into the United States or whether it is a matter of a foreign financial enterprise being protected by hiring lots of important people, that just shouldn't happen.

We should be able to take care of our own affairs without having hired guns, paid enormous sums by people from outside the United States who desire to bilk or defraud or in some way, to pull the wool over our eyes.

And I don't know how you do that. I don't know if you do that by—

Senator KERRY. Let me ask you a question on that, if I could interject. I mean, the marketplace, I am coming from a strange place, but the marketplace is the marketplace and people have the right to push their ideas and hire people to push their ideas and it has always been a reality.

Is that the problem, per se? Is it the problem that those who are there to serve as the watchdogs, those who are there to regulate, those who are there, are not doing that part of the job?

Mr. VON RAAB. The problem is that in too many case those who are regulated are afraid of the influence that the people who are attempting to change their minds have. I mean, if Bob Gray or Frank Mankiewicz goes to somebody and talks about something, they realize that they are going to be at dinner the next night at the White House.

Or if Clark Clifford goes to see somebody, he realizes that at the next important Democratic meeting, Clark Clifford will be there and he is afraid of what is going to happen. And I don't know how you do it. I hesitate to say that you should prohibit it.

But someone should give a strong talking to the men and women in Washington who we look up to but who are doing nothing but selling their reputations to foreigners who want to make a quick buck.

Senator KERRY. Senator Simon. I am sorry, Senator Cranston.

Senator CRANSTON. I would just like to thank you both, you are two remarkable Americans.

Senator SIMON. I join in that sentiment.

But let me ask you this, you said we need a watchdog. Ultimately the watchdog on law enforcement in this country is the Justice Department. Do we need some restructuring there? Has the Justice Department done an adequate job in this deal?

Mr. VON RAAB. I didn't say we needed a new watchdog. Senator Kerry said we needed a new watchdog.

Senator SIMON. Someone did, all right.

Mr. VON RAAB. I don't think the fundamental structure is wrong. I just think that somehow the concept of public service for its own good has got to be brought back and we cannot continue to hold people in high regard because they are rich and they are powerful. That in turn converts to influence, and that in turn converts to venal and corrupt activity.

And maybe that is the—that is what's happening in Washington, and if you look at the important names who have assisted BCCI in this, they are all embarrassed, but I wonder if they would do it again.

Senator SIMON. But if it is not a structural change that is needed, what you are saying is clearly, there is a change in will that is needed.

Mr. VON RAAB. That's right.

Senator KERRY. Gentlemen, let me ask you, if you will, we have gone longer than we thought we would. We are going to put, I need to ask you both, Senator Brown does have a few questions.

We would like to tide you over to 2 p.m., if we can, for a brief period of time and then we will do Mr. Mattingly and I think we are going to have to adjust on the question—and Mr. Taylor.

And we will have to adjust on the question of the subsequent portion of the testimony.

Senator SIMON. I think Mr. Blum was going to answer me.

Mr. BLUM. I just had one point I wanted to add to your question about what do we do?

I worked with Senator Kerry, it was his amendment on the issue of drug money laundering and how we were going to get some international agreements that would begin to reign in the money-laundering operations.

And I have watched how the State Department has danced and waffled and woven and failed to deliver up on the necessary agreements that would begin to get a handle on this.

Then the question is: How do you hold them accountable? What do you do when an administration says, hey, that is the law but we don't care, we are not going to do it. Or, we will do it so slowly, it's largely irrelevant.

We have got to find some answer to that. There has got to be better accountability, and I don't know quite what the answer is,

but it's at the heart of the system of checks and balances, and right now, Congress is losing that one.

Congress doesn't have the tools to force accountability and bring people to book when they don't deliver. You can hold a hearing. You can embarrass them for a few minutes, but it has gotten so bad, they don't even come to hearings anymore.

Senator KERRY. Let me just say to both of you that I appreciate your testimony very much. You will be back at 2 p.m., and maybe return on another occasion, depending on developments here.

The committee will be following up, as I said, with Mr. Clifford, Mr. Altman, and others in September. But let me just say one thing, you know, I know, personally that what you have said is difficult.

I guess you sort of cast caution to the wind and it's no fun being a target. And both of you, by being direct and being blunt, are obviously not going to win friends and there are those who are going to try to attack you and attack the process and so forth.

I want to express my appreciation for your bluntness. We need some bluntness around here, and we need people who are willing to tell it like it is and do something about it.

And I think that both of you serve notice to people that individuals actually can make a difference if they are willing to take things on a little bit, and I think you have done that over the course of time.

Mr. Blum, your perseverance and efforts to take this to the district attorney and to stay in touch with us and to keep prodding and pushing have been important, and I think you deserve enormous credit for the courage that you displayed in the course of the investigation, the risks you took on occasion, and I know about those personally from that time.

Mr. Von Raab, I know exactly what happened to you, and I was here on this committee and I was chairman of the Narcotics and I was very much involved in the early effort of the drug war and I helped draft the two drug bills we passed, and I have seen what has happened to that effort.

And you have been willing to suffer the slings and arrows by virtue of your decision to speak up and that is painful, but it is also part of the best of our process, and I just want to express my appreciation to both of you for it.

And thank you for being here for this morning. I look forward to when Senator Brown has some questions that he wants to ask you this afternoon.

[Whereupon, at 1:03 p.m., the subcommittee adjourned, to reconvened at 2 p.m., the same day.]

AFTERNOON SESSION

The subcommittee met, pursuant to notice, at 2:01 p.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Cranston, Kerry, Simon, Wofford, Kassebaum, Brown, and Jeffords.

Senator KERRY. The hearing will come back to order.

We are waiting for Senator Brown who said he had some questions of Mr. Blum and Mr. Von Raab.

What I would like to do prior to the arrival of Senator Brown, if I may, Mr. Blum, is ask you a couple of questions.

I would like you to give us a sense of what you think, No. 1, the foreign policy implications are of this bank. What does this mean in general terms. And second, overall, I tried in my small way at the opening of the hearing to say what I think this means to people. What do you think this means to people? Why should people care about this?

Mr. BLUM. The first and foremost policy message is a straightforward one that we worked on for a number of years which is the narcotics problem. This bank provides a worldwide infrastructure for narcotics dealers. And we're talking about cocaine, heroin, the drugs of choice in different places.

And what this is a support system for crime on the streets in the United States and the death and destruction of a generation of children. In that sense, it's an immediate domestic issue.

In the larger sense it has implications for democracy everywhere because when you have a group of people running around the world corrupting fragile governments in places that are having a hard time, what you get is not democracy, what you get is a kind of Mafia government. And that doesn't do anything for average people. It destroys the faith of people in democratic institutions.

The issues with respect to development, the perversion of international lending schemes to support Third World development, I think is another major foreign policy issue.

And finally, there is an overwhelming domestic policy issue. I can't imagine why the United States of America would allow key people who are connected to the intelligence services of foreign governments to own a major bank in Washington, DC. Banks are notorious places for the collection of intelligence. And when you own a bank you can get to see the bank records of all the depositors. You get to see who's vulnerable. You get to be in a position to put money in the right places. I think that is an aspect of this that hasn't been looked at.

In other words, was this a political influence peddling scheme in Washington by foreign governments? We should know that.

Mr. VON RAAB. Senator, may I just add one point to that?

I know that the Congress has attempted to deal with this issue a number of times and this case may give it a renewed basis for addressing it again. And that is there really is no effective international cooperative mechanism for dealing with international banking crimes. Each country has its own banking regulators. They don't exchange information.

Once a bank transaction has left the shores of one country, whether it be in cash or whether it be by virtue of a wire or something else, that information is effectively lost to the regulators or the law enforcement people of the country from which it went.

And I know that this steps right into the issue of banking as regulated or as managed by one country versus another, different privacy rules, and the fact that banking is central to business.

Banking is also central to crime. And somehow the State Department, the Treasury Department, and the Justice Department have

got to get together in some way and get together with their respective pieces in other countries and work out some schemes in which we have effective law enforcement and regulation of the kind of international transactions that can lead to the creation of the BCCI's of this world.

Senator KERRY. Well, do you not think that the so-called Kerry amendments were an effort to try to force exactly that?

Mr. Von RAAB. I was an internal supporter of the Kerry amendments. That's why I never testified on the Kerry amendments.

I think that there are legitimate concerns about the Kerry amendments, but I think the balance of interest would have to support the Kerry amendments, yes.

Senator KERRY. Does not the change in the marketplace now, the rapid-fire transfer of trillions of dollars, the movement of capital so quickly between countries, the increasing relaxation of the lines that used to be both barriers as well as just demarcation points between countries, all of that is being erased now.

So in terms of international law enforcement efforts, in terms of fighting lawlessness internationally, and the kind of thing we have seen, we have seen whole governments taken over by criminal enterprises or nearly taken over in recent years. Banks and the way in which capital is moved are integral to that.

Mr. Von RAAB. Absolutely.

Senator KERRY. Therefore, it seems to cry out, BCCI seems to say, boy, here is an example of how, if all of you want to maintain the sovereignty of our governments and the sanctity of your laws, you better have a means of cooperating and of having some international standards that people adhere to or you are always going to have somebody out there who can subvert that. Is that accurate?

Mr. Von RAAB. And I watched the fumbling that went on when your amendments were being discussed and the administration was attempting to oppose them. They were desperate to get even a level of cooperation in discussion that they could describe to the Senate. They weren't even coming close to getting a real level of cooperation in a practical sense.

But the other countries were so unwilling to unbend and to open up some of their systems to us that even the preliminary discussions were almost fruitless.

Senator KERRY. We held you over here for Senator Brown. We have the Federal Reserve waiting and a number of other witnesses waiting. And we really need to try to keep things moving.

So, Senator Brown, I will yield to you.

Senator BROWN. Mr. Chairman, thank you. I particularly appreciate the opportunity to chat with these witnesses.

And I might say I think I share with you a shock at the kind of revelations that have come out today.

Mr. Blum, you reported incidences of people at the bank shredding documents that were under subpoena. Can you tell us who it was at the bank that was shredding the documents?

Mr. BLUM. My information, which was provided by one of the people who worked at the Washington office, was that documents had been boxed in Miami, shipped to Washington, and the people had come over from the bank's London office and were systematically shredding them.

I confronted the attorneys for the bank and they said no, no, it couldn't be and assured me that was not the case. On the other hand, I now learned that many documents that we asked for then are suddenly being found piecemeal and haltingly. And it's taken Senator Kerry's staff years of badgering the bank to ecker out what remains of what wasn't shredded.

Senator BROWN. Can you tell us who was it that told you this story?

Mr. BLUM. Yes, it's one of the witnesses whose names are blacked out in those memoranda.

Senator BROWN. So I take it that is available to the committee?

Mr. BLUM. Yes, it is.

Senator BROWN. I take it that means it's available to follow up on?

Mr. BLUM. Absolutely. And it was given to Justice at the time.

Senator BROWN. Why was it that it was blacked out?

Mr. BLUM. It was blacked out because the man involved was not an American, is not living in the United States, and is in a country where this issue is extremely hot. And he has a genuine and well-founded fear for his life.

Senator BROWN. Did you pass this information on to the Justice Department?

Mr. BLUM. Yes.

Senator BROWN. Who was it you told about it?

Mr. BLUM. Well, where do we begin? I worked first with a series of Customs and IRS agents, Steve Cook, Bob Moore, Dave Burris. I talked to the U.S. attorney.

Senator BROWN. Are these all Customs agents?

Mr. BLUM. Burris is IRS. Cook is Customs. Moore is Customs. And I want to say and I think the record should clearly reflect this, I have rarely worked with people of such courage and skill. And I was amazed frankly that some of them would stay on the job, given the stress and the salary level and the things they were being asked to do. I have no fault at all with them.

Senator BROWN. Mr. Chairman, the reason I want those on the record is I would assume one of the things that is going to interest us is to follow this chain where significant evidence is involved.

Mr. BLUM. Then I also dealt with the assistants in the Tampa office. I dealt directly with Mark Jakowski and an assistant by the name of Rubenstein.

Senator BROWN. And they were advised of this destruction of evidence under subpoena?

Mr. BLUM. They were. In fact, if you will recall, there is an affidavit from Burris about the problem with the witness being asked to leave the country. So I would say there was a real understanding. There was an effort to tamper with this investigation.

Senator BROWN. But just to make the record clear, you conveyed that to these two gentlemen in the Tampa office. And as far as you know, they did nothing to follow up?

Mr. BLUM. I have to say too I can't be precise as to whether the shredding incident by itself was, but certainly problems with the documents were.

I just don't recall at this point precisely what I told them. But they knew it was a serious problem with the investigation.

Senator BROWN. What about the two witnesses that were debriefed, I believe you said in 1988? You mentioned that both Customs and IRS officials had received that information.

Mr. BLUM. Yes.

Senator BROWN. Can you tell us who that was?

Mr. BLUM. Well, the two bank people who were debriefed, you have the identity of one of them. Both of them are under—

Senator BROWN. I meant the agents for the IRS.

Mr. BLUM. Oh, the agents? Again, it was the same people who set up the tapes and ran the tapes. And most tapes, by the way, have now been turned over to Robert Morgenthau and I believe are under the—are grand jury material.

Senator BROWN. I meant the names of the agents.

Mr. BLUM. The names of the agents? The same ones. It was the same team.

Senator BROWN. Can you tell us the names of the agents then?

Mr. BLUM. That worked on this? Again, Bobby Moore, Dave Burris, Steve Cook.

Senator BROWN. The Customs agents who held up the plane, to follow up on your source of information, do you recall any names of those people?

Mr. BLUM. No, those were internal affairs. And what they wanted to know was how some documents had gotten into the hands of the network. And these were documents relating to the *Noriega* case, BCCI documents seized in London. And most guys were from an internal affairs unit and I've forgotten their names. I wasn't taking notes. I wanted to get on with my vacation.

Senator BROWN. Sure. You mentioned letters of credit were issued with a 12-point differential, which is as you described, highly unusual.

Mr. BLUM. Right.

Senator BROWN. Can you give us an idea of who that was reported to?

Mr. BLUM. That was material that was turned over to the U.S. attorney in the southern district of Florida by the attorneys for Lloyd's of London in the *Bilbeisi* coffee smuggling case.

What makes this significant is there is a lot of smuggling that goes on. And that smuggling, to get away with it, you need to paper your shipments so that people can't understand what's going on. If this place was churning out as many letters of credit as the records in that case suggest, this was a factory for assisting smugglers and assisting people who wanted to misvalue their goods and come in and show Customs, hey, look, this is what we paid for. Don't bother us and try to collect extra tariffs.

And I'm sure Mr. Von Raab can tell you how significant and dangerous that kind of problem would be.

Senator BROWN. As far as you know, this particular practice was never prosecuted?

Mr. BLUM. It wasn't. Indeed, Dexter Lehtinen, the U.S. attorney for the southern district never followed up on the materials that were given to him.

Senator KERRY. To your knowledge.

Mr. BLUM. To my knowledge.

Senator BROWN. Sure.

Mr. BLUM. Now I would say that IRS on its own came in and went after one of the parties to the smuggling transaction. But the other part of it, the letter of credit part of it that was brought to the U.S. attorney's attention was never followed up on. And I believe the statute of limitations may have, by now, run on some of that.

Senator BROWN. In this process of reviewing, which is really an indepth process that you have been through, were there reports that resulted, that had recommendations with regard to legislation that might be helpful in this?

Mr. BLUM. Well, I didn't at that time generate reports other than help draft a committee report which was issued that had significant legislative recommendations and policy recommendations. And that report, of course, is a committee document. And I am sure it bears rereading because I think it will hold up in light of what's being disclosed as being a not bad piece of work.

Senator BROWN. I cannot recall if it was you or Mr. Von Raab who talked about Third World debts and the potential scam in that area.

Mr. BLUM. I did.

Senator BROWN. Can you give us specifics with regard to countries?

Mr. BLUM. I'm reluctant to do that because what I've heard there is not of my direct knowledge. And I think it needs to be fleshed out more.

The country that has been mentioned to me is in Latin America. I don't want to go beyond that. I would be happy to do it in a closed session. But I think it would create unnecessary further turmoil. And at this point to name it publicly and now have a hard back of material would be wrong.

Senator BROWN. I would appreciate that and I am sure we all would appreciate that information in closed session.

Can you give us the names of the people at Justice that you had passed this information on to? At least my recollection is that you mentioned them.

Mr. BLUM. I will say again that the people I've named are the ones who I dealt with.

I think the question of Third World debt is not one that I've discussed with Justice. That's come to my attention more recently from other people. And frankly, Justice certainly hasn't sought me out. I've been available at all times and I've offered to help.

Senator BROWN. I would appreciate your evaluation of whether or not you think a coverup was involved here, either by Justice or the Customs Service or the Internal Revenue Service.

Mr. BLUM. That's a very difficult question to answer, to make a judgment on. It's something that really has to be asked, though. And it has to be probed through. Without going into the internal processes of the Department of Justice, you can't really answer it.

But I've got to tell you these cases should have been prosecuted. Somebody, given 1984 a man walks into IRS and he says I'm dragging sacks of money around Miami. He gives them documents. He supports it. That man's name was Azziz Ruman.

In 1986 there's a money laundering case in Chicago, a Miami BCCI banker is convicted. Nobody links it up with the earlier report.

In 1987 you have the *Tampa* case and you get that plea bargain, that God-awful plea bargain. You can go right down this list of warning flags and signals.

And if you want to go through the banking end of it, the number of warning flags and signals of the ownership of First American, on the ownership of National Bank of Georgia, this case has been virtually dancing in public and nobody's bothered to go track it down or see it through to the end.

Senator BROWN. On Azziz, Azziz Ruman, I think you mentioned, can you tell me when that information was made available and to who?

Mr. BLUM. Well, precisely, we had a deposition. We deposed him. The information was given by him to the Internal Revenue Service. And all of that material including a receipt for the data he delivered from IRS is in a transfer to this committee.

Senator BROWN. Well that should give us the specifics we need to follow up.

Mr. Von RAAB. Senator, if I might just respond to your question just to tell you my exposure to Customs agents today, obviously, is much different from what it was. But I still know a lot of them. I have never heard any of them suggest that there was a coverup. And they typically would. If they saw it, they would comment and bridle, as it were.

But a lot of them have suggested there was just no interest in the case and just a complete sort of going to sleep on the part of the higher level officials from whom they take their signals. I mean, whatever commitment agents have, they take their signals from the people for whom they work. And there was virtually no interest or encouragement that came from that level, which implies to me that there was a sort of lethargy, a feeling good about things that just shouldn't have been there.

It's obviously not conclusive, but I have never been told by an agent that he or she felt that someone somewhere was stopping something. I think it was a question of not encouraging this thing.

Senator BROWN. But in light of some of the extremely inflammatory—

Mr. Von RAAB. Oh, I agree.

Senator BROWN [continuing]. Of what I think is the inflammatory nature of some of this, are not these the kind of revelations that would generate their own followup? I mean, you would almost have to take action to stop. I do not mean to lead you to a conclusion.

Mr. Von RAAB. No, I understand what you're saying.

Senator BROWN. But I think the question asks itself.

Mr. Von RAAB. But I think there is a difference between a cover-up and getting an agency to move forward on something. Agents are necessarily looking at specifics. And agents, unless they feel there is support at higher levels, are less likely to begin a broad-ranging investigation.

I mean, the result of my problems with the Treasury Department, my being taken out of BCCI, I can assure you caused the

Custom agents in Tampa immediately to limit their scope because they realized—and it's not because someone told them to do that—but what they realized was that no longer was the fellow in charge going to protect them if they spent a few extra days chasing down something that didn't work or if they got in trouble because they were pushing their own jurisdictional authority somewhere. They knew that was over.

And so what they did is they dropped back and did exactly what they were told when they came to the office. And that's a big difference.

Senator KERRY. Would my colleague yield for one question?

Senator BROWN. Yes.

Senator KERRY. Did any of the agents while you were there reduce to writing any of their frustration in any memos?

Mr. Von RAAB. Not that I saw. And I'm not saying that they didn't do it and it went somewhere or I didn't do it. I didn't receive that.

Senator BROWN. One last question for my part.

I wonder if you all could summarize for me the crimes or at least indications of crimes that could have been prosecuted that were not prosecuted because of the plea bargain agreement.

Mr. BLUM. I would start out by saying you had almost 2 tons of documents seized from a bank in Miami, Boca Raton, and Tampa and virtually all of its business was in some manner or other, criminal. That suggests to me that there are an awful lot of crimes in that stack. And that somebody should have been over them very, very carefully and been fishing for that and saying we're going to move forward.

But the most significant crimes on which the ball was dropped all together are misrepresentations to the Fed, misstatements on audit papers delivered to regulatory authorities everywhere, falsification of all of the bank's books, aiding and abetting a variety of smuggling schemes, which would make them co-conspirators. And then I think a wide array of other pieces of business, including bribery and other forms of corruption. All of that was on the table.

We are beginning to see how much there was. I just hope people will insist that you follow through and get to the bottom of all of that criminal activity.

Senator BROWN. Was there evidence of other money laundering schemes other than the what that—

Mr. BLUM. You bet. You bet everything that you touch with this bank. It's like every time you turn over a rock, all of these things start scurrying around. It's like turning the lights on in a roach-filled kitchen. [Laughter.]

Everywhere. And I'll give you an example. We began to look at the papers that Azziz Ruman gave us. And this is early on. and there was a very peculiar thing, a \$20 million deposit for the North Miami General Hospital. Well, that was in the Bahamas branch of BCCI and it was paying a point less interest than the going rate. That ought to be a significant clue that something is very wrong.

If you backtrack through the history of the North Miami Hospital, you found out that it was sold by some people. It was a charity and they sold out to a Texas corporation. The rules are that when a charity sells its assets, it has to give the money to another char-

ity. And here is the money sitting in the BCCI Bahamas account, paying less than market interest. Was there a crime? You bet there probably was.

Mr. Von RAAB. To give you an idea, even at the time of the arrests in October 1988, there was unhappiness among the Customs Service at the kinds of charges that were brought at that time because Customs felt that we could have charged people higher in the bank and we could have made stronger charges against the bank itself.

But we were, I won't say assured, but lead to believe that that would follow. Well, let's just get this done. We'll arrest these people, but we don't want to cause that problem now. So in effect, Justice acknowledged that with a small amount more work to fill some technical requirements, those greater charges against more important people and against the bank could be brought.

Well, those were never brought. Those were then, in effect, I won't say prohibited, but probably covered by this plea bargaining agreement. The kinds of charges that Morgenthau brought in New York respecting money laundering are the same as could have been brought in October 1988, October 1989, October 1990, and they weren't.

Mr. BLUM. What's so startling, Senator, is that when this bank was finally seized, my understanding is they showed some \$900 million booked in U.S. accounts. This is 2 years after the plea bargain in Tampa when everyone knew what they were all about. I have to wonder what went on that enabled the bank to go out and tell the world that this was a minor problem limited to a few people in Tampa and that the bank had now cleaned up its operations. That's just an amazing development given what we now know.

Mr. Von RAAB. Hill & Knowlton is a very good public relations firm.

Senator BROWN. How did the plea bargain agreement jeopardize cases outside of, that could be prosecuted outside of that district or did it?

Mr. Von RAAB. I don't know. I don't know the details or the technical side of it.

Mr. BLUM. As I read the language, there is a prohibition on the use of material then known to the U.S. Government.

I understand that the Justice Department argued that that is only limited to what is known to the U.S. attorney in Tampa, FL. As far as I am concerned, that is splitting hairs. That kind of a clause should never have been in a plea agreement and there was no reason for him to accept it in the first place.

Senator BROWN. Thank you, Mr. Chairman.

Senator KERRY. Senator Jeffords?

Senator JEFFORDS. I just have one followup question. If you have answered this, I will look at the record. But you made the statement, I believe, that you did not believe the Noriega excuse. I wonder if you would elaborate on that.

Mr. BLUM. I just think we brought about information about Noriega to the Department early. And the response was rather, we're going after the money launderers. We're going to hold back on subpoenaing the records of his banks accounts and his dealings and all the rest of it.

Then after the arrest and the indictments come January, we get to a point of now we're going to bring these people to trial and we're going to use them to make the case against Noriega. So the odd thing is when there was a chance to get the evidence up front, they didn't take it. And then after the fact, they say the reason they don't go after the bank is because it's going to give them a shot at Noriega. I just can't put the two together.

Mr. Von RAAB. We disagree on this point.

Senator JEFFORDS. Maybe that is why I asked.

Mr. Von RAAB. But there isn't a lot of disagreement.

I am aware the Noriega prosecution originally was very much opposed by DEA. DEA felt that Noriega had cooperated a lot with them. And Jack Blum and Tom Kelly just could not believe that this guy was as bad as everybody said. And they questioned the witnesses and a lot of other things.

So they weren't moving very smartly on that case. And they just were reluctant because they felt this was a fellow that had helped them in many respects. But once the case was basically accepted by the Justice Department, the attorney general got behind it and obviously the President as well, the DEA and everyone else changed their position. And at that point, I think they became desperate to develop a good case against Noriega because they saw all this pressure coming down on them.

Senator KERRY. The only issue is, let me just ask you, and I am not contesting any of this.

Mr. Von RAAB. This is all speculation.

Senator KERRY. I agree it is speculation. But the critical question if all of that is true is, one would have thought there might have been superseding indictments or you would have looked for a money laundering charge or you would have looked to see, and there has not been any of that. Am I correct?

Mr. Von RAAB. Yes, but I think they got conned by BCCI. They didn't get any good information out of BCCI.

But the Noriega prosecution is a whole other issue. I will say this much. It does give you an example of the kind of pressure that can be put on a case if the right people get involved. I mean, they really did jump on the Noriega issue for a while. But I feel and I have some reason to believe from some of the agents that the agents felt that the Justice Department looked at the BCCI cases as a source of evidence.

Senator KERRY. Let me just make a comment there because I think this really underscores the kind of problem that has been discussed here.

I was very much involved in the Noriega effort. This is the committee that first let people know in this country that Noriega was banking in America, money laundering in America, and so forth. And it was our hearings that created a lot of public view of this.

Mr. Von RAAB. I was the first Federal official to get into trouble for being critical about Noriega, too.

Senator KERRY. You were very good about it and Senator Helms was working jointly in an effort to say something ought to be done about this guy.

Frankly, nothing was being done until the press picked up on what General Noriega and the linkages meant. Then you had sort

of a public issue. And then it became a political necessity, not a public obligation. And it was because it was a political necessity that, as former commissioner says, people suddenly jumped on it.

And, indeed, I agree. It was a hell of a good example of what people could do when they put their mind to it in the span of a few months to make something happen. And something did happen.

But unless it seems like there is that fire under it or something is happening, there does not seem to be that spontaneous sense of public obligation. And I think that is what both of our witnesses have been trying to underscore to us today.

I do not want to put words in your mouth.

Mr. Von RAAB. Oh, no, I agree.

Senator KERRY. Senator Simon?

Senator SIMON. I just have one policy question.

Within the next few months Congress is going to be facing the question do we take down the firewalls of Glass-Steagall that prohibit banks from getting into insurance and securities and other things.

What do you, as you reflect on BCCI, would it be wise for Congress to do this? Can we learn something from this operation?

Mr. Von RAAB. I think if you can get the Secretary of the Treasury to come before this committee and convince you that he understood what happened in BCCI, then you should do what he suggests. But if he comes before this committee and draws a blank, then you'll realize that the Treasury Department doesn't know what crime is. They only know what bank loans are.

Mr. BLUM. I think that there is a lesson. And the lesson is not only that it's very dangerous to play around with those firewalls because you've seen that it's difficult enough in straight banking to keep track of what's happening.

Now you see that where they are criminal and they're playing around with the books, it's even more difficult. Just add to the complexity of the institution and the regulators will be totally, totally swamped.

Senator SIMON. Without those firewalls, BCCI could have been in both the insurance business and the securities business.

Mr. Von RAAB. With all due respect, if BCCI wanted to be in those businesses, it would be in those businesses anyway.

Mr. BLUM. I hate to say this. I may have been. It turns out that Ghaith Pharaon owned an insurance company. David Paul owned an insurance company. We may yet find out that despite firewalls, because various people were asleep at the switch, they owned it anyway.

Mr. Von RAAB. Firewalls are only good for people that respect them. And the people involved in BCCI respected nothing.

Senator SIMON. Thank you. Thank you, Mr. Chairman.

Senator KERRY. Thank you very much.

Gentlemen, I want to thank you. As I say we are reserving the right if we may to recall you if such questions arise or if there is followup by the members. There is a lot of material that you have laid out. As I said earlier, we wanted to start with the big picture. You have given us the big picture. This is not a narrow trail, but a very broad one.

But I thought it was appropriate at the start of this hearing to really get a sense of what the record is, where it began, and where we are leading to.

This afternoon we have yet to hear from the Federal Reserve. There are some major implications about the currency and the First American Bank in Washington and so forth.

We are going to recess for about 5 minutes or 10 minutes so that we can vote. We will return as soon as this vote is over.

[A brief recess was taken.]

Senator KERRY. The hearing will come to order please.

Thank you very much.

We have Mr. Virgil Mattingly, General Counsel of the Board of Governors of the Federal Reserve System and Mr. Williams Taylor, Staff Director for the Banking Supervision and Regulation Section of the Board of Governors Federal Reserve System.

Gentlemen, I am very appreciative to you for your patience. This has been a longer day than we anticipated. And I think you can understand why. And I thank you for hanging in there.

We would like to invite your opening statements. I would ask you if you have long, prepared statements if you want to submit them for the record and can summarize, I think it would be very helpful. Your full statements will appear in the record as if read.

I would like to ask both of you if you would also rise so I could swear you in as we are swearing all witnesses.

Do you, Mr. Taylor and Mr. Mattingly, do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. TAYLOR. I do.

Mr. MATTINGLY. I do. Senator KERRY. Who is leading off?

STATEMENT OF MR. VIRGIL MATTINGLY, GENERAL COUNSEL, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM; ACCOMPANIED BY MR. WILLIAM TAYLOR, STAFF DIRECTOR, BANKING SUPERVISION AND REGULATION, FEDERAL RESERVE SYSTEM

Mr. TAYLOR. I am. Thank you, Senator Kerry.

Mr. Mattingly and I have filed a joint statement, which we appreciate your putting in the record in its entirety. I will try to summarize and shorten it.

Senator KERRY. Without objection, your full statement will be placed in as if read in full.

Mr. TAYLOR. Thank you.

Most of the background, I think, has been given on BCCI. And in our previous hearing I think we've talked and discussed with the committee what actions that we had taken leading up to the point of the more recent events.

So what I would really like to do if I could is to skip that part and just go into the part commencing really since the committee's last hearing.

The early 1991 information received by the Bank of England about BCCI and its activities raised fresh questions about the condition and integrity of the institution as a whole. In turn the information prompted the Bank of England to commission Price Waterhouse to undertake a special audit under the provisions of British banking law. The results were——

Senator KERRY. Just a quick question. Has Price Waterhouse done previous audits?

Mr. TAYLOR. Price Waterhouse had done previous audits, yes.

Senator KERRY. Price Waterhouse was the auditor of record in the past?

Mr. TAYLOR. It was the auditor of record as of the date it was appointed on the special, I think it started as the auditor with the statements of yearend 1989.

Senator KERRY. Thank you.

Mr. TAYLOR. The resulting so-called section 41 report was completed and made available to the Bank of England in draft form on June 22, 1991.

The Bank of England's filings in British court indicate that the report disclosed evidence of a complex and massive fraud at BCCI. It was the findings of this report that led to the decision by the authorities in the United Kingdom, Luxembourg, and the Cayman Islands to seize BCCI.

The Federal Reserve was informed by the Bank of England on Friday, June 28, that a near-term seizure of BCCI was in the works. In light of this information the Federal Reserve promptly dispatched senior officials from the Federal Reserve Bank of New York and the Board of Governors to London, myself specifically from the Board of Governors to begin the coordination efforts that led to the seizure of the BCCI offices on July 5.

The primary concern of the Federal Reserve was to take all reasonable responsible steps to insure that the seizure of the BCCI banks did not precipitate serious disruptions to the U.S. banking markets or in the dollar-based payments and clearing systems both here and abroad.

Four factors loomed in the deliberations of the Federal Reserve in this regard. First, while BCCI's banking activities in the United States were small in balance sheet terms, a large global share of its activities, a large share of its global activities were conducted in dollars, which must be settled in banks within the United States.

Second, while the Federal Reserve was reasonably confident that the direct exposure of U.S. banks to BCCI was rather limited, we could not be sure that banking exposures in other banking markets or to other institutions might not cause disruptions in the inter-bank markets, payment flows, and foreign exchange transactions. These could spill over into U.S. markets and to U.S. institutions.

Third, there was also a danger that other banking institutions in the Gulf could come under pressure by virtue of uncertainties created by the BCCI seizure.

And finally, there was a more general concern that the precedent of seizing an institution with operations in 69 countries could by its very nature unsettle banking markets on a global scale.

By midday Wednesday, July 3, it was increasingly clear that the seizure would, in fact, take place on Friday, July 5. The Federal Reserve informed senior officials at the State banking departments in New York and California. As the licensing authorities for the BCCI agencies in New York and Los Angeles, these departments, and not the Federal Reserve, were responsible for initiating actions to close these agencies.

While the exact timing of the seizure of the BCCI banks had not yet been determined, the expectation on July 3 was that it would be timed to coincide with the close of business in New York on July 5. A special unit was established at the Bank of England to coordinate global regulatory actions and to provide a central point of supervisory information and advice.

For several days officials of the Federal Reserve Board and the Federal Reserve Bank in New York were stationed at the Bank of England to assist in that effort. A parallel unit focusing on payments and settlements issues, as well as activities in U.S. banking markets more generally, was established at the New York Federal Reserve Bank. This unit and a counterpart group at the Board here in Washington were staffed 16 hours daily during the first week after the closure.

Throughout the day of July 4 the Federal Reserve maintained close contact with the Bank of England. Based on these discussions, it was still expected that the closure would occur on the close of business in New York, July 5.

On the evening of July 4, however, the Federal Reserve was informed that the timing of the closure was being reconsidered due to legal issues that had arisen in Luxembourg. Over the course of the night of July 4 it became apparent that the goal of effecting the seizure at the close of business at New York time could not be realized.

Rather than have the seizure occur during the business day, it was decided to accelerate the seizure so that it would precede the opening of business in New York. This created a complicated task of getting the personnel and other arrangements in place in the early hours of the morning after the Fourth of July holiday. It was accomplished without major problems or difficulties.¹²¹ Public announcements in Europe and the United States were coordinated at 8:30 a.m. New York time. The States of California and New York acted promptly. Bank examination personnel were fully deployed by 8:30 a.m. and the information clearing centers at the Bank of England and the Federal Reserve remained operational throughout the day of July 5 and over the ensuing weekend.

Because of this cooperative effort among central banks worldwide and because the Federal Reserve and State authorities had already acted to scale back BCCI's limited operations in the United States, the seizure of BCCI was effected on a global scale with virtually no adverse effect on U.S. markets.

As a result of earlier regulatory action on the day, the U.S. offices of BCCI were closed by the States of California and New York. BCCI was funding its business in the United States basically from other non-U.S. BCCI operations, and as a result, had very little exposure to creditors in this country.

Although the exposure of this firm on a balance sheet basis had been over \$1 billion some 2 years before, 18 months before, by the time the business was wound down, the net exposure on the day of closure was less than \$20 million.

Mr. Mattingly will now discuss how BCCI was unable to obtain a substantial legal presence in the United States and decided to secretly control the shares of certain U.S. banks.

I might just add here that what is significant, I think, and something that concerns us, as it did the former witnesses, is the fact that we consciously, consciously from 1978 on, sought to avoid the presence of this company in this country and the Federal Reserve at no time approved any application of BCCI to do anything in this country. It is especially upsetting to us that they would do this illegally. Mr. Mattingly?

Mr. MATTINGLY. Senator Kerry, I, too, am pleased to be here today to appear before this subcommittee.

I won't go over or rehearse the history of the First American matter. That's contained in our earlier testimony.

I'll go right to the Board's investigation and what that has uncovered.

Senator CRANSTON. Could you move the microphone a little bit closer, please?

Senator KERRY. And when you refer to your earlier testimony, what do you mean? The one submitted today.

Mr. MATTINGLY. No. That is the testimony before the Subcommittee on Consumer—

Senator KERRY. Before the Banking Committee, the one where you testified before me in May.

Mr. MATTINGLY. May 23, yes, sir.

Senator KERRY. I think what we will do is make that testimony a part of this record also. Without objection.

Mr. MATTINGLY. It is attached to our longer statement.

Senator Kerry, as you know, on January 4 the Board ordered a formal investigation as to whether BCCI had illegally and secretly acquired control of the First American banks here in Washington in 1982 and whether false or misleading statements were made to the Board by BCCI and others in order to achieve and conceal that secret control.

This investigation, the Board's investigation, built on prior inquiries that the Board had conducted into a possible link between BCCI and First American. These inquiries had gone all the way back to the time of the initial application in 1981.

A very significant development in the Board's inquiries into this matter came in late 1990 when the New York County District Attorney, Mr. Morgenthau, with whom the Federal Reserve had been working, advised that he had received information from an informant that an auditor's report showed BCCI loans to CCAH shareholders.

The Federal Reserve had been attempting for some time to determine whether those loans existed despite having been told repeatedly and as late as 1990 by BCCI that it had not lent to acquire those shares.

The Fed demanded access to the report from BCCI and, after some resistance, we were able to review a copy of that report dated October 3, 1990, in London in early December 1990. The report confirmed the existence, this is the Price Waterhouse report, it confirmed the existence of over \$1 billion in longstanding nonperforming loans by BCCI secured by the shares of CCAH. CCAH is the parent, top-tier holding company, for First American.

Senator KERRY. Did it have a date as to when that transaction was effective?

Mr. MATTINGLY. No, it did not. The report merely listed the fact that there were over \$1 billion in loans going back some years secured by the stock.

That review provided the Federal Reserve with evidence of a violation of the Board's 1981 order which approved CCAH's acquisition of First American on the basis that BCCI would have no role in that acquisition and would not fund the shareholders' acquisition. The Board, thereupon, ordered the formal investigation.

That investigation has gone on for some 7 months now and has uncovered evidence of extensive and secret loan and nominee arrangements between BCCI and its customers. These arrangements were designed to allow BCCI to acquire in the name of these customers the stock of the First American banking organization as well as three other federally insured depository institutions in this country.

These arrangements in many cases, most cases, involve sham loans to the BCCI customers with side agreements, which we have seen, with the customers that the customers would not be required to repay or service the loans and that BCCI at any time it chose could sell the shares and retain the profits. In return for the use of their names, our evidence suggests, that the customers received fees and indemnities.

Most of the CCAH loans were never serviced or repaid except through other loans from BCCI. From the evidence available, it appears that though bookkeeping manipulations of CCAH stock and loans to repay or service loans, BCCI generated hundreds of millions of dollars in fictitious paper profits to cover massive losses in its trading and lending accounts.

As a result of the information acquired in the early stages of our investigation, as soon as we had information about these nominee arrangements, the Board on January 22 made criminal referrals to the Department of Justice and proposed a cease and desist order against BCCI.

As issued in March, the cease and desist order had four principle aims. It required BCCI to divest promptly its CCAH shares according to a plan to be submitted to the Fed. It required termination of transactions between BCCI and the First American banks. It required BCCI to have sufficient liquid assets at its New York agency to cover liabilities in those agencies. And finally, it required termination of BCCI's residual business presence in the United States within 1 year, as quickly as possible, but within 1 year. In other words, the Federal Reserve decided that BCCI should leave this country.

In connection with the investigation, the Board has also taken steps to monitor through the examination process the operations of the First American banks. Events have made the requirement that BCCI divest the CCAH shares under its control more difficult. BCCI had submitted to the Board two proposed divestiture plans. These plans called for a transfer, at our suggestion, of the shares of CCAH held by BCCI to a trustee acceptable to the Federal Reserve. The trustee would have complete control over that stock and would be directed by the trust agreement to negotiate the sale of that stock to a third party acceptable to the Federal Reserve as promptly as possible. The Federal Reserve would have given the trustee a

certain amount of time to negotiate the sale. At the end of that time without a sale, the Federal Reserve could have directed the holding of a public auction on the stock.

Implementation of BCCI's divestiture plans has, however, been delayed by the seizure of BCCI by the regulatory authorities on July 5. After that date, the officers and counsel for BCCI were no longer able to negotiate or effectuate a divestiture of CCAH or the other bank stock that BCCI acquired.

The July 5 seizure does not, however, void the Board's divestiture orders. Those orders remain fully effective and legally binding. The seizure shifts the responsibility and the task of implementing those orders from BCCI to the receivers for BCCI.

Senator KERRY. Let me understand that now for a minute. The receivers for BCCI? Where?

Mr. MATTINGLY. This would be the receiver——

Senator KERRY. Does that take us to London?

Mr. MATTINGLY. It would take us to Mr. Smouha, yes, to London and Luxembourg.

Senator KERRY. So you are now telling us that resolution of First American bank shares lies, not in our hands or our control, but essentially in control in another country?

Mr. MATTINGLY. No, I'm not.

Senator KERRY. That is what I am trying to understand.

Mr. MATTINGLY. The Board has an order outstanding, a divestiture order.

Senator KERRY. The Board has an order outstanding, but the Board cannot get its order implemented. Is that accurate?

Mr. MATTINGLY. We have asked for a plan from the receiver to implement that divestiture order.

Senator KERRY. But you cannot do it until you receive a plan from Luxembourg?

Mr. MATTINGLY. We have asked them for the plan, yes.

Senator KERRY. What would the date be? Do you have an anticipated date?

Mr. MATTINGLY. I have a meeting arranged with them. I have met with them already. I have been in contact with their lawyers.

Senator KERRY. Let me let you finish, and then I will pursue some questions.

Mr. MATTINGLY. We are going to meet again with them next week regarding this point.

The receivers have stated in these meetings with us that they intend to cooperate with the Federal Reserve to achieve a divestiture. Our discussions are continuing. The Board is also exploring other avenues to regularize the ownership of CCAH. We do have an effective order outstanding. And there are certain remedies available to the Board to make sure that that order is enforced and carried out.

The Board's investigation of the BCCI matter is continuing and is the most comprehensive in our experience. As part of the investigation, the Board is proceeding with enforcement actions as the evidence to support those actions is accumulated. Thus, on July 29 the Board assessed a civil money penalty against BCCI of \$200 million. The notice covered the illegal acquisition of First American and two other banks, the National Bank of Georgia and CenTrust

Savings Bank. I should also note that the Board earlier in July issued a notice with regard to BCCI's alleged illegal acquisition of the Independence Bank in California.

The Board has also taken actions to bar permanently nine individuals associated with this from any involvement in U.S. banking. At the request of the U.S. attorney for the District of Columbia, the Board has deferred temporarily the assessment of substantial civil money penalties against the individuals charged pending completion of the U.S. attorney's criminal inquiry.

Senator Kerry, as you know, as a result of the BCCI matter and other recent compliance problems that the Federal Reserve has had with foreign banks, the Board has proposed and recommended legislation to strengthen the supervision and regulation of foreign banks in the United States. Those proposals were introduced in the Senate as Senate bill 1019 by Senator Riegle, Senator Kerry, and Senator Garn and are being considered as we speak by the Senate Banking Committee as part of a comprehensive banking reform proposal.

Senate bill 1019 is intended to help assure that the important banking policies established by the Congress are applied to all bank operations in the United States and that the sizable foreign bank community in this country adheres to legal requirements and operates in a safe and sound manner.

One of the most important of those recommendations is a recommendation that no foreign bank be allowed to open additional offices in this country unless the Federal Reserve is assured that there is home country supervision for that bank. And that recommendation grows directly out of our experience with the BCCI matter.

BCCI at its apex was a holding company. It was also a bank holding company. But it was a holding company and it operated without a supervisor that could ensure consolidated supervision over the organization as a whole. The absence of supervision, of consolidated supervision, was crucial, critical, to BCCI's ability to carry out the manipulation of its books and the concealment of its actual financial condition.

In closing, I wish to point out that the Board's legislative recommendations do not guarantee that BCCI problems will never reoccur. Fraud is hard for any regulator to detect, especially when the transactions are deliberately and intentionally structured to conceal relationships and when the relevant information is maintained outside of the United States.

The Board's proposal is an attempt to address the potential for such illegal activities by creating a bar to U.S. entry by weakly capitalized, poorly managed, and inadequately supervised organizations. Thank you.

[The prepared joint statements of Mr. Taylor and Mr. Mattingly follows:]

PREPARED STATEMENTS OF J. VIRGIL MATTINGLY, JR., AND WILLIAM TAYLOR

We are pleased to appear before this Subcommittee to describe recent developments in the case of Bank of Credit and Commerce International, S.A. and its affiliates (collectively "BCCI"). As has been widely reported, bank regulatory authorities in the United Kingdom, Luxembourg, Grand Cayman, the United States, and sever-

al other countries took action on July 5, 1991, to secure control of the BCCI banks as an initial step toward the liquidation of BCCI. This action was taken in response to evidence of widespread fraudulent conduct by BCCI and its management. More recently, the Federal Reserve assessed a civil money penalty of \$200 million against BCCI for its unlawful acquisition of the stock of U.S. banks and its concealment of this control in regulatory filings. The Federal Reserve has also initiated actions to bar nine individuals associated with BCCI from involvement with U.S. banks. The New York County District Attorney's Office has also secured indictments against BCCI and two of its senior officers.

SUMMARY OF REMARKS

Our remarks today begin with a summary of BCCI's operations, both abroad and in the United States, and a description of the events leading to the seizure of the bank's assets. We will then discuss the effect of BCCI's seizure on two U.S. banking organizations, First American Bankshares of Washington, DC, and Independence Bank, Encino, CA, the shares of which the Board believes are controlled by BCCI. Finally, we will discuss the Board's ongoing enforcement actions and its legislative proposals to strengthen the supervision of foreign banks operating in the United States.

BANK OF CREDIT AND COMMERCE INTERNATIONAL

Structure of BCCI

BCCI was founded in 1972 and until recently operated principally under the leadership and management control of individuals from Pakistan. Initial equity financing of BCCI was provided by Middle Eastern investors and Bank of America. Bank of America's ownership interest in BCCI was sold in 1980. In April 1990, in order to bolster BCCI's sagging financial position, the ruling family and the Government of Abu Dhabi provided additional capital that increased their ownership interest in the shares of BCCI from about 30 percent to 77 percent.

BCCI's operations encompassed subsidiaries, branches and affiliates in 69 countries, principally in developing countries. BCCI, however, was not one of the largest banks in the world. Its total assets of roughly \$20 billion ranked it about 200th in the world. The parent holding company, BCCI Holdings (Luxembourg) S.A., was chartered and headquartered in Luxembourg, and the two largest banking subsidiaries of the company—Bank of Credit and Commerce International S.A. and Bank of Credit and Commerce International (Overseas) Limited—were chartered in Luxembourg and the Cayman Islands, respectively. Although nominally headquartered in Luxembourg, BCCI's global business was operated out of its London offices.

Under Luxembourg law, holding companies are not subject to supervision. Thus, BCCI was able to avoid consolidated home country supervision of its activities. Virtually from BCCI's formation, concerns were raised about a bank operating internationally without a home country regulator.

BCCI's Operations in the United States

BCCI has never been permitted to operate a branch in the United States that accepts deposits from the general public; nor was it permitted to operate or control an insured bank. BCCI at one time maintained state-licensed agencies in New York, San Francisco, Los Angeles, Miami, Tampa, and Boca Raton and representative offices in Washington, DC, and Houston. None of these offices could accept domestic deposits. Because of actions taken by state and federal supervisory authorities as well as BCCI's plans to restructure its operations, four of the six agencies were closed by January 1991, and the remaining two had very substantially reduced their operations. The representative offices were closed by August 1990.

Under a Federal Reserve Order issued earlier this year, BCCI's remaining operations in this country were scaled back and the company was ordered to terminate its activities in the United States within a year. On July 5, 1991, the two remaining state-licensed agencies—in Los Angeles and New York—held combined assets of approximately \$250 million but less than \$20 million in liabilities to unrelated creditors.

BCCI's offices in the United States were licensed and supervised on a regular basis by state authorities. As the residual supervisor of U.S. branches and agencies of foreign banks, the Federal Reserve participated in some state examinations and conducted some examinations of its own. Under the current framework governing foreign bank operations in the United States established in the International Banking Act of 1978, the states are the primary regulators of the branches and agencies they license, and the Federal Reserve is directed to rely on their reports of examina-

tion insofar as possible. As described in the last section of this testimony, the Federal Reserve believes that the time has come to require the same type of federal supervision and examination for foreign bank operations in the United States that applies to U.S. banks.

Supervisory Actions—Money Laundering

In May 1987, a Federal Reserve examination of the Miami office of BCCI identified money laundering activities, and a criminal referral was filed with the Internal Revenue Service, the Federal Bureau of Investigation and the U.S. Attorney in Miami. In October 1988, BCCI and a number of its U.S. employees were indicted for money laundering through BCCI's Tampa, FL, office. The Federal Reserve, with co-operation from state authorities, immediately commenced a coordinated examination of all of BCCI's U.S. offices. The examinations of the New York and Boca Raton offices revealed other money laundering activities, and additional criminal referrals were made in October and November of 1988.

The examinations also revealed that internal controls and lending practices of the BCCI agencies were poor and that remedial action was required. The Federal Reserve issued a cease and desist order against BCCI in June 1989 designed to strengthen the U.S. banking operations of BCCI and enforce compliance with currency reporting requirements.

Post-Indictment Period

The indictment for money laundering in the United States further weakened BCCI's already fragile reputation in the world financial community. Federal Reserve staff was advised that BCCI was experiencing some outflow of deposits in London and was encountering difficulty in finding counterparties for its banking transactions. In addition, BCCI's auditors had raised questions about whether certain loans were collectible, which brought into sharper focus the need for fresh capital. To address these developments, the Government and ruling family of Abu Dhabi in the spring of 1990 provided capital resources of nearly \$400 million, increasing their ownership of BCCI from 30 percent to about 77 percent.

BCCI's problems, however, continued to mount. In October 1990, Price Waterhouse delivered a report to BCCI's board of directors that identified substantial additional problem loans. This report gave rise to renewed discussions between the bank and its principal shareholder and European banking authorities concerning possible approaches to a broad-based restructuring of the bank. These discussions continued into 1991.

By early 1991 information received by the Bank of England about BCCI and its activities raised fresh questions about the financial condition and integrity of the institution as a whole. In turn, this information prompted the Bank of England to commission Price Waterhouse to undertake a special audit under the provisions of British banking law. The resulting so-called section 41 report was completed and made available to the Bank of England on June 22, 1991. The Bank of England's filings in British courts indicate that the report disclosed evidence of a complex and massive fraud at BCCI, including mismanagement, substantial loan and treasury account losses, misappropriation of funds, unrecorded deposits, the creation and manipulation of fictitious accounts to conceal bank losses, and concealment from regulatory authorities of BCCI's true financial position. It was the findings of this report that led to the decision by the authorities in the United Kingdom, Luxembourg and the Cayman Islands to seize BCCI.

The Seizure of BCCI on July 5

On Friday, June 28, the Bank of England informed the Federal Reserve that the findings contained in the Price Waterhouse report made it likely that the authorities in the United Kingdom, Luxembourg and the Cayman Islands would move during the following week to take control of the principal banks in the BCCI group. This information, while still tentative in nature, was provided to the Federal Reserve in part as an outgrowth of the continuing dialogue that had been occurring between the Federal Reserve and the Bank of England regarding the overall investigation into the BCCI affair, but also because it was recognized that the seizure of a global bank operating around the clock in some 69 countries would have to be executed with great care in order to avoid banking disruptions on a national or international scale.

In light of this information, the Federal Reserve promptly dispatched senior officials of the Federal Reserve Bank of New York and the Board of Governors to London to begin the coordination of efforts that led to the seizure of the BCCI banks on July 5, 1991. With respect to that action, the primary concern of the Federal Reserve was to take all reasonable steps to ensure that the seizure of the BCCI banks

did not precipitate serious disruptions in U.S. banking markets or in dollar-based payment and clearing systems here or abroad. Four factors loomed large in the deliberations of the Federal Reserve in this regard:

First, while BCCI's banking activities in the U.S. were very small in balance sheet terms, a large share of its global activities were conducted in dollars, which must be settled with banks in the United States. From the perspective of the Federal Reserve, and with the experience of the Herstatt failure of 1974 very much in mind, this fact made it very important that the announcement of the seizure of the BCCI banks be timed so as not to occur during normal business hours in New York—a judgment that was shared by the Bank of England and others.

Second, while the Federal Reserve was reasonably confident that the direct exposure of U.S. banks to BCCI was limited, we could not be sure—especially in the face of the multiple uncertainties about the underlying condition of BCCI—that banking exposures in other markets or to other institutions might not cause disruptions in interbank markets, payment flows, and foreign exchange transactions that could spill over into U.S. markets and institutions.

Third, there was also the danger that other banking institutions in the Gulf—institutions with no connections with BCCI and several of which have a major presence in London and New York—could come under pressure by virtue of uncertainties created by the BCCI seizure.

Finally, there was the more general concern that the precedent of seizing an institution with operations in some 69 countries could—by its very nature—unsettle banking markets on a global scale.

Over the course of Tuesday, July 2 and Wednesday, July 3, the Federal Reserve briefed the Treasury Department, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and others about the unfolding developments in Europe. The Federal Reserve's efforts took place in confidence in part because of the still uncertain course of events in Europe and in part to ensure that premature disclosure of information did not place some creditors of BCCI-related entities in a preferred position.

By midday Wednesday, July 3, it was increasingly clear that the seizure would, in fact, take place on Friday, July 5. In these circumstances, the Federal Reserve informed senior officials at the state banking departments in New York and California. As the licensing authorities for the BCCI agencies in New York and Los Angeles, the state banking departments—not the Federal Reserve—were responsible for initiating the actions to close those agencies.

While the exact timing of the seizure of the BCCI banks had not yet been determined, the expectation on July 3 was that it would be timed to coincide with the close of business in New York on July 5. A special unit was established at the Bank of England to coordinate global regulatory actions and to provide a central point of supervisory information and advice. For several days, officials from the Federal Reserve Board and the Federal Reserve Bank of New York were stationed at the Bank of England to assist in that effort. A parallel unit, focusing particularly on payment and settlement issues, as well as activities in U.S. banking markets more generally, was established at the New York Federal Reserve Bank. This unit and a counterpart group at the Board here in Washington were staffed 16 hours daily during the first week after the closure.

Throughout the day of July 4, the Federal Reserve maintained close communication with the Bank of England. Based on those discussions, it was still expected that the closure would occur at the close of the business day in New York on July 5. On the evening of July 4, however, the Federal Reserve was informed that the timing of the closure was being reconsidered due to legal issues that had arisen in Luxembourg. Over the course of the night of July 4, it became apparent that the goal of effecting the seizure at the close of business New York time could not be realized. At about 2 a.m., Friday, July 5, the Federal Reserve was informed that the only practical options were to coordinate the seizure either at mid-morning New York time or to accelerate the action so that it would precede the opening of business in New York. The choice to accelerate the process was clear. This created a complicated task of getting the personnel and other arrangements in place in the early hours of the morning after the Fourth of July holiday, but it was accomplished without major problems or difficulties. Public announcements in Europe and the United States were coordinated at 8:30 a.m., New York time, the states of New York and California acted promptly, bank examination personnel were fully deployed by 8:30 a.m., and the information clearing centers at the Bank of England and the Federal Reserve remained operational throughout the day of July 5 and over the ensuing weekend.

Because of this effort involving the close cooperation of authorities in a number of countries and because the Federal Reserve and state authorities had already scaled back BCCI's limited operations in the United States, the seizure of BCCI was effected on a global scale with virtually no adverse affects on U.S. markets and institutions. As a result of earlier regulatory action, on the day the U.S. offices of BCCI were closed by the states of California and New York, BCCI was funding its business in the United States from other non-U.S. BCCI offices and not from U.S. sources. As of July 30, it appears that less than \$20 million of the \$252 million in liabilities on the books of the U.S. offices of BCCI are to third parties.

THE FIRST AMERICAN BANKS AND INDEPENDENCE BANK

As the Chairman of this Subcommittee, Senator Kerry, will recall, we testified on May 23 about BCCI's efforts to gain control of U.S. banks before a subcommittee of the Senate Banking, Housing and Urban Affairs Committee. That testimony, a copy of which is attached and which we will not repeat in detail here, indicated BCCI had used loans and nominee agreements to secretly gain control of the majority of the shares of First American Bankshares in 1982. The testimony also describes continuing efforts of the Federal Reserve to detect and prevent BCCI control of First American's shares, and the violation of explicit commitments that BCCI would have no interest in the First American organization and would not fund the acquisition of First American.

On January 4, 1991, the Board authorized a formal investigation concerning whether BCCI had violated the Bank Holding Company Act by unlawfully gaining control of First American, and whether false or misleading statements were made to the Board by BCCI and others in order to conceal BCCI's control. This investigation built on prior inquiries into a possible First American-BCCI link made by the Federal Reserve in 1989 and 1990.

In late 1990, the New York County District Attorney, with whom the Federal Reserve had been working, advised that he had received information about an auditor's report showing BCCI loans to shareholders of Credit and Commerce American Holdings, N.V. (CCAH), First American's parent. The Federal Reserve had been attempting for some time to determine whether such loans existed, despite having been told by BCCI as late as 1990 that it had not lent to acquire CCAH shares. As a result of the information, the Federal Reserve demanded that BCCI provide access to the auditor's report. After initial reluctance by BCCI's auditors, the Board's staff was able to review a copy of that report in London in early December 1990. The report confirmed the existence of over \$1 billion in nonperforming loans by BCCI secured by shares of CCAH. That review provided the Federal Reserve with substantive evidence of a BCCI-First American link, and the Board thereupon ordered the formal investigation.

That investigation as it progressed over the next several months uncovered evidence of extensive and secret loan and nominee arrangements between BCCI and customers of BCCI designed to allow BCCI to acquire in the name of these customers the stock of the First American banking organization as well as other depository institutions in the United States. These arrangements in many cases involved sham loans to the BCCI customers with side agreements that the customers would not be required to repay or service the loans and that BCCI could sell the shares and retain the profits. In return for their services, the customers received fees and indemnities. These nominee arrangements are described in detail in the Board's civil money penalty and prohibition actions of July 12 and 29, 1991.

Many of these CCAH loans were never serviced or repaid except through other loans from BCCI. From the evidence available, it appears that these arrangements, particularly in later years, enabled BCCI to generate hundreds of millions of dollars in fictitious profits to cover massive losses in its trading and lending accounts.

The Board's Cease and Desist Orders

As a result of information acquired in the early stages of the Board's investigation, the Board on January 22, 1991, made criminal referrals to the Department of Justice and proposed a cease and desist order for BCCI. The cease and desist order, which was joined in by the New York banking authorities and consented to by BCCI on March 4, had four principal components: requiring BCCI to divest promptly its CCAH shares; ending business transactions between BCCI and the First American banks; ensuring that BCCI had sufficient liquid assets to cover liabilities in the U.S. agencies; and terminating BCCI's residual business presence in the United States.

The order required BCCI promptly to divest its interest in CCAH through a plan to be submitted to the Board for its approval. The order, and a similar one against CCAH, also prohibited transactions between BCCI and the First American banks

(other than capital injections into the banks and certain clearing transactions in the ordinary course of business). After entry of the order, the Richmond Reserve Bank informed the First American Bank of New York that its clearing transactions for BCCI should be wound down and terminated before the end of 1991.

The Board's investigation continued after issuance of the March 4 order and discovered further evidence indicating that BCCI also had acted through a nominee, Ghaith Pharaon, to acquire the Independence Bank, Encino, CA, in violation of the Bank Holding Company Act. On May 3, the Board issued a second cease and desist order requiring BCCI to submit to the Board a plan for the divestiture of any shares of Independence Bank within its control. A criminal referral relating to this violation was also filed.

In conjunction with the investigation, the Board has also taken steps to monitor through the examination process the operations of the First American banks, and to determine any relationship with BCCI. Examinations and special reviews were undertaken by the Federal Reserve and other federal and state banking authorities in January 1991. These efforts continue.

Implementation of the Orders

As a result of the orders, transactions between BCCI and the First American banks and Independence Bank have been steadily eliminated. The relationship between BCCI and the First American Bank of New York—with which BCCI had maintained a correspondent relationship—was wound down substantially by July 5.

Events have made the requirement that BCCI divest the shares of CCAH under its control more difficult to achieve. On May 3, BCCI submitted to the Board a proposed divestiture plan for the CCAH shares, and on July 3, BCCI submitted a divestiture plan for the Independence Bank shares. The CCAH plan called for transfer of the shares of CCAH held by BCCI, and possibly shares held by other CCAH shareholders, to a trust administered by an independent trustee acceptable to the Board. The trustee would vote the stock and negotiate its sale within a time frame agreed to by the Board. We found the trust arrangement to be acceptable, but considered the proposal to be deficient because it failed to set forth the timing of the sale—specifically, there were no guarantees that the divestiture would be a prompt one, as required in the Board's order. We therefore rejected BCCI's proposal by letter of May 10, and required BCCI to submit within 10 days a revised plan that addressed this concern.

On May 20, BCCI did submit a revised plan, which also relied on a trust arrangement. Although this new plan did not contain a timetable, it did contain details and conditions that appeared to expedite the sale. A preliminary draft of the trust agreement was submitted by BCCI on June 20.

Implementation of BCCI's proposed divestiture plans has been delayed by the seizure of BCCI by regulatory authorities. After those authorities seized control of BCCI on July 5, the officers and directors of BCCI were no longer able to negotiate or effectuate a divestiture of CCAH or Independence Bank stock on behalf of BCCI.

The July 5 seizure order does not void the Board's divestiture orders, however. The orders remain fully effective and legally binding. The seizure shifts the task of implementing the orders from BCCI to the receivers for BCCI. We have been in contact with the receivers, explaining to them the need to achieve total divestiture as soon as possible, and requesting that they submit promptly a revised divestiture plan. The receivers have indicated a desire to cooperate with the Federal Reserve to achieve divestiture, and our discussions are continuing. The Board is also exploring other avenues to regularize the ownership of CCAH and Independence.

ENFORCEMENT

The Board's investigation of the BCCI matter is continuing and is the most comprehensive in our experience. As part of its investigation, the Board is proceeding with enforcement actions as the evidence to support such actions is accumulated. On July 12, the Board issued a notice of intent to bar from U.S. banking individuals participating in the Independence Bank violation. Those individuals are Agha Hasan Abedi and Swaleh Naqvi, two former senior officers of BCCI; Kemal Shoaib, a former officer of BCCI and the former chairman of Independence Bank; and Ghaith Pharaon, the owner of record of Independence Bank and a shareholder of BCCI.

More recently, on July 29, the Board issued a Notice of Assessment of \$200 million in civil money penalties against BCCI for its illegal acquisition of CCAH, the National Bank of Georgia and CenTrust Savings Bank. The Board also issued a notice of intent to bar permanently nine individuals associated with BCCI from any

future involvement with U.S. banking organizations. On the same day, the District Attorney's Office for the County of New York secured indictments of BCCI.

The Board is continuing to cooperate with law enforcement agencies, and will of course consult those agencies before taking enforcement action so as to avoid prejudicing any criminal investigation. Thus, at the request of the U.S. Attorney for the District of Columbia, the Board has deferred temporarily the assessment of substantial civil money penalties against the individuals already charged, pending completion of the U.S. Attorney's criminal inquiry.

CURRENT STATUS

As of July 6, 1991, governments of 18 countries were known to have closed or restricted the activities of BCCI operations in their jurisdictions. By July 29, 1991, a total of 44 countries had closed BCCI offices in their respective jurisdictions. BCCI offices continued to be open under varying degrees of regulatory presence in 25 other countries as of the same date. Although complete information is not yet available, it appears that governments of some developing countries could have some exposure to BCCI.

LEGISLATIVE INITIATIVES

As a result of the BCCI matter and other recent compliance problems with foreign banks, the Board reviewed the statutes, regulations, and supervisory policies governing foreign bank operations in the United States. In order to help prevent problems such as those presented by BCCI from recurring, the Board has sent to Congress a set of proposals to strengthen the supervision and regulation of foreign banks operating in this country. Those proposals, collected as the Foreign Bank Supervision Enhancement Act of 1991, were introduced in the Senate as S. 1019 by Senators Riegle, Kerry and Garn, and are to be considered as part of the comprehensive banking reform proposal currently before the Senate Banking Committee.

This legislation would establish uniform federal standards for entry and expansion of foreign banks in the United States, including, importantly, a requirement of consolidated home country supervision and the application of the same financial, managerial, and operational standards that govern U.S. banks. The proposal would also grant regulators the power to terminate the activities of a foreign bank that is engaging in illegal, unsafe, or unsound practices. Regulators would be provided with the information-gathering tools necessary to carry out their supervisory responsibilities.

As this case amply demonstrates, continuing consolidated supervisory oversight of a bank's operations is essential to maintaining the integrity of the bank's operations and preventing adverse effects on the financial system. BCCI operated without a supervisor that could demand consolidated financial reports; this method of operation was critical to its ability to carry out the manipulation of its books and the concealment of its actual financial condition.

The proposed foreign bank legislation is intended to ensure that no other foreign bank may participate in this country's banking system unless the books and records showing the financial condition of that organization are open to inspection by a home country supervisor and the bank is supervised on a consolidated basis. The legislation provides the regulatory tools needed to implement this policy.

CONCLUSION

The Federal Reserve is monitoring the BCCI situation closely and will continue to cooperate with Federal, state, and foreign bank supervisors and law enforcement agencies. Further information concerning the extent of BCCI's fraudulent activities and the individuals involved may come to light as the numerous investigations underway progress.

Our immediate goal is to make the current separation in fact between BCCI and CCAH and Independence a complete separation in law, so that these banks can be relieved of any taint that they might be suffering from an association with BCCI. In the coming weeks, we will be working with British, Cayman and Luxembourg authorities toward that end.

Senator KERRY. Thank you very much, Mr. Mattingly.

Let me just say, because I think it is important, as criticisms are surfacing here and as questions arise about performance, I think it is also important to point out where there has been good performance and where people have been responsive.

And I want to personally thank you and I want to thank Chairman Greenspan and the Fed who have been very responsive to our concerns this year. The Chairman personally has responded a couple of times to suggestions that we had. I want to congratulate the Fed for its recent efforts in this.

I know the Chairman was in touch with the Bank of England some months ago and was talking with them about the problem and there were great questions about how to proceed.

I think in recent months you have proceeded courageously and appropriately.

There are questions, obviously, about who knew what and when and who should have known what when and whose responsibility it was to do what when. And those are clearly on the table to a certain degree here.

I think one also has to put all of that in perspective and balance it against the role of the Fed and what the Fed is really equipped to do and supposed to do and so forth.

The record is clear and I concur with the record that in recent years there has been a conscious effort to prevent BCCI from being able to gain the foothold that it did gain surreptitiously. But there are other questions that I want to ask you in terms of this.

And I would like to begin in one area and then we will move over to another. Who, according to the Fed, owns First American Bank now? Who owns the bank?

Mr. MATTINGLY. The banks, the First American banks are owned by a bank holding company registered with the Board located here in Washington, DC. The holding company is called First American Bankshares.

First American Bankshares is owned by a series of holding companies, three other holding companies. The top tier holding company is called CCAH.

Senator KERRY. And who are the principals of CCAH?

Mr. MATTINGLY. It is the stock of CCAH that we believe, over 50 percent of the stock of that holding company, we believe, is controlled by BCCI. We also know that 29 percent of that stock is controlled, owned and controlled, by the Government and ruling family of Abu Dhabi, one of the United Arab Emirates.

Senator KERRY. So in effect, when you peel off the layers and work down the corporate ladder, in point of real control of who has the capacity to govern, it is fair to say that the Government of Abu Dhabi owns First American Bank?

Mr. MATTINGLY. I would say that the Government of Abu Dhabi, the Government and the ruling family, the Government and the royal family of Abu Dhabi, have a control block, yes. I would agree with that.

Senator KERRY. So the largest bank in Washington—do you have a correction of that, Mr. Taylor?

Mr. TAYLOR. No. Other than to observe that I agree with Mr. Mattingly. However, I think if you were to ask those people and they were here, they would say they don't have very much control at all in reality in the sense of calling the day-to-day shots.

Senator KERRY. And the reason for that would be what?

Mr. MATTINGLY. Pursuant to the original Board approval order in 1981, control of those banks was put in the hands of an American board of directors, the First American Bankshares directors.

At that time, it was Mr. Clark Clifford, Mr. Altman, Senator Stuart Symington, General Quesada, General Gavin. Representations were made to the Board that these Middle Eastern investors were only in this as a passive investment, that real control of the operations of those American banks would be in the hands of this American board of directors that I've described.

Senator KERRY. Now in terms of the legal issues here and the rights of the Fed, so to speak, is there a legitimate distinction between legal control by shares owned and day-to-day control as it is exercised?

Mr. MATTINGLY. Under our statute there is such a distinction, yes.

Senator KERRY. Can you clarify that for the sake of the committee?

Mr. MATTINGLY. There are two types of control. The first type of control under the Bank Holding Company Act is ownership or control over the stock of a bank. It is that which we believe that BCCI has.

The other kind of control covered by the Bank Holding Company Act is control over the way the bank does business, a so-called controlling influence test; can this person cause the bank to do certain things or not do certain things. That is the control that, when the Board approved the order, was vested in the board of directors, the American board of directors.

Senator KERRY. Was it vested in the board of directors in the knowledge that the bank would, in effect, by virtue of stock control, passive or otherwise, be in the hands of the ruling family and connections of Abu Dhabi?

Mr. MATTINGLY. Yes, at that time the Abu Dhabi, part of the royal family of Abu Dhabi, I believe, was to own approximately 10 percent of the CCAH. And ADIA, the Abu Dhabi Investment Authority was to own about 8 percent. So the original—

Senator KERRY. The original transaction which took place in 1981.

Mr. MATTINGLY [continuing]. Was consummated on April 17, 1982. The Abu Dhabi interest, I believe, had about—I can get you the exact figure. I think it's 18 or 20.

Senator KERRY. We would like the exact figure for the record if you have it. You do not have to do that now, but is it 18 percent or 20 percent?

Mr. MATTINGLY. I have it right here.

Senator KERRY. Then I will wait for you.

Mr. MATTINGLY. The Abu Dhabi Investment Authority had 8.24 percent. And then it shows here, I'm sorry—13.72 percent that was held by a gentlemen named Abdullah Darwash. And he was holding those shares as trustee or personal representative for a minor son of the ruler of Abu Dhabi. So, together you have approximately 21 percent, a little over 21 percent, 22 percent.

Senator KERRY. Now Darwash at that time was under house arrest, was he not, I believe? And this is the issue that came up in the course of—

Mr. MATTINGLY. Yes, on the day that the Board approved the order. The Board subsequently learned that Mr. Dhuruash was under house arrest in Abu Dhabi.

Senator KERRY. Subsequent to this purchase, a clandestine series of transactions took place, is that accurate?

Mr. MATTINGLY. That's our information, yes.

Senator KERRY. And those specifically were what?

Mr. MATTINGLY. The manipulation in the stock.

Mr. TAYLOR. A series of loans were basically made by BCCI to individuals secured by the stock. And indeed, the terms at least from what we can determine, the terms of the loans were such as to not make them loans at all, but really to cast them more in the light of a nominee holding. That's in layman's terms.

Senator KERRY. And in effect, because they were not serviced, ownership was transferred?

Mr. TAYLOR. Not just because—I should let the counsel answer.

Senator KERRY. Not just because they were not serviced. Go ahead.

Mr. MATTINGLY. They were sham loans. You know, in our view. What it alleges, the Board has issued a 110-page indictment that describes the various transactions that occurred in that stock beginning in 1982. What's alleged in here is that they weren't loans, that that stock was owned by BCCI right from the beginning and loans were—there were loans made to individuals, stock was registered in individuals names, and fictitious loans were made to those individuals to purchase the shares.

Senator KERRY. And as a consequence of those fictitious loans, it is the judgment of the Fed Reserve today that BCCI in effect owns First American, is that correct?

Mr. TAYLOR. That's correct.

Mr. MATTINGLY. What is alleged in this document is that beginning in 1982 they had at least 25 percent, which is legal control under the Bank Holding Company Act and over the ensuing years they may have had more. Over the ensuing years ending in 1989, they acquired, we believe they hold today, 60 percent of the stock of CCAH.

Mr. TAYLOR. But one of the questions that comes up when one looks back to see what happened and when it happened, and the question is not, could BCCI lend to these individuals. There is nothing in our order that prohibited BCCI from lending to individuals for other purposes.

But it was very clearly in the intent in the original application and it was the Board's understanding when it approved this application that they would not borrow from BCCI for the purpose of affecting the transaction. Not just because the loans were past due, but also because of other documents that were found indicating prior arrangement as opposed to straight debt.

Mr. MATTINGLY. I think for the benefit of the committee, if I could, in our prior testimony before the Banking Committee, there are listed out on pages 8 and 9 a sampling of the various statements and representations made to the Federal Reserve Board in 1981 in connection with that application. And one of them, I think, bears repeating.

The application stated, quote, "BCCI owns no shares of FGB," that's First American, "CCAH or CCAI either directly or indirectly, nor will it if the application is approved. Neither is it, BCCI, a lender nor will it be with respect to the acquisition by any of the investors of either First American, CCAI, or CCAH shares."

In our view, nothing could be clearer.

Senator KERRY. Now, Mr. Mattingly, Mr. Taylor, are you prepared to make available to the committee a copy of the Price Waterhouse report?

Mr. MATTINGLY. This is the Price Waterhouse report dated June?

Senator KERRY. The June Price Waterhouse report.

Mr. MATTINGLY. I would think that if the Federal Reserve received a formal request from the committee, that would be given appropriate consideration, serious consideration. [Laughter.]

Senator, I am not at liberty to make that decision. That decision would have to be made by the Board.

Senator KERRY. Can you tell me any reason why the committee, we are just looking at this issue, should not be able to see the report on which the judgment was made that massive fraud was involved?

Mr. MATTINGLY. The Federal Reserve received that report from the—

Senator KERRY. You guys do not classify things, too, do you?

Mr. MATTINGLY. No, we did not. We received that report from the Bank of England. And we received it under an arrangement from the Bank of England that we would have to notify them of any request that we received for access to the report. I add that that report—

Senator KERRY. Well, I would take the liberty, we are a quorum here of the committee, I do not know how everybody feels, but I would like to see that report and I would like to request it? Does anybody disagree? [No response.]

So consider this a formal request of the committee.

Mr. MATTINGLY. I would hope that we could submit that report.

Senator KERRY. Let me ask you another question. And we would hope that you can submit it shortly.

Have you or any of your investigative staff, Mr. Taylor, seen an alleged list of U.S. officials reportedly prepared by officials at BCCI that indicates payoffs or bribes in any form?

Mr. TAYLOR. We have been hearing about this list for the last 3 weeks or 4 weeks. We have questioned almost everyone we can find in our organization to see if there is anything that could have been determined to be such a list. And we have not been able to find such.

The only thing I can think of is that early in the examination I told the examiners to be sure and get a full list of all of the customers of First American so that when we had known names from the Middle East or from Europe or from wherever who were people who might be linked to BCCI, that they could check it against the full list of the customers.

So our examiners have that list. But we do not—to answer your question directly—I know of no list of individuals who received payoffs. I would like to have such a list. And I would be happy to turn that over to the committee immediately.

Senator KERRY. Do you have any evidence at this point of either bribes or payoffs?

Mr. TAYLOR. We have a few instances where there are expenses paid for people to take trips and attend conferences and the like. There are some expenses—you know obviously, any bill to a law firm, any bill paid to a law firm—that you have to know what's behind them. We don't know of anything at this point.

We have some list of people as consultants—really not a list, I guess one or two consultancies—that you could say, what did the consultant do and so forth. But we don't have any big list.

Senator KERRY. Just one last question before I turn it over to my colleague here.

Are you aware of an audit completed recently by the auditors for First American which suggests that certain U.S. officials may have received unusual services or payoffs from the bank? Have you heard of that?

Mr. TAYLOR. I'm not aware of that.

Senator KERRY. You are not aware of that? So you do not have either of those in your possession?

Mr. TAYLOR. No.

Mr. MATTINGLY. I'm not aware of it, Senator.

Senator KERRY. Fine. We have just been hearing about it and I wanted to ask.

Mr. TAYLOR. We have, too. And we are most interested in any information that could lead us to find such a list we would appreciate.

Senator KERRY. Thank you very much. Senator Brown?

Senator BROWN. Thank you, Mr. Chairman.

Mr. Taylor, or perhaps Mr. Mattingly, I wonder if you can tell me when the Federal Reserve first had information forwarded to it that raised the question of BCCI having taken control of the bank or purchased indirectly controlling interest?

Mr. TAYLOR. We had, I think the first indication that I had was really through a contact that our Mr. Ryback had internationally that indicated there were loans at BCCI in Luxembourg. I mean, that was the first time I think I had heard of a specific statement. There were allegations from the beginning, I mean from 1978 on.

But as far as information on someone having control and there being an identifiable individual that made that statement, I think it was not until the middle of November 1989 that we had anything specific.

Mr. MATTINGLY. I think that's correct. As I testified in front of the Senate Banking Committee—I'm groping here for the date.

Senator BROWN. Well, that is about 13 months prior to when the investigation was ordered.

Mr. TAYLOR. That's until the order of investigation was given, that's correct.

Mr. MATTINGLY. What we did after we received that was to—do you want to continue?

Mr. TAYLOR. Let me back up.

First of all, as it relates to BCCI and what I'll call the modern era of 1986, 1987 on, I mean, in 1987, of course, the Federal Reserve through its examiner in Miami made a criminal referral for money laundering in 1987 to the Justice Department and to the Internal

Revenue Service, which was then the procedure for Bank Secrecy Act suspected violations.

Senator BROWN. I am sorry, repeat that for me? Who was it that made that?

Mr. TAYLOR. Our examiner in an examination of the agency of BCCI in Miami suspected money laundering and made, through the Atlanta office of the Federal Reserve Bank, a criminal referral to the Justice Department.

I believe the procedure was that after they had made that referral, we received it in Washington at the Fed, and we were the ones in Washington who made the referral on to the Internal Revenue Service. So there were two referrals of the money laundering in 1987.

Senator BROWN. Was there anything in that period that was passed on to the Fed that would have suggested that BCCI had an equity interest?

Mr. MATTINGLY. Yes. There was telephone call that a member of the supervisory staff received from a Customs official on December 27, 1988, a Customs officer asking our supervisory person about a possible connection between First American National Bank of Georgia and BCCI. The Customs official asked for all the documents, the Y-7's, the reports and anything else that we had. And in the course of that conversation he mentioned to this Federal Reserve staff person that he had an indication from a BCCI employee that BCCI owned First American banks.

Senator Smith: What action did the Federal Reserve take when that information came to their attention?

Mr. MATTINGLY. I don't know whether this was in response to that or not, but in January 1989 the Federal Reserve Bank of Richmond conducted a review to determine whether First American, whether there was a link between First American and BCCI.

Senator BROWN. So the information came in 1988 and 1989, and they began a review?

Mr. MATTINGLY. And the review did not detect——

Mr. TAYLOR. You have to remember that the information that came to us was a statement that someone had made. There is no corroborating evidence of that, that I'm aware, and the first time we found a place where there might be corroborating evidence is really when we had the supervisor in Luxembourg tell our Mr. Ryback that there certainly are loans.

Senator BROWN. That was when, again?

Mr. TAYLOR. That was November 1989.

Senator BROWN. November 1989. Tell me, in the financial statements that the nominees had submitted when they acquired their interests in the banks that as I understand it you all review, were those consistent? I mean, looking back on them, are they financial statements that you think would be reasonable for people acquiring this large an interest?

Mr. MATTINGLY. Remember, BCCI did not purchase First American as far as we knew.

Senator BROWN. I understand that, but the people who were the so-called—the purported purchasers of the bank.

Mr. MATTINGLY. Yes, the original application—they were submitted with the original application statements by those people showing, in most cases, very, very substantial net worths.

Senator BROWN. Were those financial statements audited?

Mr. MATTINGLY. No, they were not. There were some of them that were submitted by accounting firms. There were also confirmations of account balances at banks. In addition to that, the Federal Reserve went to the point of holding a hearing and having four of those investors come in and testify in front of that hearing. Those individuals came in—it was an informal hearing. Those individuals came in and made statements that they were going to make the acquisition with their own personal funds. They were not borrowing from BCCI.

Senator BROWN. What did the Fed do to verify those bank statements—those personal financial statements?

Mr. MATTINGLY. The staff of the Federal Reserve made inquiries of other Government agencies about any information that they might have about these particular individuals. They went to the CIA, the State Department, the Commerce Department, and so forth.

As I said, the financial statements that were submitted with the application, there were requirements that they also submit in certain cases statements from banks indicating that the banks were holding balances for those individuals.

Senator BROWN. Now, according to our press, Mr. Clifford and Mr. Altman or about May 3 presented Federal bank regulators with a financial statement outlining their purchase and sale of First American stock in the 1986-88 period. Do you understand that to be correct? Is that newspaper report correct?

Mr. MATTINGLY. Well, the Federal Reserve did not find out—well, Mr. Altman and Mr. Clifford reported in certain of the official filings with the Board by the company that they had purchased stock of CCAH. During our investigation, we found out that BCCI—that those acquisitions—that those acquisitions of stock were financed by BCCI, and that is the report that I think you're referring to.

Senator BROWN. Uh-huh.

Now, there is a chart before you that may help, but basically, as I understand it, the stock in the roughly 1½-year period tripled in value. A portion of that was sold at an enormous profit, and a portion of that stock remains in those gentlemen's names.

My question is, what is going to happen to the stock that they continue to hold, and what will happen to the stock—to the profit that was recognized off of those stock sales?

Mr. MATTINGLY. Senator, as I indicated, the Board's investigation into this matter is continuing, and I believe it would be—I would ask your consideration that we not answer that question. That is a matter that's directly involved in our investigation as well as your investigation.

Senator BROWN. I can appreciate your position. Let me ask, is it within the purview of the Board to take action regarding a stock sale and take action regarding the stock? Is that one of the things that comes under—

Mr. MATTINGLY. That would be within the purview of the Board under our supervisory responsibilities, yes.

Senator BROWN. If I understand what you said, these are both areas which you are looking into?

Mr. MATTINGLY. The Board is looking into the entire matter of this BCCI-First American link from 1978 when it started until the present. We are looking at every aspect of that from every possible angle, and as I indicated, when we get evidence, we take action.

Now, in this indictment that we issued the other day, there are schedules which set out who bought the stock when and for how much, and when they sold it. I can read. I can tell you that from that document it's alleged that Mr. Clifford and Mr. Altman—that Mr. Clifford and Mr. Altman in a rights offering conducted in July 1986, Mr. Clifford purchased 4,495 shares of CCAH at \$2,216 per share; Mr. Altman purchased 2,247 of CCAH at \$2,216 per share.

I can also say that the notice that was issued by the Federal Reserve Board indicates that in 1987 Mr.—I'm sorry. In 1988, Mr. Clifford sold 3,200 of the shares for \$6,800 a share. Mr. Altman sold 1,600 of his shares for \$6,800 a share.

Senator BROWN. Thank you. One last question if I may, Mr. Chairman. I would be interested in knowing your view as to whether or not it would be of value to ask for audited financial statements from individuals when they are making applications. Wouldn't that have solved some of this problem?

Mr. TAYLOR. Not if they were the kind of audits that were done on BCCI. I mean, a serious answer is that we oftentimes find that an audited statement does not necessarily give you the picture that you would expect it to, and it's sorely disappointing that that happens as frequently as it does.

Senator BROWN. Well, I can appreciate if you are talking about an international bank, but if you are talking about an individual financial statement, surely if someone has dramatically misrepresented their net worth, a financial—an audited financial statement is of great value, is it not?

Mr. TAYLOR. It certainly doesn't hurt a thing. It certainly can't detract. But I mean, it is not necessarily a comprehensive statement of truth, unfortunately.

Senator BROWN. Well, I assume without knowing the substance of those statements, if someone showed the ability to buy hundreds of millions of dollars worth of stock and it turns out they have nothing in the way of assets, a basic check of those financial statements could have shown that—turned that up, could it not?

Mr. MATTINGLY. Senator, that's exactly why the Federal Reserve requested detailed financial statements. The individuals—these Middle Eastern investors who the Fed was told were going to buy this stock are very—the statements show that they are wealthy. There are a number of them who are rulers of emirates of the United Arab Emirates.

Senator BROWN. One last question. My understanding is Mr. Clifford is the chairman of First American and Mr. Altman is its president. I also understand that you have the authority or the ability to remove them or replace them with officers or directors that are not tainted by connects to BCCI. Is it your intention to exercise that authority?

Mr. MATTINGLY. As I indicated, Senator Brown, the Board's investigation is continuing, and when we obtain evidence that indicates that enforcement action should be taken, we take it. Other than that, I really would not like to comment on the status of the decisionmaking going on within the Federal Reserve about what additional supervisory—what specific additional supervisory actions should or could be taken next.

Senator KERRY. But that is within the purview of the Board?

Mr. MATTINGLY. The Federal Reserve Board has authority under the statute to remove a director or an officer of an American Bank or bank holding company upon—if it meets certain tests. There has to be a violation of law, damage to the bank, and so forth.

Mr. TAYLOR. I might add, not as it relates to this case, but the removal of an officer from a U.S. bank is no easy task. It is very difficult, in a legal sense, to do that, and in fact we have offered corrective language, have we not?

Mr. MATTINGLY. We have proposed corrective language.

Senator KERRY. What, if any, action is the Fed taking to protect records and guarantee the records are not destroyed?

Mr. MATTINGLY. Senator Kerry, when we commenced our investigation one of the first things that we did was to take physical possession of every piece of—all of the CCAH records that we could get our hands on.

Now, there are certain records that we were not—that we have not yet been able to gain access to because of claims of attorney-client privilege. There were procedures put in place, however, to safeguard those documents, but when anyone told us of documents we acted. When we were told that there were records at the Miami agency that were useful for our investigation, we issued a subpoena, and we have thousands of boxes of documents from the Miami agency under subpoena. When we are told of information, we go after it.

Senator KERRY. Senator Cranston?

Senator CRANSTON. Thank you very much, Mr. Chairman.

Am I correct in my understanding that BCCI has or had representative or agency offices in Washington, DC, New York, Miami, San Francisco, Los Angeles, Boca Raton, and Tampa?

Mr. MATTINGLY. Senator Cranston, they had offices in those cities. In Washington, DC, was what's called a representative office and in Houston it was a representative office. In others there were agencies.

Senator CRANSTON. Are they still active and open?

Mr. MATTINGLY. On July 5, there were two left. There was one in Los Angeles and there was one in New York, and both of those were seized on July 5 by the State of California and the State of New York.

Senator CRANSTON. What about the agencies?

Mr. MATTINGLY. Those were agencies.

Senator CRANSTON. I mentioned this morning some banks with some sort of relationship in some other States, or in addition to those we have been discussing.

One is the former Bank of Commerce, now First American, in New York. In Florida, the former Bank of Escambia, now First American of Florida. In Maryland, former Financial General, now

First American, Maryland. In Virginia, former Financial General, now First American, Virginia, and in Tennessee, First American.

First, am I correct in my understanding that these are not connected with First American here in Washington?

Mr. MATTINGLY. No, they are. First American here in Washington, DC, owns most of the banks directly that you named. They own a bank in Washington, DC, a bank in Maryland, a bank in Virginia, a bank in New York, a bank in Tennessee, and a bank in Florida.

Senator CRANSTON. Is that within a holding company?

Mr. MATTINGLY. Yes. It's a holding company and they own subsidiary banks.

Senator CRANSTON. Regarding the Independence Bank of Encino out in California and part of Los Angeles, does—or did Ghaith Pharaon own the Independence Bank?

Mr. MATTINGLY. Yes.

Mr. TAYLOR. Yes and no.

Mr. MATTINGLY. The bank was bought in his name. We allege that BCCI used Mr. Pharaon as a nominee to purchase the bank.

Senator CRANSTON. Is he still the owner?

Mr. MATTINGLY. He is the record owner.

Senator CRANSTON. What is the current status of that bank?

Mr. MATTINGLY. That bank is under a divestiture. BCCI is under a divestiture order from the Federal Reserve to dispose of that bank as promptly as possible.

Senator CRANSTON. Have there been transactions between Independence Bank and the BCCI office in California or with other BCCI institutions?

Mr. MATTINGLY. The Federal Reserve issued an order against BCCI in connection with the Independence matter in May of this year and that order was intended to terminate the transactions between the bank and the BCCI. There were some transactions, however, between Independence Bank, I believe, and BCCI's operations in the United States. Those transactions are being looked at by the Federal Reserve.

Senator CRANSTON. Were any former BCCI employees employed by Independence Bank?

Mr. MATTINGLY. Yes. There was a BCCI employee named—yes. There was a BCCI employee who, our information is, negotiated the acquisition of the Independence Bank and then was—our indictment says was—then put in as the chairman or chief executive officer of Independence Bank.

The Federal Reserve has issued an action removing, barring that person. He's no longer at Independence Bank, but there's an action outstanding to keep him out of U.S. banking in the future.

Senator CRANSTON. Ghaith Pharaon, while owning the Encino Bank on behalf of BCCI, also helped BCCI acquire 25 percent of CenTrust in Florida, according to the Federal Reserve order of July 29 which just came out. Can you tell us how, and for what purpose, Pharaon and BCCI obtained an interest in this failing S&L?

Mr. MATTINGLY. Senator Cranston, the Federal Reserve—the focus of the Federal Reserve's investigation—has been on the First American organization. In the course of that investigation, we

come across other information that BCCI has acquired banks and we act on it.

In this particular case, the CenTrust Savings Bank in Florida, we came across that within the last 3 or 4 weeks. We found some documents in London that indicated that in fact BCCI had funded Pharaoh's acquisition and that the shares had been pledged to BCCI and that BCCI had voting control over those shares. I cannot answer your question about why BCCI acted in that way.

Senator CRANSTON. Regarding First American here in Washington, does the Federal Reserve have any questions about whether officials of the Government of Abu Dhabi may have violated U.S. laws in acquiring the bank?

Mr. MATTINGLY. Senator, again the Board's investigation, as I indicated before, is looking at all aspects of this thing. As we get evidence, we act on it. The indictment that the Federal Reserve issued on July 29 does not charge the Government or ruling family of Abu Dhabi with illegally acquiring control of First American.

Senator CRANSTON. But that may be a matter that is being looked at, is that correct?

Mr. MATTINGLY. We are looking at all matters in connection with this case.

Senator CRANSTON. What is the current financial status of First American? For example, has new capital been placed in First American in 1991?

Mr. TAYLOR. That's correct.

Senator CRANSTON. Can you tell us by whom and how much?

Mr. TAYLOR. Yes. The Abu Dhabi Government and Abu Dhabi investment authority and Abu Dhabi ruling family since—really since, let's say, September 1990—within the last year, has placed approximately slightly over \$200 million into First American, some of it to deal with debt at the holding company level and some of it to put into capital of the subsidiary banks.

Basically what happened in the beginning of the year is we asked the other agencies—the Federal Reserve is not the primary supervisor of any of these banks, but we asked and received the co-operation of the other supervisors, the Comptroller of the Currency, the FDIC, the various States involved, and they have examined the bank. What we then did was go to the Abu Dhabi people and say that the capital requirements of the supervisors are x , and we expect you to put that in there. And they did, and a little more actually.

So they've been fairly cooperative, even though they fully understand that they're under—that the whole thing is to be divested as soon as possible.

Senator CRANSTON. Do you know if any commitments were made by the U.S. Government in return for this infusion of capital?

Mr. TAYLOR. None that I know of, and I'm the one who asked for the money.

Senator CRANSTON. Mr. Taylor, you mentioned in 1987 criminal referral by—

Senator KERRY. Would my colleague yield for just a minute? We are trying to cover some logistics here. We are almost at 4 p.m. We have not had the State Department folks on yet.

What I am going to do, with the permission of my colleagues, is suggest that we put State Department's current statements in the record as if read but not proceed forward to question them today, and build off those and have them back at a time when we have more time to pursue those questions, because I think there are going to be limits to what we can digest, and we do have another—we want to try to deal with the issue of Peru and so forth. Is that agreeable?

Senator WOFFORD. Yes.

Senator CRANSTON. Yes.

[The prepared statements of Messrs. Borg, Kreczko, and Burleigh follow:]

PREPARED STATEMENT OF PARKER W. BORG

Mr. Chairman: Good afternoon. I am Parker Borg. I have been Deputy Assistant Secretary in the Bureau of International Narcotic Matters at the Department of State since May 1989. I would like to focus my statement on the narcotics money laundering issues arising out of the BCCI affair.

The Bureau of International Narcotics Matters (INM) works with other Bureaus at State and other U.S. agencies in the development of narcotics money laundering policy, strategy and implementation. While State plays an important role in policy formulation, it is not the lead agency in implementation, but cooperates on a day-to-day basis with Justice, Treasury, the Drug Enforcement Administration, Customs and other agencies.

Some examples of INM's efforts against money laundering might be useful. INM is a member of the U.S. delegation to the Financial Action Task Force (FATF); our staff monitors money laundering developments around the world, and participates in numerous international meetings, including U.S. delegations to both bilateral and multilateral meetings, some of which it chairs. INM develops the money laundering chapter of the annual International Narcotics Control Strategy Report, known as the INCSR. We draw on information from Embassies, the intelligence community, the law enforcement and the financial affairs agencies. That information has helped detail illicit activities undertaken by BCCI worldwide.

In 1986, Congress mandated that narcotics-related money laundering be one of the three criteria for making the Presidential determination to certify whether governments were cooperating on international narcotics control matters.

As a result, we decided to add a chapter devoted specifically to money laundering in the INCSR beginning with the March 1988 Report. The 1991 report contained a money laundering chapter of 63 pages, with detailed reports covering 122 governments. Each of the four annual reports since 1988 has contained information on investigations that involved BCCI, although legal and intelligence sensitivities prevented us from identifying BCCI by name in as many cases as we would have liked.

The 1989 INCSR provided 13 paragraphs of discussion of the charges against BCCI and its officers, resulting from Operation C-Chase, a U.S. Customs operation, which focused inter alia on BCCI operations in the United States and overseas. A follow-up report on this investigation of BCCI was provided in the 1990 and 1991 INCSR reports to Congress.

The March 1991 Report noted as a final tally of results:

- Operation C-Chase resulted in the arrest of 53 individuals, 9 of whom were high-ranking BCCI officials;
- BCCI had pled guilty to one count of conspiracy and 28 counts of money laundering;
- BCCI SA had pled guilty to one count of conspiracy and two counts of money laundering;
- These convictions resulted in BCCI's forfeiture of approximately \$15.3 million in criminal penalties to the United States;
- Five BCCI officials in Florida and two in the United Kingdom were convicted of money laundering conspiracy and given prison sentences;
- From BCCI forfeited funds, we shared \$2 million with the Government of France and \$3 million with the Government of the United Kingdom through the U.S. Customs asset sharing program.
- We noted also the role of the United Arab Emirates in the ownership of the bank and their pledge of cooperation in the investigation of BCCI operations.

What have we learned?

The BCCI affair and other investigations have demonstrated we need controls that are specific to narcotics money laundering. BCCI has figured in several narcotics money laundering investigations, but it is by no means the only bank through which drug proceeds have been laundered. We do not know how many drug dollars may have been bottled up by the closing on about July 5 of BCCI branches around the world, but we know enough about their global networks to know that narcotics money laundering did not stop on that date.

Where there is a criminal conspiracy to conceal money transactions and a deliberate will to circumvent reporting and other disclosure requirements, even the best narcotic countermeasure programs with the most comprehensive of laws are vulnerable to exploitation.

What are we doing?

What we can do, and are doing, is to understand the methods used to launder money, through BCCI and other banks as well, and continuously refine our countermeasures while expanding our networks of cooperation.

Working bilaterally and through multilateral organizations, the United States has become a leader in the effort to expand the global consensus on good banking practices to prevent narcotics money laundering.

Our efforts have promoted initiatives against money laundering over the last 3 years as an important foreign policy issue as well as a financial management priority in many key financial center countries. These priorities are reflected in wholesale changes of laws and regulations in many countries.

Cooperation between the financial and enforcement communities in these governments has improved considerably, abetted in good part by the ratification of the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention), the adoption of the recommendations of the Financial Action Task Force, the approval of the European Community's new policy directive and other commitments—and especially by the deliberations which led to the drafting and approval of these international accords.

We have addressed these concerns vigorously on a bilateral basis with numerous governments, including countries as diverse as the United Kingdom, France, Switzerland, Austria, Australia, Panama, Luxembourg, Hong Kong and Singapore. In the past year, we have participated in regional discussions about money laundering in Latin America, the Middle East, Africa and Asia, where we have promoted the findings of the FATF.

In accord with the Vienna Convention and FATF recommendations, numerous countries have adopted or are now deliberating provisions which criminalize money laundering, regulate the flow of currency and monetary instruments, mandate records of currency and other monetary instrument transactions, require declarations of beneficial owners of accounts, and compel disclosure of suspicious transactions.

Banks and bankers are compelled by due diligence conventions and other sanctions in numerous countries to accept responsibility for ensuring that their institutions take affirmative steps to prevent narcotics money laundering. These changes, and a much improved attitude on international cooperation, have strengthened law enforcement agencies on every continent, and help ensure that the kinds of narcotics-related transactions attributed to BCCI and other banks do not recur.

Thanks to the adoption of these new laws and regulations, we believe banking systems in many key countries are less vulnerable today. These changes result from a growing international conviction that drug trafficking cannot be halted unless we deprive trafficking organizations of their vast proceeds and develop a shared sense of responsibility for reducing the production, trafficking and consumption of drugs, which have been increasing dramatically in Europe and Asia.

We believe this challenge is becoming more complex. As we noted in the 1991 INCSR, we are detecting money laundering schemes involving a second tier of countries which were not of major concern to us 3 years ago. Traffickers, and more particularly their professional money managers, are actively seeking those countries and territories where there are central banks with minimal capabilities, financial systems with limited controls on foreign exchange, and restrictive bank secrecy practices. We are responding by extending the dialogue throughout the world.

While compliance with the Vienna Convention and the FATF recommendation will remain high priorities, the challenge for the future will also include the application of these same standards to non-bank financial institutions. We need to work to tighten requirements for incorporating or licensing businesses which might engage in financial transactions or make use of bearer shares and certificates. We need to develop means to regulate exchange houses and other traditional family fi-

nancial systems which are at the core of financial exchanges in many developing countries around the world.

In summary, we have been aware of BCCIs involvement in narcotics money laundering for a number of years, and have indicated that awareness in our reports to Congress. Working with information from the Embassies, the law enforcement and intelligence communities, we have acted on the lessons learned from the BCCI experience, on how banking systems can be penetrated and manipulated. By working with enforcement agencies as well as policymakers at Justice and Treasury we have formulated recommendations for the Financial Action Task Force and other multi-lateral organizations, as well as for use in our bilateral negotiations with other financial center countries on cooperative countermeasures. We have made important progress in the last few years, but there is a lot more to do.

PREPARED STATEMENT OF ALAN J. KRECZKO

Mr. Chairman and Members of the Committee: Good morning. I am Alan J. Kreczko, Deputy Legal Adviser at the U.S. Department of State, and I am pleased to be here with you today to provide the Committee with information relating to the Department's efforts to facilitate the ongoing investigation into the operations of the Bank of Commerce and Credit International (BCCI).

Let me begin by emphasizing that the State Department has viewed this matter from the outset as one properly conducted and controlled by law enforcement and bank regulatory officials. The Department has undertaken to cooperate to the fullest extent in assisting the various investigative efforts of the Federal Reserve and the Department of Justice.

With the support of our embassies and consulates abroad, the Department has on various occasions provided direct assistance to U.S. investigative authorities. While I cannot disclose in public all of the details of our involvement, we have, for example, obtained and distributed certain background information to U.S. investigators, and provided advice and technical assistance to the Federal Reserve in connection with their investigation of BCCI.

We have also assisted in providing such investigators with access to bank records, as well as opportunities for discussions with current and former bank officials, stockholders and others in possession of relevant information concerning the bank's ownership structure and overseas operations. We are, of course, pledged to continue our involvement, particularly with respect to facilitating contacts between U.S. government officials and foreign government investigative agencies, and current or former foreign government officials. In addition, the Department has endeavored to keep itself informed, of the course of the various investigations so that we would be aware of, and be able to prepare for, any foreign policy implications.

The Committee has indicated its interest in pursuing our understanding of the history of BCCI, in addition to a wide range of foreign policy questions which may flow from the recent disclosures and charges in connection with that history. As to the details of BCCI operations in the United States and abroad, the State Department will defer to the Federal Reserve and the Justice Department, both of which undoubtedly have a far greater understanding than do we, in the wake of their investigative efforts to date.

In terms of the broad implications for our foreign policy, I can state that we have not seen an adverse impact on our bilateral relations with the countries whose nationals have been named in the recent Federal Reserve enforcement action. We have repeatedly made clear that from our perspective our BCCI investigation is primarily a law enforcement matter: persons doing business within the United States must obey the laws of the United States or face the consequences for failing to do so.

While we will try to be responsive to the Committee's questions, I would note that we are necessarily constrained in our testimony for several reasons. First, as the Committee is well aware, there is an ongoing criminal investigation of BCCI and its operations being undertaken by the Justice Department. We are not privy to the details of this investigation, but even if we were, we would not wish to say anything that might jeopardize or complicate these efforts. Second, given the early stage of this investigation, we are unable to reach firm conclusions on the potential implications for our foreign policy. In light of the complexity and worldwide scope of this scandal, until the investigative efforts of the Federal Reserve and the Justice Department have been completed and all of the details of the BCCI operations have been made public, and other governments have completed their actions, the State

Department will be unable to systematically review the full extent of the implications of this case.

Having said that, I would note that many of the policy issues raised by the disclosures to date are ones with which the State Department is quite familiar. We have for some time been well aware of the ability of international narcotics trafficking organizations to employ the resources of sophisticated financial institutions, and we have long worked with this Committee on efforts to fight the vexing problem of money laundering. Similarly, we have made a concerted effort in the past few years to develop a comprehensive approach to fighting international terrorist organizations.

With me today are representatives from the Department's Bureau of International Narcotics Matters, and the Office of the Coordinator for Counter-Terrorism, who will speak to the policy issues addressed by their respective offices.

PREPARED STATEMENT OF A. PETER BURLEIGH

Mr. Chairman and Members of the Committee: I am A. Peter Burleigh, the Coordinator for Counter-Terrorism at the Department of State. I have recently assumed this position, replacing Ambassador Morris Busby. I look forward to working closely with this Committee particularly, in pursuit of our common goals.

I have a short statement which addresses the links between BCCI and the Abu Nidal Organization (ANO) and the actions the U.S. Government took and continues to take in cooperation with other governments to disrupt the ANO's commercial enterprises. The Committee will understand that there may well be issues raised which I cannot discuss in "open session", given the criminal proceedings which are underway and the need, as always, to protect intelligence sources and methods.

What I can say about BCCI and its links to terrorists can be summarized as follows:

- The ANO organization, in view of its lethality, its international reach, and its virulent anti-American and anti-Western bias, has been and remains a significant threat to U.S. interests. A major and continuing objective of U.S. counter-terrorism policy has been to eliminate the ANO's terrorist capacity.
- In 1986, the intelligence community developed and disseminated information that linked ANO activities to a BCCI branch in Europe. We learned that Sabri al-Banna, the leader of the ANO had established significant business operations through the use of front companies. Operating through a business center in Warsaw, and under the direction of his key financial aide, the notorious Samir Najmeddin, the ANO traded profitably and successfully in weapons, construction services, and other business enterprises. We launched a major diplomatic effort to have the concerned governments—which included the previous Communist regimes in East Germany as well as Poland—expel the ANO personnel responsible for these businesses and to close down the companies themselves.

Mr. Chairman, the efforts we undertook in close cooperation with other governments to disrupt the ANO's commercial activities have been comprehensive and successful. The business front companies that financed a major portion of ANO's activities have been shut down. We have shared with many friendly governments information on the ANO's business activities and helped alert these governments against similar activities. The United States and other countries have strengthened their domestic legislation against financial support for terrorist groups; some of the U.S. proposals are incorporated in the "Crime Bill" recently passed by the Senate.

Meanwhile, the ANO itself has experienced significant internal purges. Nevertheless, it still retains major capabilities to engage in terrorism.

The efforts that we undertook regarding ANO are another example of the Administration's commitment to counter the terrorist threat posed to American interests around the world. Consistent with the three-pronged strategy for countering the international terrorist threat explained by my predecessors in previous appearances before this Committee, the United States will continue our long-standing "no concessions" policy, our efforts to convince state sponsors to withdraw their essential support to terrorist groups, and a variety of initiatives that we refer to as "practical measures." Included among these "practical measures" are efforts such as those we undertook against the ANO and its commercial fronts.

Mr. Chairman, this completes my prepared statement. I will be pleased to address your questions as fully as possible, consistent with the public nature of this proceeding.

Senator KERRY. I am sorry to interrupt you.

Senator CRANSTON. Mr. Taylor, you mentioned in 1987 a criminal referral by an examiner to Justice regarding BCCI in money laundering. Do you know if that led to a criminal investigation?

Mr. TAYLOR. I do not. I know that a criminal investigation resulted within 1 year—within 1 year after that. I think it was in April 1987 that the referral was made and the raid in the Tampa situation occurred in October 1988, I believe, approximately 14 months later.

Senator CRANSTON. Mr. Mattingly, you mentioned a criminal referral also. Was that the same one or a different one?

Mr. MATTINGLY. The criminal referrals that I mentioned were with respect to when we obtained evidence in January that suggested that there was an illegal acquisition by BCCI of the First American organization, the CCAH stock. We made criminal referrals to Justice in connection with that.

Senator CRANSTON. Do you know if that led to a Justice Department criminal investigation?

Mr. MATTINGLY. I'm not at liberty to answer.

Senator CRANSTON. Back to the matter of infusion of capital. When did the last capital come into First American?

Mr. TAYLOR. The last capital came into First American I believe in June, the first or second week in June—the last week in June. It was either mid to late June, just prior to the closing, I might say.

Senator CRANSTON. Was that a large infusion?

Mr. TAYLOR. No. I believe the capital that went into the banks was something on the order of \$39 million—pretty sizable—and of course at the same time I believe Abu Dhabi people assumed the holding company's debt, which was somewhere on the order of magnitude of \$80 million.

Senator CRANSTON. In addition to the several banks that I have mentioned that you verified have been owned or affiliated with BCCI in the United States, do they own or control any businesses beyond that in our country?

Mr. TAYLOR. Not that I am aware, Senator. Virgil probably has more from the investigation.

Mr. MATTINGLY. Senator, I don't think the investigation has turned up any evidence of that, but you know, according to the reports they filed with the Fed they didn't own any banks in the United States either, and one has to question their credibility on all points.

Senator CRANSTON. That would not be a thing that you would be looking into as much as you would be looking into financial institutions.

Mr. MATTINGLY. Our investigation—it's difficult to keep it focused, but our investigation is directed and focused at those banks, but to the extent that we get any evidence of any other illegal conduct or suspected illegal conduct, we make appropriate referrals.

Senator CRANSTON. Mr. Chairman, I have just a few more questions, but my time is up.

Senator KERRY. Well, let me just see if Senator Wofford has questions. He has not had a chance. Then we will come back to you, Senator Cranston. Senator Wofford?

Senator WOFFORD. I have three simple questions. Did the CIA ever tell you that BCCI owned First American?

Mr. MATTINGLY. Senator, I do not believe so. We have—as you can imagine, we have searched our records. There is no indication that that information was conveyed to the Federal Reserve. I have asked the individuals at the Board who routinely receive information from CIA. They indicate they do not recall ever seeing that document. They believe they would have recalled seeing a document if it had in fact been submitted to the Fed.

Senator WOFFORD. Did the Treasury Department ever tell you that BCCI owned First American?

Mr. MATTINGLY. Senator, I can only speak for myself. I have reviewed the record in this matter. It is voluminous. I find no evidence that anyone—that the Treasury advised us. I cannot say that they did not advise some other official who did not make a note of it. I just can't say.

Senator WOFFORD. By "you," I mean you and the corporate body, too, so I appreciate the answer.

Mr. MATTINGLY. Well, we looked through the records and we can find no indication that information was transmitted to us.

Senator WOFFORD. Do you think they were obligated to tell you?

Mr. MATTINGLY. I would hope that when any American or U.S. agency finds information about irregularities under the Bank Holding Company Act or the statutes that the Federal Reserve administers, we would hope that that would be referred to us. We try to do the same when we come across information about irregularities under other—involving other agencies.

Mr. TAYLOR. My understanding, though, is that the information in the CIA report is more or less speculative in the sense that it's not documented with any evidence that you could follow up on, that it makes kind of the assertion. We have had that assertion, but it doesn't—

Senator KERRY. Well, the assertion—the CIA document, if I recall correctly—I do not have it in front of me—states as a matter of fact that they tried to buy the bank shares in 1982, 1981, were rebuffed, but completed control—completed the transaction and takeover. It states it as a matter of fact.

Mr. TAYLOR. Six months later, right?

Senator KERRY. Six months later. It says this was completed—the one thing they do say is, we do not know the exact structure of ownership, but they state as a matter of fact it was completed and purchased.

Mr. TAYLOR. Yes, and that may have been helpful in the sense of alerting us—

Senator KERRY. May I say also that I have seen the entire rest of the document, and as I said earlier I cannot understand—there is no national security in it whatsoever that this Senator can see, and I think the entire document ought to be released, and we are going to ask for it.

Senator WOFFORD. I appreciate Senator Kerry's helpful persistence right now, but most of all his persistence in getting at this matter which turns out to be persistence that was well-justified.

Could I turn to the procedure by which the Federal Reserve checks the background of foreign investors with the CIA, and forgive me if you have gone through this before, before I was able to get here. Could you just take us through that procedure and show

us what the paper trail would be in checking the background of foreign investors with the CIA once again?

Mr. MATTINGLY. Well, in this particular case—as it stands now, we check foreign investors with law enforcement authorities, the DEA, CIA, FBI—there are detailed procedures to do background checks on any foreign individual or company that seeks to acquire an American bank.

In this particular case, the information that we had, which listed 10 or 13 Middle Eastern investors, was sent to State Department, CIA, Commerce—at least those three. We received back no adverse information from those three agencies.

Senator WOFFORD. So you did not have that, and therefore you did not take any action?

Mr. MATTINGLY. No. We got back affirmative responses from the CIA and the State Department that they had no objection, no adverse information.

Senator WOFFORD. No more questions right now.

Senator KERRY. Senator Cranston?

Senator CRANSTON. I want to ask you just a few questions about central banks and their problems out of all of this. Has the Federal Reserve learned of the use of BCCI by any foreign central banks?

Mr. TAYLOR. We have various reports of the use of BCCI by central banks. For example—not necessarily central banks, but by Governments. The Peruvians have been up to see us about that situation, and there are other rumors about various developing nation banks being involved with BCCI.

As yet, I don't believe they have documented—the receiver or any of the Bank of England people have documented—any specific deposits or losses to date by central banks, although it indeed may be in the works.

Senator CRANSTON. What are the implications of this for central banks with the sizable deposits of BCCI, and what are the implications for international financial markets?

Mr. TAYLOR. Well, I think the thing that has been almost deafening is really the lack of specific information yet, as it relates to any major loss. In other words, a loss that would really take some large bank or country or charitable institution down.

We think that most of the central bank activity—we are just not aware at this point of anything that has any dramatic impact as yet, although all of this is unfolding, and I would underscore that we watch it day by day and that when we make these statements we might indeed be forced to make another statement the next day.

Mr. MATTINGLY. Senator Cranston, I have some information from the Board's legal files in response to the question that Senator Wofford asked, and if it's permissible, could I read that into the record? This has to do with the Federal Reserve's background checks of those individuals in 1981.

Senator CRANSTON. Yes.

Mr. MATTINGLY [reading]. Board staff has consulted the Central Intelligence Agency and the Departments of State and Commerce to determine if they possess any information that would have any bearing on the integrity of these individuals and the other investors, or that would suggest that they should not be permitted to be

associated with the U.S. banking organization. Board staff was informed that the CIA has no derogatory information in its files, while individuals consulted at the Departments of State and Commerce stated their belief that there is no reason why the investors in CCAH and BCCI should not be associated with a U.S. bank.

Senator KERRY. That is what year? That is 1981?

Mr. MATTINGLY. Yes, sir.

Senator KERRY. That is 1981, and that is referencing specifically Sheikh Zayed and other—

Mr. MATTINGLY. Well, Sheikh Zayed was not an investor in the original application.

Senator KERRY. Kamal Adham?

Mr. MATTINGLY. Yes.

Senator KERRY. Well, that is Kamal Adham & Co. at that point in time?

Mr. MATTINGLY. Yes.

Senator CRANSTON. Would funds deposited by a central bank in any country—

Senator KERRY. Excuse me, was he not either former head or chief of Saudi Intelligence?

Mr. MATTINGLY. That is what was reported, yes.

Senator CRANSTON. Would funds deposited by the central bank of any of these foreign countries with BCCI be guaranteed in any way?

Mr. MATTINGLY. Not to our knowledge.

Mr. TAYLOR. They may in some cases have been wise enough to take collateral, and maybe not, and in that sense they would have a chance of a prior lien, but we are not aware of any insurance specifically.

Senator CRANSTON. One final, broader question. You spoke of the legislation that Senator Riegle, Senator Garn, and Senator Kerry have introduced to try to prevent things like this from happening in the future. Obviously, we have to give that a lot of scrutiny to make sure that it is as strong as possible, and the hearings there and in the Banking Committee now going on—the markup there and hearings here will lead, I hope, to strong legislation.

But let me ask this question: Can any American laws that we might write really deal adequately with what is an international problem, or do we not need to take a look at what strengthening of international regulatory institutions may be required to really cope with this kind of a situation?

Mr. TAYLOR. I think clearly it is—I mean, your question is in a sense rhetorical, and I agree with it. Obviously we must do something internationally. We just can't pass laws here, although it would be helpful in certain instances, but internationally I think it is very critical that we create, I think as indicated by prior witnesses, a greater sense of cooperation and information exchange and a certain setting of standard.

We've started that process in a number of areas through the Basel Committee on Banking Supervision that meets at the BIS. We meet there quarterly, and although sometimes it seems that progress is painstakingly slow, there have been very encouraging instances of breakthroughs in recent years. I point to the capital agreement, whereby we finally got an agreement that somewhat

defines capital and says how much a bank should have to operate internationally.

We had some success in an American-sponsored approach to money laundering whereby it was recognized by the member nations and the member central banks that using the banking system for illicit purposes was something that no one wished to permit. And, indeed, I think in the European countries that have reputations for secrecy, you see that secrecy perspective lessening, and you see more open philosophies, and you see more States in Europe sponsoring legislation against money laundering in favor of an openness that protects the banking system and the public from these criminalities.

Senator CRANSTON. I thank you both very much. You have both been very helpful, and I applaud your direct, concise, and brief responses to our questions. Thank you.

Senator KERRY. Senator Kassebaum.

Senator KASSEBAUM. Thank you, Mr. Chairman. My apologies. We are marking up the banking bill in the Banking Committee, but I was anxious to come down for just a moment to ask the representatives here of the Federal Reserve particularly a question in response to a letter that I had received from a constituent regarding the BCCI settlement and the whole plea bargaining relationship.

I bucked the letter over to the Department of Justice, and the letter I got back had a sentence which I thought was interesting, and if I just may read that sentence: "Moreover, the bank has been placed on a 5-year probationary term which contemplates intense scrutiny of its activities by the Federal Reserve Board of Governors. Should BCCI violate its probation, the trial court could fine the bank \$500,000 for each violation."

I guess at that point I would be curious—with this plea bargaining arrangement, which I am not really familiar with other than as it has begun to unfold in recent stories, did it trigger any sort of additional activity on the part of the Federal Reserve, or would you normally be involved in a situation such as this?

Mr. MATTINGLY. Well, I'll tell you what I know about that, Senator. The plea bargain that was negotiated between the Justice Department and BCCI, I believe one of the provisions—

[Pause.]

Mr. MATTINGLY. Senator Kassebaum, as a result of the indictment the Federal Reserve issued a cease and desist order in mid-1989 against BCCI requiring them to put in—their management and procedures were abysmal here in the United States, so the Fed put in a cease and desist order requiring them to clean up their act, have appropriate books and records and things like that, and that was—I believe that was done in June 1989.

The Justice Department then incorporated—when they had their plea agreement and conviction or guilty plea, they incorporated that order into that and therefore required BCCI to comply with the order through that mechanism also.

Mr. TAYLOR. But we were not a part of the plea bargain at all.

Senator KASSEBAUM. I realize that.

Mr. MATTINGLY. They knew that we had a cease and desist order, and they just simply incorporated in their plea agreement a re-

quirement that BCCI obey the Board's cease and desist order and if they failed to obey it, then they would be subject to the fines that you mentioned.

Mr. TAYLOR. Immediately upon the sting operation in Tampa, as soon as that happened, in conjunction with the States who were really the primary supervisor of these agencies, with their cooperation the Federal Reserve and the States immediately examined all of the agencies in the United States of BCCI to see if there was any more money laundering and to see if they were complying with reasonable procedures.

As a result of that, the two—the additional criminal referrals were made out of New York and the cease and desist order was issued to correct what we thought were rather substantial deficiencies in the recordkeeping and in the controls.

Senator KASSEBAUM. Was it that cease and desist order—and you say that was June 1989, that you first entered that?

Mr. TAYLOR. I believe that's correct.

Senator KASSEBAUM. It did not seem to have much effect, did it, at that point?

Mr. TAYLOR. No.

Senator KASSEBAUM. Well, I came in late, and I expect you have covered a lot of this territory, and I do not want to keep you here any longer, but I do appreciate the answer to that, and I regret that I came so late because I would like to have heard some further testimony. I will read your statements.

Thank you. Thank you, Mr. Chairman.

Senator KERRY. Thank you, Senator. Thank you very much.

First of all, let me ask just a few questions before we wrap up. You hear of varying amounts of money that are supposedly just gone. In England, they are talking about \$5 or \$6 billion, may be more. We have heard \$4 to \$8 billion. Some people say more than \$10 billion. Is that correct?

Mr. TAYLOR. All of those figures are correct, as far as I know. It's very hard to get a sense of where it starts and where it stops. I think only when the liquidator really gets a chance to see what is there and what isn't there will you have any accurate figures. It's pretty safe to say, from the statements that I've seen, that there is massive fraud involved. Massive fraud would mean massive money. Whether it's \$5 or \$10 billion, it's hard to say.

Senator KERRY. Do you have any indication of where the money that we do know about, whatever concrete number there is—I think one of the complaints alleges \$4 billion to \$5 billion. Where is that? Where did it go?

Mr. MATTINGLY. We would love to know. That is the unanswered question in this matter, which is where did all of that money go?

Senator KERRY. But there is no doubt that it has gone somewhere.

Mr. TAYLOR. There are clearly loans that have been made that the accountants feel are not repayable, and those are substantial. Some to various types of companies, shipping companies, real estate interests, oil, whatever, but I mean, it is not a case of—I mean, there may indeed be basic fraud, but there are also lending problems where the loans are overvalued on the books.

Senator KERRY. Were they overvalued on the books as part of the scheme to enrich people, or were they overvalued because these people were doing bad business?

Mr. MATTINGLY. It might be a bit of both. It's clear they were doing very bad business. I mean, from what we've been able to see, everything they touched turned to a loss and they had to cover those losses up. I mean, this is a bank that showed profits. Its reports that were filed showed profits every year. The profits were, our evidence suggests, fictitious.

Senator KERRY. Well, you talked about sham transactions with respect to the purchase in Washington, DC.

Mr. MATTINGLY. Correct.

Senator KERRY. Do you have evidence of other sham loans?

Mr. MATTINGLY. Senator, those are the ones that we're looking at. We do not have any direct evidence of other sham loans.

Senator KERRY. Well, is it not true that the Price Waterhouse report which you are going to deliver to us very shortly is indicative of that kind of—

Mr. TAYLOR. I think the Price Waterhouse report will show you, you know, where some of the bad loans—it'll show you the names of bad loans, and so forth, but it is not in sufficient detail to really give one a grounding in what the loss amount is.

Senator KERRY. Now, with respect to that, this is the report that triggered the closing, correct?

Mr. TAYLOR. This is the report—

Senator KERRY. This is the report by the hired auditor. You are saying it is not sufficiently detailed to be able to tell you what happened, yet it is an audited report?

Mr. TAYLOR. No, I think it's sufficiently detailed. I mean, one of the statements in the report that captures your attention is one that says we cannot put a balance sheet together on this bank, so we don't know what it has and what it owes to whom.

Senator KERRY. But do you not think it would be interesting for Price Waterhouse to come in here and explain its auditing procedure on this bank?

Mr. TAYLOR. Well, you know, I think what they found—and I think it was really quite—I mean, it's quite a courageous audit report. It says that—

Senator KERRY. Well, let me ask you about that. It conducted an audit report how many months prior to that?

Mr. TAYLOR. I think the last statement was 1989, so that would have been—

Senator KERRY. How about October 1990?

Mr. MATTINGLY. There was a statement that they—that was the critical statement that I discussed in my testimony, October 3, 1990.

Senator KERRY. Prior to that there was one in 1989. Well, what happened to Price Waterhouse that suddenly between 1989 and 1990 they noticed their figures were wrong?

Mr. TAYLOR. I would have to say that it is a good idea to get Price Waterhouse in here and let them explain it.

Senator KERRY. Now, what are the foreign implications of the central bank infusions that we are learning about in this? Are there implications?

I mean, in Peru right now there are a lot of questions. We are going to be hearing from witnesses probably tomorrow morning now, at the rate we are going, who are going to describe some of the problems down there. We have got problems in Nigeria. We have got other countries that are reeling from this. Are there implications for us in that context?

Mr. TAYLOR. Well, I think there are implications to the extent that that turns out to be the case, and it is material enough to adversely affect those nations' central banks ability to carry out their mission. We just don't know if that's the case as yet.

Senator KERRY. OK.

Now, Mr. Mattingly, at the last hearing we had I asked you questions about Mr. Adham, and we just talked about it briefly. Mr. Adham was one of the original CCAH shareholders and was a former head of Saudi Intelligence, and that was known at the time, correct?

Mr. MATTINGLY. That was reported at the time, yes.

Senator KERRY. But did anybody advise the Fed that another original investor in CCAH, Mohammed Irvani, was funding former CIA director Richard Helms' Washington consulting office? Were you aware of that?

Mr. MATTINGLY. Senator, I have looked through the records. I have seen no evidence of that. I have seen no evidence that anyone reported that to us.

Senator KERRY. Or that you knew of it then? Did the CIA advise the Federal Reserve that Adham had employed agency personnel in his business ventures?

Mr. MATTINGLY. Agency personnel? CIA personnel?

Senator KERRY. Correct.

Mr. MATTINGLY. No, sir.

Senator KERRY. After the 1981 takeover, was the Federal Reserve ever advised by the CIA or the State Department or the Treasury Department or the Justice Department that First American was owned by BCCI? Did any one of those entities ever advise you, formally or otherwise?

Mr. TAYLOR. We have—I have no record of that, and we've searched the record and will continue to search the record.

Senator KERRY. What would the format be for such notification? I mean, would you get a letter? Would you get mail? This was pre-fax, I believe.

Mr. MATTINGLY. Pre-fax, yes. This would probably have been a letter or some sort of memorandum that would be submitted to the Fed.

Senator KERRY. Normally when a matter is called to your attention of that import that is the normal process, is that correct—the customary business procedure, as we say?

Mr. TAYLOR. Yes. You know, once again—

Senator KERRY. Those records have been checked and there is no record at the Federal Reserve of any notification of ownership?

Mr. TAYLOR. I know of none.

Mr. MATTINGLY. By—

Mr. TAYLOR. By Treasury, CIA.

Senator KERRY. Treasury, CIA, State Department, or Justice?

Mr. MATTINGLY. Treasury, CIA, Department of Justice, State Department. Certainly not the CIA until just—

Mr. TAYLOR. Recently.

Mr. MATTINGLY. Until very recently.

Mr. TAYLOR. Everybody now seems to know it.

Mr. MATTINGLY. Senator, I—to the best of my recollection, no, not from those.

Senator KERRY. Well, do you want to go back to the record one more time and just be certain?

Mr. MATTINGLY. I will, and I will be happy to answer that for the record. The answer is “no.”

Senator KERRY. Now, on page 2 of the July 29 press release announcing the civil money penalty, you make the following statement: “At the request of the U.S. attorney for the District of Columbia, the Board has deferred temporarily the assessment of substantial civil money penalties against individuals pending completion of the U.S. attorney’s criminal inquiry.” Did you meet personally with Jay Stevens regarding that?

Mr. MATTINGLY. No, we did not. Obviously, the Federal Reserve does not want to take any action or to do anything that would interfere with bringing the responsible parties to justice.

Senator KERRY. I understand, but did you make a judgment—did the Federal Reserve make a judgment that it wanted to impose civil penalties but that you were told by Justice that might interfere with the criminal process?

Mr. MATTINGLY. Senator Kerry, we sent the notices over to the Justice Department. There were civil money penalties assessed in the draft notices.

The Justice Department said that there were legal problems with the Federal Reserve—there could be legal problems with the Federal Reserve proceeding to assess civil money penalties, that a civil money penalty assessment could be—could preclude subsequent criminal prosecution of these individuals and the Justice Department—

Senator KERRY. What is the theory of law there?

Mr. MATTINGLY. It appears there was a Supreme Court case that came down—I think it’s 2 years now. Halper, the *United States v. Halper*—which indicates that under certain circumstances—it may indicate that under certain circumstances a civil penalty, or a civil—a civil penalty could be so substantial that it could be punishment and trigger the double jeopardy clause.

The Justice Department hasn’t made any decision on that, of course, but they are looking into that question and that is the reason for this—

Senator KERRY. No, fair enough. I just want to understand it, and I accept that.

Did you meet with anyone at the Justice Department in the course of the last couple of months regarding this matter?

Mr. MATTINGLY. We have had a number of meetings with the Department of Justice personnel about this investigation, yes.

Senator KERRY. Beginning in what period of time?

Mr. MATTINGLY. Oh, right after the criminal referral. We met with the—I met with the U.S. attorneys assigned to the case. The actual attorneys who are investigating this matter have met on

any number of occasions with Department of Justice personnel about this case.

Senator KERRY. Now, Mr. Mattingly, I know you have been very cooperative with the district attorney in New York, and we went through the issue of cooperation last hearing. This may be a hard question for you, but I am going to ask it.

Has anyone at Justice Department suggested to you that you should cooperate more with them than with the district attorney in New York?

Mr. MATTINGLY. No, sir.

Senator KERRY. It has never been suggested to you?

Mr. MATTINGLY. Not to me.

Senator KERRY. What about any of your investigators?

Mr. MATTINGLY. I haven't had that brought to my attention.

Senator KERRY. Let me ask you this. The complaint that you issued the other day suggests that—makes several references to the fact that BCCI owned CenTrust Savings & Loan in Florida. When did the Fed learn of that connection, and how?

Mr. MATTINGLY. Our investigators were in London trying to get documents. We were going to interview some witnesses—it was 2 or 3 weeks ago—interview witnesses and obtain documents with respect to the illegal acquisition of the National Bank of Georgia.

When we looked through some documents that were seized from BCCI's offices, we found documents in there that I described that indicate that BCCI actually had a substantial interest in CenTrust.

If I could, just about the Justice Department, one comment. I mean, we did go to them with this last civil money penalty of \$200 million, and I want—they gave us the green light to proceed with that. I want that on the record. I would like to put that on the record.

Senator KERRY. To proceed with the civil penalty?

Mr. MATTINGLY. Yes. They gave us a green light to go ahead and assess the \$200 million civil money penalty against BCCI.

Senator KERRY. Did they think it was a little steep?

Mr. MATTINGLY. They did not convey that to me, no, sir.

Senator KERRY. Do you have any evidence that the shredding of documents or destruction of documents that Mr. Blum referred to earlier in fact has taken place? Is there any way for you to determine gaps in the records you have, or partial?

Mr. MATTINGLY. We, with the seizure—with the seizure of the New York agency on July 5 we commenced inquiries to try to locate the files at the Washington, DC, representative office. The State of New York has taken action to secure those, as has the county attorney in New York, and I believe the Justice Department also.

Senator KERRY. Does that mean that you are having difficulty doing that?

Mr. MATTINGLY. I don't know the current status of that. I'm informed it has been done.

Senator KERRY. It has been done, so those have been secured in full, but you do not know whether or not some items are missing or not missing? You have no way of telling?

Mr. MATTINGLY. No, sir. We have not had the time to go through those files. We certainly intend to do so.

I might add that the California authorities have also seized the files at the Los Angeles agency, and they are in the process of going through those records to determine what is there.

Senator KERRY. Let me say that I am going to move on here. There are some sort of housekeeping areas of inquiry. There are a lot of detailed questions that we do not need to go through right now, but we would like to leave the record open so that some of those can be asked. We have been at this for a long time, and I do not want to—I think people are getting a little bleary-eyed. I know this Senator is.

Senator Jeffords, do you want to inquire for a moment?

Senator JEFFORDS. Just for a moment yes, although if Senator Cranston wants to go ahead, he was here ahead of me.

The New York grand jury indicted BCCI—I think it was count 4—for grand larceny committed against the American Express sometime after January 1, 1983. When did the American Government discover that American Express was a target of criminal activity by BCCI, if you know?

Mr. MATTINGLY. Senator, the first that we heard of that was in the indictment. The first that the Federal Reserve heard of that was when we received a copy of the indictment.

Senator JEFFORDS. Do you know of anyone else in the Government that had prior notice?

Mr. MATTINGLY. I do not, sir.

Senator JEFFORDS. I believe you testified earlier about some activity on the international scene looking at how to prevent further occurrences of such things. I think you talked about money laundering discussions and matters like that. Are there any other meetings or discussions going on as to what ought to be done at the international level to try to make sure that a BCCI does not occur again?

Mr. TAYLOR. I think first of all the Basel Committee continues and there are also efforts underway in the European group, the EEC Group, which is another bank supervisory group—and I am sure that when this BCCI thing is fully out on the table both committees—will look at it and try to take what actions are appropriate. I think it's very significant, at least from a U.S. perspective.

We are very happy to see the chairmanship of the Basel Supervisors Group pass to Jerry Corrigan of the Federal Reserve Bank of New York. He will chair that committee, and in fact he has been voted as the chairman, so the U.S. perspective will get a clear statement from the chairman's seat.

Senator JEFFORDS. Well, would that be the kind of group that would be looking at international mechanisms to observe what is going on and have regulatory authority in the international sector, or things along those lines?

Mr. TAYLOR. Yes. The Basel Supervisors Group consists of major industrialized countries—and the representatives of those countries that came to the meetings are basically central banks and bank supervisors. They have authority in their own countries and have powers in their own countries to make these kind of coordinated arrangements work. So it is the right body to be working with.

Sometimes they—some countries will have to go back and get their laws changed, but I think there has been progress, especially on money laundering. And I don't think there's anyone on the com-

mittee that feels anything else than the banking system shouldn't be used for criminal purposes at all and all are prepared to do what's necessary to make sure that doesn't happen.

Mr. MATTINGLY. I might just add a footnote to that, Senator Jeffords. The banking bill that's being marked up today has a provision, an important provision, in it that provides that if a foreign bank wishes to do business in the United States, the Board cannot give its approval unless the Board is satisfied that the foreign bank is supervised on a consolidated basis by its home country.

Senator JEFFORDS. Would these kinds of mechanisms apply to what you are doing, to monitoring the transfer of funds country to country?

Mr. TAYLOR. Well, I think that's one of the things that is being discussed, the whole question of the safety of the payments mechanisms, not just the use—the potential criminal use of it, but the effect of that criminal use should you have some kind of blowup. In other words, would you, in effect, stop the capacity of the world to clear its transactions?

So there is not only the interest in excluding the criminal element, but there is also the self-interest of the system itself, that only if the participating countries respect the system will it function properly.

So I think it's probably an area that needs work and should receive attention.

Senator JEFFORDS. I have certainly heard about the shell-game-type situations that we saw with BCCI and how they may or may not be criminal. You cannot really tell. But unless you are able to monitor a pattern of activity of those kinds of things—

Mr. TAYLOR. Well, over the years in banking supervision we've had the same problem domestically in the sense that you see someone abuse a bank in North Dakota and all of a sudden you find him down in New Mexico doing the same thing. And it's a sore disappointment to the examination business to ever allow that to happen.

I think that systems, and specially the electronic progress, is coming to the point where that type of thing is going to be much harder to do domestically and much harder to do internationally.

For example, we have a criminal referral system now among the agencies whereby we plan to have all criminal referrals exchanged, so that there's an automated record. Not just so that we have all the paper, but so that we have access to the paper, and so that we can type the name into the computer and have it tell us if anything exists, as opposed to just seeing boxes and boxes of file cabinets. And I think that type of thing is also working internationally.

Senator JEFFORDS. I know we have the international stock markets and futures markets operating. I am concerned as to how in the world we are ever going to know what is going on.

Thank you. Thank you, Mr. Chairman.

Senator KERRY. Thank you very much, Senator Jeffords.

Gentlemen, just before we wrap up here, has anyone at any level to your knowledge in any way at any time tried to interfere with the regulatory efforts of the Federal Reserve?

Mr. MATTINGLY. No, sir.

Senator KERRY. Mr. Taylor?

Mr. TAYLOR. No, sir.

Senator KERRY. Have you come across any evidence in the course of your investigation that indicates that anyone at any time anywhere has tried to interfere with other regulatory efforts in other States, or even within the law enforcement regulatory efforts?

Mr. MATTINGLY. I can't think of any offhand, sir.

Mr. TAYLOR. I can't, either.

Senator KERRY. Do you concur with the judgment of the committee that there is a legitimate concern with the change in the financial marketplace and the potential for criminal elements to move money as easily as they can, and to create cardboard cutout entities which mask true ownership and which in a sense threaten law enforcement's capacity as well as the sovereignty of some Governments? Is that a concern to the Federal Reserve?

Mr. MATTINGLY. Absolutely.

Mr. TAYLOR. Absolutely.

Senator KERRY. Is it your sense that we should be doing more with respect to money laundering and the tracking of the origin of funds?

Mr. TAYLOR. Yes.

Senator KERRY. That runs right up against the bank secrecy that has pervaded the system for these last 60 years or more, does it not? 90 years, maybe.

Mr. TAYLOR. I and a lot of my colleagues around the world in supervision feel that it's absolutely essential that that secrecy—no matter the respect for privacy—that there must be a way to stop the criminal element from using that as an excuse to just launder money, so we fully concur with the committee on that.

Senator KERRY. Is it fair to say that it is more than simply laundering money, but that it is a really false facade of business, that in some cases is not laundering money but is legitimately moving money into concerns. I mean, it is what used to happen here in this country with organized crime but now has far more ways of moving that capital. I mean, is it not really—

Mr. TAYLOR. It's the whole scope of illicit activity that really has to be looked at, Senator, and not just money laundering.

Senator KERRY. It has to be done without multilateral protocol?

Mr. TAYLOR. I think it would be difficult to have any—to participate in the world financial community while trying to do that just in isolation. I really think you must have a multilateral approach to it to be effective.

Senator KERRY. Is it not also fair to say that the G-7 at least, maybe the G-15 or something, but that the G-7 and G-5 certainly have the ability, because of the power of their currencies and the need to clear through their systems, to leverage the Cayman Islands, Luxembourg, Hong Kong, and various other places into a stronger standard of behavior?

Mr. TAYLOR. I think it's quite possible, and also leveraging a stronger sense of behavior within their own countries.

Senator KERRY. Why don't we do it? Why isn't it happening?

Mr. TAYLOR. Well, I think that, although, as I said, it looks painstakingly slow, I think that the mechanism is in place and there can be an effective multilateral effort through Basel. There has been on some things, and this just needs to have a priority.

Senator KERRY. Before we wrap up, we have legislative friends here from Peru and we have officials, previous officials from Argentina and Peru, and they have waited very patiently all day. I appreciate that. Our interpreters who are going to be necessary for this have also waited all day, and I think they would prefer if we went over into the morning. I just want to make certain that is clear.

So I think what we will do is take that portion of the testimony in a very brief session tomorrow morning at 10 a.m., and if there are no further questions I just want to place in the record—this morning Senator Cranston mentioned the case of a Financial Times journalist who was murdered in Guatemala.

On Wednesday, an article appeared in the Mexican newspaper, *Excelsior*, which links this death with the investigation that the Financial Times reporter was doing on BCCI, and I ask that a copy of this article be translated and then placed in the record in full.

Without objection, that will occur.

[The information referred to follows:]

BRITISH JOURNALIST KILLED IN GUATEMALA

GUATEMALA CITY, July 29, 1991 (AP).—A British journalist who worked for the Financial Times of London was found shot to death in his Guatemala City apartment, officials said Monday.

A maid found the body of Anson Ng Yong, a British citizen born in Malaysia, in his apartment Monday morning, police said.

He had a bullet wound to the head and appeared to have been struck in the neck, the police statement said.

Yong had lived in Guatemala for 7 years.

British Embassy officials said they had no additional information on Yong's death.

Senator KERRY. Gentlemen, I want to thank you very much. Again, I repeat, I think the Fed has been very forthcoming in this process. We appreciate enormously the response and the cooperation, and we look forward to working with you as we go down the road here, and I want to thank you very much.

I know there are reasons that you are under pressure here, and I want to thank the chairman for making you available and I want to thank the chairman for his cooperation.

Mr. MATTINGLY. Thank you, Senator.

Mr. TAYLOR. Thank you, sir.

Senator KERRY. We stand adjourned.

[Whereupon, at 4:36 p.m., the subcommittee adjourned, to reconvene at 10:10 a.m., August 2, 1991.]

NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

FRIDAY, AUGUST 2, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry, Cranston, Brown, and Jeffords.

Senator KERRY. The hearing will come to order.

I am going to start by making a few opening comments.

We have a vote that just started at the moment that we are beginning. So I apologize that there will be a small interruption here.

We meet this morning to resume consideration of the global financial banking scandal involving BCCI. Before I move to explain today's proceedings, I would like to make one or two comments.

Last night I noticed that the distinguished minority leader of the Senate seemed to suggest in a statement on the floor of the Senate that he at least discerns conceivably some partisan political purposes in the investigation.

I want to make it very clear that if that is what Senator Dole meant to suggest, I truly believe that he is mistaken. And I regret that he felt that way.

At our hearing yesterday the senior Senator from North Carolina, who is certainly not usually known as a partisan of Democratic causes said that if there was an ever an issue of legitimate bipartisan concern, it is BCCI. And I agree with the Senator from North Carolina. The fundamental issue raised by this scandal has nothing to do with partisan politics.

The issue is very simply whether we are going to allow a criminal conspiracy of the size and influence of BCCI to be able to run all over our political and financial system, and to bankroll terrorists, to launder drug money, and to take average citizens to the cleaners. That is the issue.

And yesterday there were enough Democratic names and Republican administration criticisms to fill everybody's pot. It had nothing to do with one or the other. I would hope that members of both political parties would simply agree that this is an effort to try to get at the truth.

Now there will be some who will want to discredit the process and who want to discredit those involved with it. We have, unfortunately, been subjected to that kind of attack before. And there are some who will be embarrassed at the process of this effort. There are some who may not want to see the full record on the table.

But I did not see how I could begin a hearing or begin a legitimate investigation that does not lay the groundwork of where we have been and how we have gotten here. And if you are not willing to look at where you have been and how you have gotten here, you are certainly not willing to look at what is at stake here.

I would also say that the minority leader asked rhetorically whether Democrats have shown an interest in investigating the activities of CenTrust. It is sort of ironic that he asks that on the evening of the very day in which Democrats such as me have asked numerous questions at a public hearing about CenTrust, a financial institution in southern Florida that has been under investigation for a number of years.

As the record makes very clear, this subcommittee and this chairman issued a subpoena for the records of CenTrust several months ago. We have been looking for those records. We have been asking about that investigation. And yesterday we received more testimony about it and this chairman asked about it.

So in summary, I hope that my impression of the minority leader's statement was wrong. I look forward to working with him and with my Republican colleagues in an effort to try to continue down the road that we have embarked on.

Now this morning's hearing is different from yesterday and different from the hearings this committee normally has.

First of all, we do not normally have, although we have had on occasions, foreign nationals testifying before the committee. We certainly do not do it as to policy issues that involve the national security of the country in normal terms. But this is a factfinding quest.

It is also very important for us in order to be able to understand the implications of the scandal to have an understanding as to how it has played out in other parts of the world. We need to learn how BCCI operated overseas, so we can better understand how it may have undermined U.S. efforts to combat drugs.

We need to understand BCCI's participation in arms trafficking that has run counter to American interest in the world.

Moreover, it is important for law enforcement to have an understanding. We have mutual legal assistance treaties with other countries. We have international cooperative efforts legally. And it is vital for us to understand that the implications of our law enforcement efforts and how those may or may not be impacted by what is happening in other countries.

I would like to make one thing very clear. I have said this previously to the witnesses and they understand it and agree. This committee does not want to get involved in the internal politics of another country. We are not seeking to do so. That is not our purpose.

We do not want to know about the internal squabbles or battles similar to our own between parties and between factions. And we certainly are not looking to impune any present or past official. We

want to know about BCCI. We want to know how BCCI functioned in these countries and what the impact has been on those countries of consequence to the actions that BCCI took. Those are the parameters of today's hearing.

I look forward to the witnesses adhering to that standard.

Our first witness today is the Deputy Director of Exchange Operations of the Federal Reserve Bank of Peru, Mr. Ricardo Llaque. I would ask Mr. Llaque if you would rise so that I may swear you in before we take your opening. And I am going to go vote before we do that.

Mr. Llaque, would you raise your right hand? Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LLAQUE. I promise.

Senator KERRY. Thank you.

Now we will recess, I regret, momentarily until I can go vote and come back from the vote, at which time we will pick up.

The committee will stand in recess until that time.

[A brief recess was taken.]

Senator CRANSTON [presiding]. The hearing will please return to order.

Let me explain, we will not proceed with the witnesses until Senator Kerry returns. But I have an opening statement that I wish to make at this point.

First, let me add my voice of welcome to the witnesses today. They have come many miles to help us understand the global dimensions of the BCCI mess. I appreciate the sacrifices they have made and I look forward to hearing the views of the witnesses.

Before we begin, I would like to make two general comments and one specific matter I want to discuss briefly. The first concerns something I read in yesterday's New York Times which worries me very much. If this report is true, virulently antisemitic and anti-Israel slanders have been voiced by an important Pakistani official in connection with the BCCI scandal.

The chief minister of the Sindh Province, Jam Dadoq Ali, reached into a timeworn bag of canards to put out a bigot's chestnut, "The West and Israel," he said, "were responsible for the closing of the bank. BCCI," he said, "was the Third World Bank, and it took to the challenge of breaking a hegemonistic control of the Jewish lobby on the world's financial institutions."

These comments seek not only to inflame hatred and intolerance, nor are they merely outrageous on their face. Scapegoating is always one of mankind's more miserable ways of explaining failure.

If, in fact, these words were uttered, I call on the Government of Pakistan to publicly repudiate Dadoq Ali's remarks. They are shameful and the mark of a terribly ignorant man.

And as far as BCCI being the Third World's bank, we heard testimony yesterday about how it diverted funds intended to alleviate poverty in Third World to the private profit, criminally, of a few individuals.

Second, I want to express my concern about Argentine President Carlos Menem's apparent desire to blame his own current political difficulties on Argentina's independent press, which is working

under very difficult circumstances to uncover the truth about BCCI in that country.

Yesterday I spoke about a Financial Times journalist whose murder a few days ago in Guatemala may be related to his own probing of BCCI's ties to arms smuggling there.

Now in Argentina Menem has publicly rebuked the muckraking Buenos Aires daily newspaper, Pagina 12, in a way which appeared to harken back to the days of Argentina's authoritarian past. He has attempted in the crudest sort of way to smear Pagina 12 as an organ of terrorist and drug peddlers.

Pagina 12, which was recently written up in Time Magazine for its innovative and incisive reporting, has been giving extensive coverage to the BCCI scandal and its effects in Argentina. It has sought to investigate charges already in the public domain about involvement by Menem family members and friends in the drug trade.

Finally, it was Pagina 12 which unearthed the so-called Swiftgate scandal, an apparent attempt to extort an American company in Argentina. The attempt was allegedly made by a top government official.

I know how criticism, especially that from the fourth estate can hurt, but President Menem is way out of line. I urge him to stop.

Before we begin I would like to place into the record documents just received by the committee as a result of a subpoena of BCCI records in Miami. The 42 pages I am submitting seem to bear out some of the worst suspicions about BCCI's role in international arms trafficking.

The pages describe in a luxury of detail French Mirage III/B's owned by the Argentine Air Force. From them we learn that these planes were "modified to Argentine Air Force requirements following years of combat experience."

We also learn that they are constructed with Delta wings, have aerodynamic airflow fuselage, are powered by an improved and augmented ATAR 9c5 engine, and have a maximum air speed of 2 mach.

According to these documents, these airplanes include wing edge stations modified for Sidewinder and Shafrir missiles, making them very dangerous instruments of war.

On page 34, why BCCI has these documents, papers whose details suggest that somewhere they might be considered a military secret, comes into focus. All spares and repairs, the document on page 34 says, "will cover 2 years of operation at the organizational and intermediate levels. Long-lead items will be identified immediately after program go ahead to assure early procurement action."

The next page tells us that "ground support equipment will be provided for all models of aircraft." Adding, "The AAF"—presumably Argentine Air Force—"will provide an engine test cell—portable."

Page 38 concerns pilot training, "It is proposed that is the customer country training is required," the document reads, "the AAF is prepared to provide this training in Argentina. A complete flight training program will be defined between AAF and customer country with all costs to be negotiated separately at that time."

"After completion," it goes on, "the flight training AAF is prepared to provide a pilot in the customer country as an adviser for a defined period of time."

And concerning packing and crating, page 41 tells us that, "AAF will pack and crate logistic support material and store it at Rio Cuarto, Argentina, for picking up customer country."

Mr. Chairman, these documents exist. They are in our hands. They come to us from the liquidators of BCCI in Miami. The sequence of pages is as I read it. But in fact the best information was revealed right here on page 2 down in the right-hand corner where there is a little handwritten notation on these documents.

In pen someone, presumably from BCCI, has written in English, quote, "22 units of aircraft plus adequate spare parts, including six spare engines, at a price of \$110 million." That is the end of that handwritten notation on the document.

I do not know what policy guidelines Argentina follows in procuring and selling weapons. I look forward to asking Mr. Alconada Sempé, who is a former Secretary of Defense, whether he has any knowledge of this proposed sale of 22 high technology fighters or whether this has been discussed publicly.

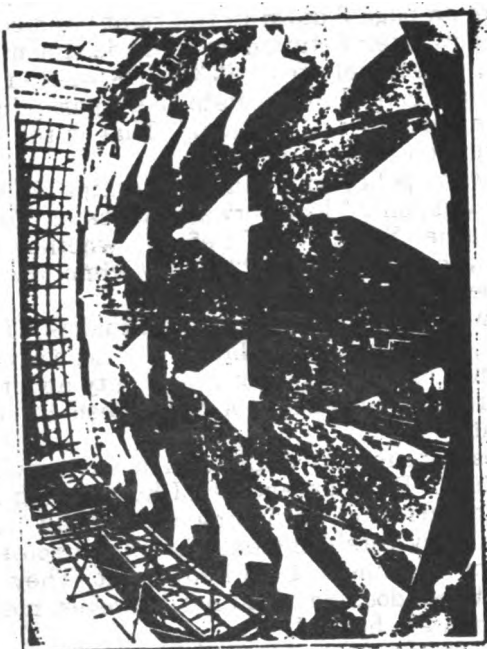
But I do find it worrisome, very worrisome, that BCCI Miami, an institution which served as Gen. Manuel Noriega's banker and about which all kinds of allegations of criminality abound, appears to have been given the go-ahead as a go-between for the sale of military instruments.

I also think these documents suggest in a very vivid way the degree of which Ghaith Pharaon and BCCI have penetrated to the upper reaches of government, including specifically, Argentina's political and/or military establishment, for the purpose of profiteering on the sale of weapons to Lord knows who. They speak of a customer country. These documents do not, however, make it clear where these weapons were headed.

But this is the sort of activity by this international bank that plainly cannot be tolerated. We have to understand all of its ramifications and then cope with what it takes to prevent this sort of thing from happening in the future.

Mr. Chairman, thank you very much.

[The information referred to follows:]



Modified to Argentine Air Force requirements following years of combat experience.

Single Seat, Multi-purpose, over 2 Mach aircraft.

Constructed with Delta wings and aerodynamic airflow furrlage.

Powered by an improved and augmented "ATAR 9C5" engine.

23 kinds of aircraft plus a special spare part, including 6 spare engines & a price of \$110,000,000.

MIRAGE IIIC/BCONFIGURATION

Improved "ATAR 09C5" Engine (instead of "ATAR 98").
JH6 Ejection Seat (through canopy, zero speed, zero altitude).
Improved Drag Chute System.
System COM-NAV-Collins.
Structural improvements (Wing & Flight Control reinforcement).
Improved Outboard Carry Points, for air to surface armament.

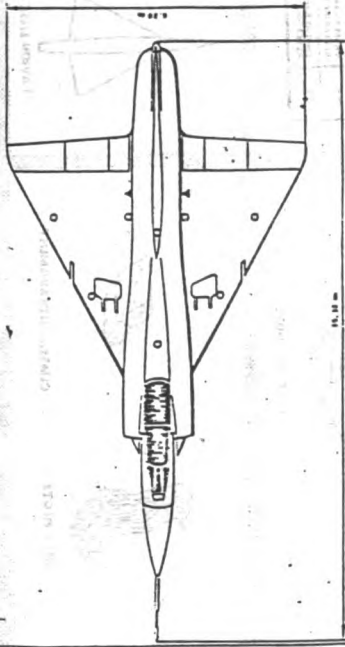
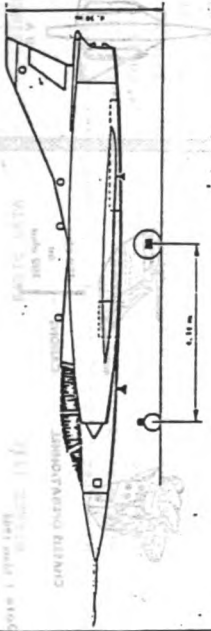
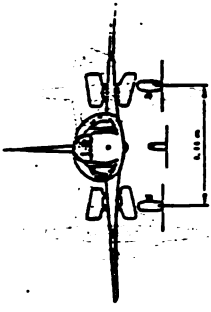
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MIRAGE IIIB	BASIC DATA	TWO SEATER
Wing Area.....		34.8 sq.m
Aspect Ratio.....		1.94
Leading Edge Sweep.....		60°36'
Average Wt.with Int.Fuel.....		8833 kg.
Internal Fuel.....		2550 liters
Max.Takeoff Gross Wt.....		12000 kg.
C.G. Limit.....		54.2 ft
C.G. Average.....		52.06 ft
Max. Air Speed.....		2 each or 730 KIAS with external load
Engine - ATAR 9C		
Mil Power.....		4300 kg.
Max. A.B. Power.....		6000 kg.

MIRAGE III D

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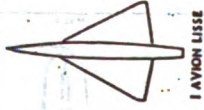
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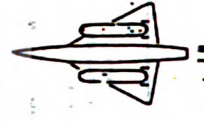
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CANONS
250 ohms
ou
200 ohms

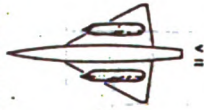
I AVION LISSE



I A



I B



II A



II B



II C

MISSIONS

Date : 1 Mars 1946

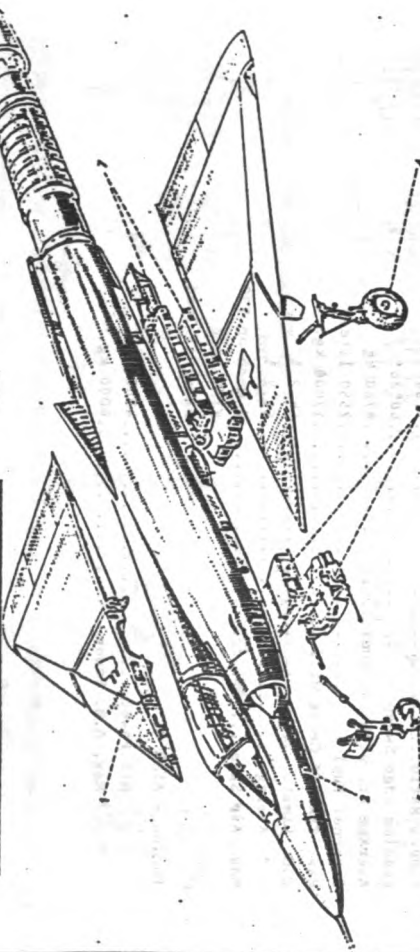
C 0001563

MIRAGE IIIC	BASIC DATA	SINGLE PLACE
Wing Area.....	34.0 sq.m.	
Aspect Ratio.....	1.94	
Leading Edge Sweep.....	50°36'	
Average Wt. with int.fuel.....	8760 kg.	
Internal Fuel.....	2550 liters	
Max. Takeoff Gross Wt.....	12000 kg.	
C.G. Limit.....	54.2 %	
C.G. Average.....	52.2 %	
Max. Air Speed.....	2 mach or 730	
	KIAS with	
	external load	
Engine - ATAR 9C		
Mil. Power.....	4300 kg.	
Max. A.B. Power.....	6000 kg.	

SEN 001367

9

- LEGENDE
1. VOILURE _VOIR {1,2}
 2. FUSELAGE _VOIR {1,2}
 3. EMPENNAGE VERTICAL _VOIR {1,2,3}
 4. ATTERRISSSEUR PRINCIPAL _VOIR {1,1,1}
 5. ATTERRISSSEUR AUXILIAIRE _VOIR {1,1,2}
 6. TURBO _REACTEUR _VOIR {1,2,3}
 7. FUSEE OU RESERVOIR COMBUSTIBLE _VOIR {2,3,5}
 8. CHASSIS INTERCEPTION OU CHASSIS CANONS _VOIR {1,2}



INDEX

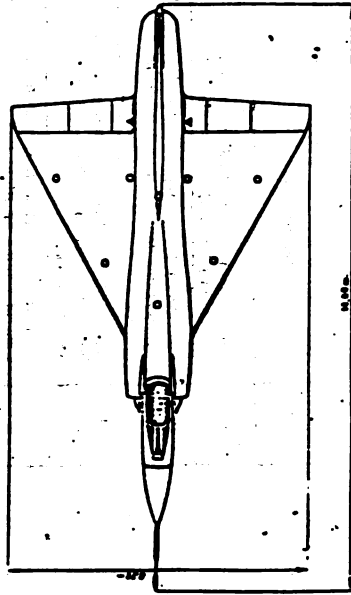
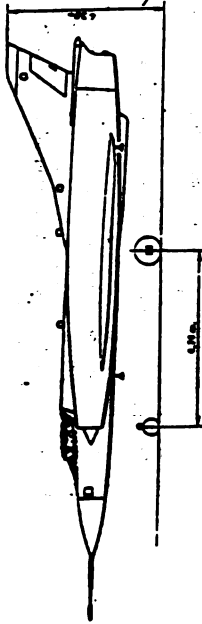
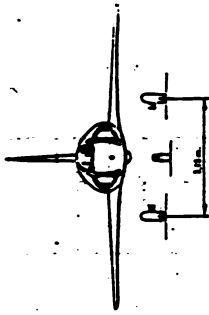
DECOMPOSITION DE L'AVION

C 0001565

PIRAGE III C

SEN 001366

10



- POINT DE L'ALUMINAGE
- POINT DE SOLIDIFICATION
- POINT DE JONCTION
- POINT DE L'ESTRÉE
- POINT DE SOLIDIFICATION ADHÉRENT

C 0001566

CARACTÉRISTIQUES GÉNÉRALES

Date :

MAIN AIRCRAFT MODIFICATIONS

No	Description	Applicable No.	RDP No.
9	Modification of Fuel Tank AND 2183 and 8/7111 Valve Control Cables	IJ CJ	1921
10	Interconnection of Angle of Attack Not winding loop to Aerial Warning System	IJ CJ	1929
11	Low Light (C3Y-98) Push-button Control for manual setting to 250, 450, 600 and 750 ranges	IJ CJ	1948 2125 2223
12	Replacement of M12 Inlet Telephone Control Cables by Night Fuel Control system	IJ CJ	2001 2226
13	Application of brake force during engine shutdown	IJ CJ	2008
14	Replacement of TRAP 31 by ANCS1-AX radio sets	IJ CJ	2045 2146
15	Deletion of Landing Approach Control system	IJ CJ	2060
16	Reinforcement of Wing fair-weather landing gear doors	IJ CJ	2112

MAIN AUXILIARY MODIFICATIONS

No.	Description	Applicable No.	BCP No.
1	Automatic Emergency Transmission for IFF, Completion of Previous Change	14 CJ	300 1990
2	Installation of Fuel Gauge for Indication of Heavy Landings.	CJ 14	196
3	Addition of Lubo Fillings to Eleven and Rubber Hinge Assembly	CJ	620 870 1985
4	Addition of Shut-Off Valve to Hydraulic System, for Prevention of NLO (Intrusion on Ground)	14 CJ	886 1616 3286
5	Manual Switch for Servo System Electric Isolation Valve	14 CJ	887
6	Reinforcement of Outer Eleven Edges, for Prevention of Wear (MIT 167)	14 CJ	730 2129
7	Pairing of Access Panel, to allow replacement of A/B Ionization Gauge	14 CJ	820
8	Improvement of Electric Throttle for Engine Emergency Control	14 CJ	880, 946, 1064, 1118, 3273

MAIN AIRCRAFT MODIFICATIONS

No.	Description	Applicable To	ROP No.
17	Installation of Gestrigo Counter	13 CJ	2143 2159
18	Installation of Mirage M-5 Gun Box	13 CJ	2157
19	Improvement of Drag Chute System	11	2162
20	Installation of improved canopy mirrors	13 CJ	2168
21	Installation of Improved Fuel Remaining Counter	CJ	2176
22	Installation of Alar M-5 Engine	13 CJ	2178
23	Canopy Opening Capability at Take Off Position	CJ	2188
24	Installation of "DYNAMIC" Radar	CJ	2190 2202
25	Installation of Rear H. Z. Warning System	CJ	2213
26	Installation of JMS Ejection Seat	CJ 13	2202 2274

D

D

No	Description	Applicable No.	ROP No.
27	Installation of ASIP System for five A/C	GJ	2238
28	Preventing Engine Start with D. P. Valve closed or partially open	DJ CJ	2232
29	Wing Upper Skin Reinforcement for prevention of cracks.	DJ CJ	2242
30	Construction of Engine A/B Fire Warning In Aural Warning Indication	DJ CJ	2204
31	Installation of a Cassard Wing on forward fuselage (prototype)	GJ	2269

32 Modification of Oxygen system.

GJ

AAL

AIRFRAME FLIGHT HOURS

ORDER NUMBER	SERIAL NUMBER	TOTAL HOURS	NEXT PERIODIC INSPECTION	AVAILABLE HS. NEXT INSPECT.	INSPECTION CYCLE TO CARRY OUT
1	C-701	2425	V1	65:00	V1-V2-V3-V2-V1-P
2	C-702	2316	V1	65:00	V1-V2-V3-V2-V1-P
3	C-703	2362	V1	65:00	V1-V2-V3-V2-V1-P
4	C-704	2053	V1	65:00	V1-V2-V3-V2-V1-P
5	C-705	1247	V1	65:00	V1-V2-V3-V2-V1-P
6	C-706	2416	V1	65:00	V1-V2-V3-V2-V1-P
7	C-707	2073	V1	65:00	V1-V2-V3-V2-V1-P
8	C-708	2230	V1	65:00	V1-V2-V3-V2-V1-P
9	C-709	2104	V1	65:00	V1-V2-V3-V2-V1-P
10	C-710	1487	V1	65:00	V1-V2-V3-V2-V1-P
11	C-711	1491	V1	65:00	V1-V2-V3-V2-V1-P
12	C-712	1949	V1	65:00	V1-V2-V3-V2-V1-P
13	C-713	2028	V1	65:00	V1-V2-V3-V2-V1-P
14	C-714	1912	V1	65:00	V1-V2-V3-V2-V1-P
15	C-715	1760	V1	65:00	V1-V2-V3-V2-V1-P
16	C-716	1858	V1	65:00	V1-V2-V3-V2-V1-P
17	C-717	1934	V1	65:00	V1-V2-V3-V2-V1-P
18	C-718	1668	V1	65:00	V1-V2-V3-V2-V1-P
19	C-719	1675	V1	65:00	V1-V2-V3-V2-V1-P
20	C-720 (B)	1775	V1	65:00	V1-V2-V3-V2-V1-P
21	C-721 (B)	1477	V1	65:00	V1-V2-V3-V2-V1-P
22	C-722 (B)	1501	V1	65:00	V1-V2-V3-V2-V1-P

NOTES:

- 1) Inspection cycles: V1-V2-V3 are carried out each 65:00 flight hours. On reaching to 390:00 hours, the aircraft goes into type "P" inspection.
- 2) All aircraft which have a general total of more than 2000 hours must go into overhaul at 2000 hours.
The remainder aircraft must go into overhaul at 2500 hours.

C 3001571

SEM 001373

al.

AIRCRAFT MAINTENANCE CONCEPT

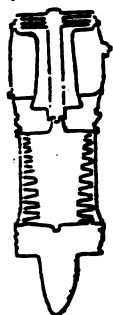
<u>Organizational level</u>	<u>Intermediate level</u>	<u>Depot level</u>
Pre-flight	Preventive Insp. 195 flight hours (V3) Inspection	2500/3000 Flight hours Inspection (Overhaul)
Basic Post-Flight	350 flight hours (P) Inspection	
Weekly Inspection	Incorporation of Engineering Changes	Incorporation of Major Engineering Changes (Structural)
Special Inspection 65 flight hours (V1, V2) Inspection		

ENGINE

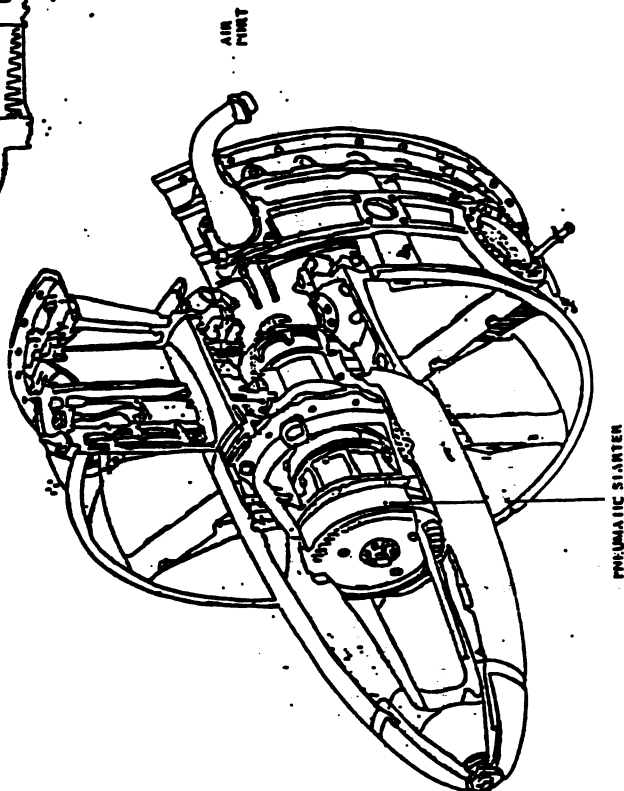
Model	ATAR 9C5
Type	Axial Flow with Afterburner
Compressor	9 Stages
Turbine	2 Stages
Combustor	One, Annular
Nozzle	Variable, 10 Flaps
Control	Hydromechanical with Electrical Emergency Regulation and Derichment
Starting	Firing Solenoid Valve Compressed Air Starter
Weight	1380 kg.
Length	658.9 cm (approx.)
Diameter	1050 cm (approx.)

SEN 001378

22



INLET CASE

AIR
PURTY

PNEUMATIC STARTER

C 8001576

ENGINES AND AFTER BURNERS MAINTENANCE CONCEPT

<u>Organizational level</u>	<u>Intermediate level</u>	<u>Dopot level</u>
50 flight hours Inspection	200 flight hours Inspection	600 + 5.5 flight hours Inspection except when we changed disc M7 that the inspection is at 600 hr.

ENGINES STATUS

Besides engines installed on aircraft, five engines will be supplied as spares .
The total available flight hours for all engines will be 7,500 hours approximately.

I. III: ENGINE MODIFICATIONS

No.	Description	E.O. No.
1.	Additional holes in oil system for prevention of contamination	65-0258
2.	Ceramic Coating on A/D Liners and Flaps for Improved Endurance	65-0446
3.	Central Case Modification for prevention of oil leakage, bearing damage and case cracking	65-0463
4.	Improved Cooling on A/D Lubr Attaching Bolt by Injection of special emulsion	65-0650
5.	Prevention of fuel coking in A/D Spray Wings by injection of 1/2 Air Restrictor.	65-0680
6.	Air Starter (instead of Gas Compressor Starter)	-
7.	Approach Control Unit - not applicable	-
8.	CUT-3T Remover Amplifier - not applicable CUT-3T Remover Solenoid Valve - not applicable	-
9.	Gun Firing Solenoid Derichmond Valve - only missile firing - deleted	-
10.	Over-firing system disconnected from F-11	-

IMPROVED ARMAMENT SYSTEM

Wing Station Armament Connectors Replaced with Bendix Type

Wing Edge Armament Attach Points.

Wing Edge Stations Modified for "Sidewinder" and "Shafrir" Missiles

Missile Launch Through Bomb Button Enables Gun Operation in Conjunction with Missiles.

Cannet-Line Ejection Rack Equipped with Two Electromagnetic Release units-
Type Alkan-500

MIRAGE III C



CHARGES EN SOUTÈRE

SOUTÈRE AV.



TAC 100 I
ou
TE 100 I

SOUTÈRE AR.



TAC 100 I



GARDON 210 OMVS



GARDON 210 OMVS
(ACTIVE)

CHARGES EXTERIEURES

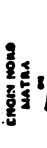
SOUS FUSELAGE



SOUS FUSELAGE
1000 lb.
ou
1000 kg



SOUS FUSELAGE
1000 lb.
ou
1000 kg



SOUS FUSELAGE
1000 lb.
ou
1000 kg

SOUS FUSELAGE
1000 lb.
ou
1000 kg

SOUS VOLUME

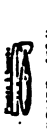
POINT INTERNE



SOUS VOLUME
1000 lb.
ou
1000 kg



SOUS VOLUME
1000 lb.
ou
1000 kg



SOUS VOLUME
1000 lb.
ou
1000 kg

SOUS VOLUME
1000 lb.
ou
1000 kg

POINT EXTERNE



SOUS VOLUME
1000 lb.
ou
1000 kg

RESERVOIR SUPERHYDRO

total 1 tonne à quatre

C 0001582

Date : Février 1965

REV. 1/65

SUN 001365

SPECIAL EQUIPMENT LISTING

PART NUMBER	DESIGNATION	CAIT
07-718	FUEL TANK 500 LITER - R	23
07-718	FUEL TANK 500 LITER - L	23
07-731	FUEL TANK 888 LITER	23
07-493 999 1	CENTERLINE FUEL TANK CARRIER	23
07-728-722	FUEL TANK 1300 LITER	46
07-777 999 1	WING FUEL TANK CARRIER-R	23
07-772 991 1	WING FUEL TANK CARRIER-L	23
07-072	BOMB RACK TYPE 502-R	23
07-071	BOMB RACK TYPE 502-L	23
4010028-10	GUN PACK	23
01-161-0000	GUN 30 MM	46
07-075 A	CENTERLINE BOMB CARRIER	25
07-785	WING TIP BOMB CARRIER- R	23
07-685	WING TIP BOMB CARRIER- L	23
53-572 (Cocodello)	ADAPTER FOR LIGHT BOMB CARRIER	46
07 831 999 1	LIGHT BOMB CARRIER	46
07 208 991 1	SHAPIRIN LAUNCHER	46
UES 1 0	WING TIP ADAPTER RIGHT	22
UES 1 1	WING TIP ADAPTER LEFT	22

NOTE: From item 10 each 22 are installed in the aircraft and each one is delivered as spare.
 From item 11 each 44 are installed in the aircraft and each two are delivered as spare.

C 0001563

EJECTION SEAT - J46

J46 Ejection Seat - Manufactured by Martin-Baker

Zero Altitude, Zero Speed, Through Canopy, Rocket Ejection.

Belts-Attach Point for Legs during Ejection

Canopy Ejection Separately from Seat.

C 0001504

NLM 001/NAV 000111

MANUFACTURE: COLLINS (13439)

ORDINANCE	PART NUMBER	MANUFACTURE	SINGLE SEAT	TWO SEAT
1	622-1396-002	618H-3A Transceiver	2	2
2	522-2599-501	313H-5 Controls	1	2
3	622-3259-005	518V-4D Receiver MW	1	1
4	522-2447-564	313H-2D Controls	1	2
5	522-3102-001	18L-751 Lights marker	1	2
6	622-2362-001	40F-60A Receiver	1	1
7	707-6366-006	614L-12 Controls	1	7
8	622-2363-001	N1F-60A Antenna	1	1
9	522-2996-011	512-H Marker receiver	1	1

MANUFACTURE: DORE HARGOLIN (85226)

1	BH50-1	Antenna V.H.F.	2	2
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MANUFACTURE: CIELTON (U1907)

1	1919	Antenna VOR/ILS	1	1
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MANUFACTURE: ASTROMATIC (IL)

1	113515	ISI Indicator	1	2
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PUBLICATIONS.

Air will provide all technical documentation for organizational and intermediate level in support of single and twin seat models. (ANNEX "A")

SPARES

All spares and repair parts will be identified and comprises approximately 10,000 line items.

Spares support will cover two years of operation at the organizational and intermediate levels.

Long lead items will be identified immediately after program go-ahead to assure early procurement action.

35

GROUND SUPPORT EQUIPMENT

Ground support equipment will be provided for all models of aircraft to include organizational and intermediate level.

Complete listing of equipment will be provided on request.

The AAF will provide an engine test cell (portable).

REPAIR OF REPARABLES

AAF will provide necessary contractor contacts to support intermediate level component repair until full capability is established in customer country. Costs will be negotiated directly with contractor representative.

PILOT TRAINING

It is proposed that if customer country training is required, the AAF is prepared to provide this training in Argentina.

A complete flight training program will be defined between AAF and customer country with all costs to be negotiated separately, at that time.

After completion of flight training, AAF is prepared to provide a pilot in the customer country as an adviser for a defined period of time.

In any and all training in Argentina, customer country spares and equipment will be provided to support the training effort.

TOTAL COST: To be negotiated separately

MAINTENANCE TRAINING

AAF will provide an organizational and intermediate training program, including on-the-job training and will provide fully qualified instructor personnel to conduct the training. The training will be provided in Rio Cuarto, Argentina.

TOTAL COST: To be negotiated separately.

PACKING AND CRATING

AAF will pack and crate logistic support material and store it at Rio Cuarto, Argentina for picking up customer country.

TECHNICAL ASSISTANCE

AAF will provide the best effort to support the technical man power requirements of the customer country, and will be negotiated at a later date.

Senator KERRY [presiding]. Thank you very much, Senator Cranston.

Senator CRANSTON. Let me add that those documents will be made available to the press if they have not already gotten them.

Senator KERRY. Senator Brown?

Senator BROWN. Thank you, Mr. Chairman.

Mr. Chairman, I simply wanted to mention at the start of our hearings today that I believe the course of inquiry that our subcommittee is on is one that is not guided by partisan approach, nor should it be. I believe a fair review of the actions of the subcommittee thus far would bear that out.

We are looking for the facts wherever they are going to lead us whether they embarrass Democrats or Republicans or Independents or Liberals or Conservatives, no matter what interest. This committee has a responsibility, I think, to bring those facts out.

And I believe that thus far the way you have conducted the hearings, the inquiries that have been made, the information subpoenaed has shown a commitment to that kind of open, full, unbiased inquiry. It is in that spirit that I want to express my appreciation to you for the way this has gone forward and pledge to you that I will do my best to work with you to make sure that continues along that path.

Senator KERRY. Senator Brown, thank you very much. I appreciate the comment.

I also want to say that I have enjoyed enormously working with you. We have been doing extraordinarily well working on this and also on the POW/MIA issue. I look forward to continuing to work with you on that, to get to the bottom of that one, too.

Let me reiterate one thing before we begin, Mr. Llaque. This committee's job is not to try also to prosecute any issue in Peru. We are really factfinding, and factfinding exclusively.

There is no effort by this committee, and I want to absolutely assure this for any foreign journalist or any people who are concerned about it, there is no effort by this committee, I underline this, no effort by this committee to influence those decisions in the country or to influence politics whatsoever.

But because this bank was involved in each of our countries all around the world and because of the many implications of drug trafficking, arms dealing, covert activities, and so forth that have tied our countries, it is very important for each of us to try to understand what is the truth here. That is the spirit in which we approach this morning and the questions.

Mr. Llaque, I am particularly appreciative for your patience. We thank you. You have traveled some distance to be here. You put up with the inconvenience of yesterday as did the other members of your party and other witnesses. And we really appreciate your respecting our delays and our process here.

We thank you for taking the time to come here and share with us your knowledge.

If you have an opening statement, we would now receive that.

**STATEMENT OF RICARDO LLAQUE, DEPUTY DIRECTOR OF
EXCHANGE OPERATIONS, FEDERAL RESERVE BANK OF PERU**

Mr. LLAQUE. I have been asked by the board of directors of the Reserve Bank of Peru to cooperate with your committee and report on the relations that the Central Bank of Reserve of Peru had with BCCI.

First of all, I would like to recount the financial situation that my country was in at the beginning of 1986. We had very restricted availability of line of credit abroad to finance our foreign trade.

In the face of this situation, the Central Bank took measures to enter into operations with new corresponding banks, trying to get reciprocity for deposits made by our Central Bank. Reciprocity meant the granting of lines of credit to Peru channeled through the local banks.

In April 1986, we received the instruction from our management to talk to a number of banks to see if it would be possible to establish corresponding relationships and get such reciprocity. I am talking about in order to get credit for our country.

The technical areas of the Central Bank, or the technical departments, analyzed the situation of a number of banks, including BCCI. Finally, after drawing up a technical report, the board of the Central Bank in April 1986 instructed us to establish a corresponding relationship with BCCI.

Our steps culminated on April 28 of that year. That was the date when, after having reviewed all of the relevant documentation; namely, the documents which are usually requested, the general business agreement for the handling of numbered accounts, et cetera, et cetera, we signed an account for a numbered account with BCCI in Panama.

I want to explain why we established numbered accounts. Under these circumstances, there was the possibility of an embargo against the Central Bank accounts, since we had stopped paying on our foreign public debt, so we established call accounts and time accounts in BCCI's office in Panama.

The Central Bank in BCCI set up its accounts on May 6, 1986, for 1 month, placing \$15 million in one checking account. That same month we made deposits up to an amount of \$200 million during that same month. At the end of that same month, we signed the first agreement with BCCI whereby that bank placed at the disposal of our Central Bank a line of credit for \$60 million to be used for Peruvian foreign trade in order to confirm letters of credit for imports.

What the Central Bank did was distribute this \$60 million among the various major Peruvian banks so that they could finance our foreign trade. Considering the benefit brought to the country by the use of this line of credit, we asked BCCI to increase this line of credit by \$50 million more. That is to say, to \$110 million.

That, at the request of BCCI, required an increase of deposits of the same amount. In other words, that our deposits of the Central Bank of Peru, to Peru, became \$250 million. We are talking about March 1986. March 1986.

Thereafter, in August 1986 the Central Bank again asked for an increase in this line of credit by an additional \$50 million. That is, the line went up to \$160 million. At that time, the Central Bank did not increase its deposits in BCCI.

It is important to point out that during this period the interest rates paid by BCCI on our deposits were varied and sometimes were related to market rates, although I must underscore, too, that in the period between October 1986 and March 1987 interest rates paid by BCCI were under average international market rates for deposits.

A very important point that I also want to underscore is that the amount of deposits of the Central Reserve Bank of Peru in BCCI were about 25 percent of the total deposits of the Central Bank. We also had deposits in other banks—German, Japanese—and in regional economic or financial organizations such as the Andean Reserve Fund.

During the middle of 1987, new information arose to be taken into account in our relationship with BCCI, especially the rather unsatisfactory results of the BCCI holding company in Luxembourg and the fact that profits went down a great deal, indicting poor performance by the bank during the year ending in December 1986.

At the same time, it was established that BCCI's legal constitution in Luxembourg did not allow it to be a lender of last resort, especially if there were to be a default in any of the operating units such as the one in Panama.

In the face of this situation, the Central Bank of Peru decided to restrict or cut its deposits which would go beyond any reasonable reciprocal compensation. The withdrawal was made gradually by the Central Bank of Peru, considering that we had a debt vis-a-vis that bank of \$160 million and that the last period would come due in about October 1988. The last due date would be then.

So the deposits of the Reserve Bank of Peru culminated as follows: The dollar deposits, U.S. dollar deposits, were kept until the end of October 1988. That was the month, as I said a moment ago, when we stopped paying our last payment, or when we finished paying the last payment of our line of credit.

We obviously had to suspend the distribution of funds from this line of credit to our various Peruvian banks. The Central Bank also had deposits in German marks and yen which were maintained until June 1988. The final payoff, or closure, of the numbered checking accounts happened on May 31, 1989, which ended the whole relationship of the Peruvian Central Reserve Bank with BCCI.

That is all I have to say. Thank you, Mr. Chairman.

Senator KERRY. Thank you very much, Mr. Llaque.

Let me ask you first of all some details, if I can. What is your official position at the Reserve Bank?

Mr. LLAQUE. My official position is that I am the deputy manager of exchange operations. This is a job that I have held since about 1981.

Senator KERRY. The first involvement that you came to have with BCCI was specifically what—the first involvement?

Mr. LLAQUE. As I said, approximately March 1986 when, upon instruction from the board, we began to look for new corresponding banks that were not already creditors of Peru.

Senator KERRY. The reason you had to look for the new corresponding banks, not creditors, was that your credit with the other banks was a problem, correct?

Mr. LLAQUE. That is right.

Senator KERRY. How did you come across BCCI? Did somebody recommend it to you? Did you know about the bank?

Mr. LLAQUE. BCCI presented itself to Peruvian authorities in about 1984, introduced itself and asked to open a branch office under Peruvian law foreign branches of banks are approved by the Superintendency of Banks and Insurance at the favorable recommendation of the Central Bank. That was when in the country we first learned of the existence of this bank.

Its request was approved by the superintendency, but the bank changed its mind and did not set up this branch. It had sent its people to Peru, and when we began to look for new corresponding banks the bank was already there. It was in Panama, and it was in Panama where we were holding most of our deposits anyway because of our fear of this possibility of embargo that I mentioned.

Senator KERRY. So you had already put Central Bank's funds, Peru, into the branch of BCCI in Panama—in other banks?

Mr. LLAQUE. In other banks in Panama. German banks, Swiss banks, but not in BCCI.

Senator KERRY. Was there any one individual who presented himself to you to suggest that BCCI would be able to deal with your credit problem?

Mr. LLAQUE. No. I do not remember that there was any specific person who came forward. Normally letters come, telexes come into the Central Bank offering. That is normal. That is what always happens.

At that time, for instance, we received letters from other banks offering us good conditions, favorable conditions for deposits, considering, Mr. Chairman, that for a bank to have a Central Bank deposit is a source of prestige, because Central Banks are usually very careful because they manage the reserves of their countries, so they first take into account security or safety, and only after that, profitability.

Senator KERRY. What was there about BCCI at that time that commended it to you in terms of meeting the standards that you just articulated?

Mr. LLAQUE. Well, first of all the bank at that time—as I said at the beginning of my statement, we were looking for two things: safety and reciprocity. As to reciprocity, the bank offered us the line of credit that I already talked about and also a series or a whole range of services which go along with any commercial bank.

Senator KERRY. Were these the same services as other commercial banks, or were they different?

Mr. LLAQUE. They were the same as other commercial banks. They also offered to keep a numbered account for us in Panama, and this was of interest to us because of the possibility of an embargo, which I have already mentioned.

Senator KERRY. If I can interrupt you, I apologize. When you say "it offered us a numbered account in Panama," one of the services that you were looking for was an ability to be able to hide the money from seizure, was it not? You did not want the money to be snatched by a creditor?

Mr. LLAQUE. Yes. Perhaps "hide" is not the word, but it was that the Central Bank would have security, having secured deposits outside of places where an embargo could happen, but this embargo did happen. We had at least two cases of embargoes of funds from the Central Bank in U.S. banks, and also an embargo of funds from commercial banks in the United States as well.

Senator KERRY. Now, it is my understanding on the deposits of Central Bank funds that you made with BCCI you only got credit for half the dollar that you put in. In other words, you would put in \$1, but you were only credited with 50 cents on the dollar. Is that accurate?

Mr. LLAQUE. That is right. Indeed, exactly.

Senator KERRY. Why would that be?

Mr. LLAQUE. I cannot give you an exact reason, but you have to consider that Peru's situation at that time was not very favorable in the sense, in the first place, that we did not have very many places to deposit our money, and second the scarcity of lines of credit, so there was not necessarily an equivalent relationship between deposits and the line of credit. Deposits could be much higher.

We have had cases of deposits at very high levels in banks that did not offer us lines of credit. That was the case of the International Bank of Settlements, where we had about \$1.3 billion on deposit and we did not get a line of credit at all. It was not that bank's mission. All we were considering then was the aspect of safety or security.

Senator KERRY. Did not other banks in Panama offer numbered accounts?

Mr. LLAQUE. Yes, but not levels of credit which were very high. We had numbered accounts, for instance, in the Deutsch-Sidmenkanische Bank in Panama, which is a branch of the Hamburg bank.

Senator KERRY. The key to you was the line of credit which you believed you were receiving or did receive from BCCI?

Mr. LLAQUE. It was one of the most important points in the decision of the board of the Central Bank to accept the corresponding relationship, the deposits, and the line of credit which reached a level of \$160 million, and since it was a revolving line of credit it meant that this was a benefit for Peruvian industry at an amount much higher than what the nominal amount of the line of credit really was.

Senator KERRY. It is my understanding that efforts were made to, in a sense, hide the BCCI-Peru money trail. I mean, that was the essence of security. Security meant that this is out of reach of somebody's capacity to attach it. That is why they chose the numbered account, that is why Panama, and that is why BCCI. Is that accurate?

Mr. LLAQUE. Well, I want to clarify this point in the following manner. Indeed, an important factor was the possibility of an em-

bargo, an attachment, but we had the same criterion in mind with other deposits, and let me mention deposits at the end of 1986 and during 1987 in the Bank of International Settlements that I already mentioned, in the National Bank of Argentina where we deposited a large amount of money, in the Deutsch-Sidmenkanische Bank, in the Banco de Brazil, the Bank of Tokyo, in Bladiks, which is an import-export regional bank headquartered in Panama, and Credit Lyonnais of France, so there we use the same criteria to try to avoid these seizures or attachments or embargoes.

Senator KERRY. Let me try to ask that a different way because I am not sure that you are answering my question directly. Does the code name Terra Firma mean something to you?

Mr. LLAQUE. No, it does not.

Senator KERRY. The code name Terra Firma in connection with BCCI and Central Bank money?

Mr. LLAQUE. No, we have never heard that. Our accounts were in our name with a number, as is the customary way of doing it.

Senator KERRY. I understand that. I just wondered if you had heard of this code name.

Do you know whether or not——

Mr. LLAQUE. I did not hear you, I think.

Senator KERRY. Are you aware of any evidence of payoffs having been made by BCCI to officials of the Central Bank?

Mr. LLAQUE. No, we have no evidence of that in the Peruvian Central Bank. Absolutely no evidence of that.

Senator KERRY. You have heard of allegations to that effect; is that accurate?

Mr. LLAQUE. Of course. Just Monday of this week we have all read about that.

Senator KERRY. I do have some more questions with respect to what began to happen to BCCI and your perception of it that made you change and pull money out. I want to turn to Senator Brown before we do that.

Senator BROWN. Mr. Chairman, thank you.

Let me reiterate the comments you made earlier and how much we appreciate your coming to help us in this inquiry.

I would be interested in knowing if there were reasons other than economic reasons that you completed or finished your relationship with BCCI. Was it simply a matter of getting a better deal, better return on your deposits elsewhere?

Mr. LLAQUE. We had some information alerting us that our deposits were not safe in BCCI. This happened at the end of July 1987. Not only that, we received a telex at our own request from IBCA Banking Analysis of London informing us that over the past few years, that bank had had significant losses in its operations on the options market. And this institution also told us that the bank was using an accounting system which was rather unusual, that did not allow easy identification of the level of losses as well as the activity that gave rise to such losses.

When we got this information and of a technical nature, we informed the board of the Central Bank and we recommended that we cut our deposits gradually, as I explained in my statement.

Senator BROWN. Very wise. Did BCCI ever suggest anything to you that you considered improper? Illegal? Any course of activity that would be illegal or improper?

Mr. LLAQUE. No. They never suggested anything of this sort. Our relations with that bank were strictly financial and deposit—relations like you would have with any corresponding bank. The only thing we got was a request from them to maintain our deposits in the face of our gradual withdrawals between August and September 1987.

The telexes we got from Panama were almost begging us to keep our deposits there, but we had already decided to withdraw them. We took out \$30 million. That was a large amount. And then we took out similar amounts until we finished in October 1988. Before anything was heard in the press about the problems of BCCI, we had withdrawn practically all, virtually all, of our money from that bank.

Senator BROWN. I would be interested in knowing during the period that your country has suspended payments on foreign debt, if there is any portion of that in which you have gone back and paid off. Have all foreign creditor been treated the same, or have some been paid off during this period?

Mr. LLAQUE. We stopped paying our debt unilaterally at about the end of 1984. The suspension of payments was more pronounced starting in middle of 1985. I am talking about our public debt, our government debt, and public enterprise debt. Before that and because of balance of payments problems, we had already stopped paying on our short-term working capital debt. That was one of the reasons why we had to look for new corresponding banks.

We have just reinitiated some payments starting in 1991 on our foreign debt. We have reached some specific agreements, swaps. We have been paying off debt with certain commodities on the basis of certain agreements. We have been doing this with countries as well as with certain banks.

Senator BROWN. Did BCCI ever make recommendations to you with regard to how those obligations should be handled?

Mr. LLAQUE. No. We never received any suggestion or recommendation from BCCI. Our relationship was strictly one of a depositor bank and a creditor bank in respect of commercial credits.

Senator BROWN. Thank you.

Senator KERRY. Mr. LLAQUE. No central bank is going to make a decision to put its deposits somewhere simply on the basis of a telex and a secret number of letter. There had to be some contact with somebody.

Mr. LLAQUE. Yes, of course. We had coming to Lima some officers of BCCI with whom we had formal conversations. These were authorized representatives to negotiate the account, the deposits, and the line of credit. I have the names of some of these people which appear in formal letters.

Senator KERRY. Who did come and negotiate?

Mr. LLAQUE. One person, Bilgrami, he signed the communication offering us the line of credit.

Senator KERRY. Is that Mr. Akbar Bilgrami?

Mr. LLAQUE. Yes. Initials A.M. Bilgrami.

Senator KERRY. Did you do any background check on him?

Mr. LLAQUE. No, we did not investigate those representatives of the bank.

Mr. KERRY. The record should show that this is the same Mr. Akba who was subsequently convicted of the money laundering in BCCI in Tampa.

Who are the other individuals who came?

Mr. LLAQUE. I do not have any other name right here but I remember one. I will look for it here in the document. But his name was Kureshi.

Senator KERRY. Do you know what Mr. Kureshi did? What was his role?

Mr. LLAQUE. Just like the other official. He was discussing terms for opening the account and the line of credit. That was all.

Senator KERRY. Whom did he meet with? Who made the decision?

Mr. LLAQUE. The final decision is usually taken by the board of the Federal Reserve Bank of Peru on the basis of technical documentation.

Senator KERRY. Who did he specifically meet with? Who were the meetings between? Who represented Peru in those meetings?

Mr. LLAQUE. Well, it is not a representation of Peru; it is technical representation. In the Central Bank, the people managing for an accounts are the people in them, in the management office, for foreign accounts. This is the manager of international operations. And it is up to him to deal with corresponding banks, and we do this every day.

Senator KERRY. Do you happen to know who met with Mr. Bilgrami?

Mr. LLAQUE. No. I do not have any evidence, but it is up to the management for international operations. There are a number of different managers over the years.

Senator KERRY. Would there have been just one meeting, or were there a series of meetings which Mr. Bilgrami took part in?

Mr. LLAQUE. I personally was not there, but I understand there were a number of meetings. This is customary. At least four or five meetings, I am sure, to discuss the terms and the details.

Senator KERRY. When you say, Mr. Llaque, that an analysis or evaluation was undertaken of the central deposits at BCCI, what prompted that? Anything in particular?

Mr. LLAQUE. Well, we received news or reports that BCCI was having some financial problems. That is why we asked the specialized organization in London to give us this information. This was in August 1987, as I said a moment ago.

Senator KERRY. Did you learn at that time anything about drug laundering? Money laundering?

Mr. LLAQUE. No, at that time we knew nothing. We found out nothing of that sort at all. This we found out much, much later from press reports after we had withdrawn all the funds of the Central Bank of Peru from BCCI.

Senator KERRY. Now, when you received the information in 1987 about the difficulties that BCCI was having, was that reported to any other agencies of the Peruvian Government or was it simply a Federal Reserve decision on its own?

Mr. LLAQUE. The only one that had relations and deposits with BCCI was the Central Bank, but when we were given a line of credit, we had to establish accounts by local banks with the BCCI in Panama. So we informed the local commercial banks that we were ending our relationship with BCCI, and when the last payment was made on the debt with that bank, those Peruvian commercial banks would also have to close their accounts with the BCCI branch in Panama.

Senator KERRY. To what degree was the decision to move out motivated by concern over General Noriega and his involvement in Panama?

Mr. LLAQUE. No, really, we did not take that into account at all. We were just worrying about the problems of BCCI itself. In any case, Panama really did not offer us the security it used to because of its political problems. So the Central Bank was looking for other places to deposit its funds. So in 1988, approximately, our bank made its deposits in Swiss banks.

Senator KERRY. Who is Mr. Alberto Calvo, R. Alberto Calvo?

Mr. LLAQUE. I do not know him, Mr. Chairman.

Senator KERRY. Do you know who Mr. Daniel Carbonetto is?

Mr. LLAQUE. Daniel Carbonetto was an adviser to the Peruvian Government between 1980 and 1985. He was an adviser to the President of Peru. I meant 1985 to 1990. Excuse me.

Senator KERRY. We have a vote. We will stand in recess for the duration of the vote. As soon as we return, we will pick up where we leave off.

We stand in recess.

[A brief recess was taken.]

Senator KERRY. The hearing will come to order.

Mr. Llaque, thank you. We are just going to be a few more minutes. I just want to try to establish a couple of things here if we can. Let me ask you again. You are saying that Mr. R. Alberto Calvo is not somebody who is known to you? You never heard of him?

Mr. LLAQUE. That is correct. I have never heard of him, Mr. Chairman.

Senator KERRY. What about Mr. Shafi?

Mr. LLAQUE. Shafi. No. I do not know him nor do I have him in the documents that I have here before me.

Senator KERRY. What about Mr. Oscar Riizo Patron?

Mr. LLAQUE. No, I do not know him either.

Senator KERRY. Just asking a curious question to see if you can identify any of these documents. Now, I want to understand then the substance of your testimony is that BCCI presented itself because of the need to find credit somewhere, because there was a number to count, because there was security, and the decision was made to get the line of credit from BCCI and put Central Bank money into BCCI in return. Is that accurate?

Mr. LLAQUE. Yes, if you would allow me. I would just like to explain these decisions were taken gradually. Let me explain.

At the outset, we had information—here I am talking about April 1986—that BCCI had capital of a bit more than \$1 billion—or \$100 billion. So through the board of directors, we decided that we could deposit approximately 10 percent of that amount in capital.

Later, in the face of our need to get more credit, this percentage went up and that was when we had a bit more than \$200 million on account. This was decided first at a technical level. It was a recommendation, not a decision.

We have a staff in the Central Bank which is very professional. They are investigators and economists, and they draw up reports and they are taken to management—first to the general manager and then to the board of directors. And that is where the decision is taken. So you cannot talk about a person negotiating for the Central Bank. The terms, the concrete terms, were simply established for the deposits and the credit. Then this was taken to the board for its final approval.

Senator KERRY. On August 7, 1987, you received a memorandum which said in three paragraphs—let me read the paragraphs.

Paragraph A: The legal establishment of the BCCI Holding Luxembourg, with headquarters in Luxembourg, does not offer the guaranty of being the lender of last resort in case of a default in any of its operational units.

B, the last 2 years of the bank in mention showed significant losses in operations in the options market, and C, it uses an unusual accounting system in that it does not make it possible to clearly identify the level of losses of the fiscal year or the activity that led to them.

Now those are the three substantive reasons that you decided to begin to pull money out. Is that accurate?

Mr. LLAQUE. That is right. I was referring to that memorandum when I first spoke. This was August 7, 1987, and there was another memorandum to the general manager recommending the withdrawal of funds specifically. This is a document dated July 21, and it was approved by the board August 13, and there it was decided finally to withdraw the deposits.

Senator KERRY. So in 1987, it was known that the bank had an unusual accounting system, and that was known in London. It was known that the bank had significant losses in the options market, not a traditional place for banks to be fooling around. And you did not have the ability to be the lender of last resort—that is, its deposit base, its capitalization was in question. Correct? In 1987.

Mr. LLAQUE. That is right.

Senator KERRY. This document will be made part of the record in sequential order.

[The information referred to follows:]

Translation - Spanish

Central Reserve Bank of Peru
SABE/3.08.2.1.2No. 020-87

MEMORANDUM

To: **Juan Villanueva**
Asst. Manager of Intl. Investments,
Planning and Relations

From: **Gonzalo Aramburu**
Chief, Section Analysis of
Foreign Banks

Ref: **Telex IBCA Banking Analysis Ltd.**
London DEL 07/31/87

Date: **August 7, 1987**

Attached to this document you will find the telex received from IBCA Banking Analysis Ltd., London, where they report the following to us:

- a) The legal establishment of the BCCI Holding Luxembourg, S.A., with headquarters in Luxembourg, does not offer the guarantee of being the lender of last resort in case of a default in any of its operational units.
- b) The last two years of the bank in mention showed significant losses in operations in the options market.
- c) It uses an unusual accounting system in that it does not make it possible to clearly identify the level of losses of the fiscal year, or the activity that led to them.

Because of the above, as well as the high level of placement that this Central Bank has in that bank, it is recommended that the operational technical level be reduced.

Sincerely,

*Translation - Spanish***CENTRAL RESERVE BANK OF PERU****MEMORANDUM**

To: Ana Ma. de Reategui
Manager, International Operations

From: Carlos Saito
Asst. Manager, International Investments,
Planning, Relations

REF: Evolution of BCRP deposits abroad

Date: July 8, 1987

According to your request, I am pleased to send you a report on the evolution of the BCRP deposits abroad, considering the fundamental aspects that affected their operative handling and the decisions to mobilize the assets abroad.

At the same time, reports are included corresponding to the International Settlements Bank (BIS) and the Bank of Credit and Commerce International (BCCI).

Sincerely,

DEVELOPMENT OF BCRP DEPOSITS ABROAD

1. Until mid-October 1984, the administration of the currency deposits abroad was carried out according to the joint application and consideration of the criteria related to the administration of assets in normal times: reciprocity, security, liquidity, efficiency, and yield. Column 1 of the attached chart reflects what was in practice the application of the criteria of reciprocity and security (diversification of risk) reflecting the number of banks and markets involved. The distribution of funds by types of deposit (current, call and term) which responded to the criteria of liquidity, efficiency, and yield.

2. As of mid-October 1984 the country began to have a series of problems with its private creditors as well as some international organizations, due to problems related to the payment of its foreign debt, it being necessary to take emergency measures whose results can be seen in the second column of the attachment.

3. The first measure taken was to withdraw practically all our deposits from U.S. banks, transferring the majority to the Fondo Andino de Reservas (FAR: Andean Reserve Fund) as of November 1, 1984, and to European banks. In addition, in the desire to ensure all of our funds, the BCRP decided to seek markets or institutions that met the fundamental requirement of funds not being subject to attachment.

4. In this context deposits were made in several currencies in the Bank for International Settlements (BIS), the only institution at that time that met the requirement mentioned above, and it began to receive funds as of November 18, 1985 even though the remuneration for our deposits was always 1/4 below the referential market rate. Toward the end of January 1985, FAR and the BIS had almost 50% of our term deposits abroad. (See column 3)

5. Diverse inquiries and legal definitions determined that the FAR funds were not immune to a attachment and therefore, as of July 15, 1985 the funds began to be withdrawn and transferred to the BIS. (See column 4). The US \$70 million remaining in the FAR were kept as reciprocity for the loan that this organization had made to the country.

6. Having the BIS as a safe institution and fearing that the reprisals could come also from the rest of international correspondent banking, since at the end of September the divergences became accentuated between the new Peruvian government and the IMF and creditor banking, it was decided to withdraw all the time deposits (even before their date of expiration) from all correspondent banking and to concentrate them in the BIS. This process culminated at the end of October (see column 5).

7. Once these emergency measures were taken, the BCRP decided to reestablish its policy for investments of current assets within a context of maximum security and not just in the part corresponding to foreign currencies but also in those made up of precious metals. In addition, an additional element is introduced, that of reorganization of portfolios.

Regarding foreign currencies, it was decided to open special accounts in the market in Panama, which have maximum security. Also consultations were made in places such as

Austria, Switzerland, Liechtenstein and others but they do not manage to meet the BCRP requirements.

8. Toward the end of November 1985, the search for correspondents with numbered accounts in Panama was necessary in view of the BIS refusal to provide yield for our funds that were renewed as of that date if they were not decreased considerably. At the end of December work was underway with four banks in Panama in which around US \$333 million had been deposited in term deposits coming exclusively from the BIS, thus alleviating the above-mentioned problem with the latter institution.

9. This process of opening accounts in Panama continued; so it is that at the end of June 1986 work was already underway with seven banks, which had US\$ 362 million in deposits. The last bank with which correspondent relations were established was the Bank of Credit and Commerce International (BCCI) with which work was begun under the system of special accounts as of June 27, 1986. At the end of the same month this bank had deposits of US\$ 65 million. (See column 7)

Regarding the numbered accounts in Panama and the deposits maintained in the banks of this market, two aspects must be kept in mind. On the one hand, the conditions that make the BCRP prevail are "sui generis" (special contracts for the handling of accounts, commitments of no possibility of attachment, right of set-off, comfort letters, etc.) and in some cases they hinder the negotiations and in many cases they cancel them definitively.

On the other hand, it is known that one of the conditions of security for keeping funds in a bank is not to exceed a certain total related to its capital and reserves, for example. In this respect care was taken, except for special cases or acts of god, to keep them within those limits.

10. The situation described in the above section continued to mean keeping deposits in the BIS. This lasted until February 18, 1987 when all funds were finally withdrawn, which at the end of 1986 had already been reduced to US\$ 293 million allowing the Panama market to gain US\$ 565 million on that same date.

Meanwhile, given the credit facilities granted by the BCCI, the BCRP in reciprocity went on increasing its deposits in that bank. On September 30, 1986 the term deposits exceeded US\$ 145 million, at the end of 1986 they were US\$ 229 million and in February of this year rose to US\$ 242 million.

11. The situation from February to date has undergone slight modifications. On the one hand, thanks to the creation of the FAR Treasury Notes, highly liquid, and of easy transfer by endorsement, the deposits have been increased in this institution, and they currently total some US\$ 113 million.

On the other hand, the agreement for the handling of numbered accounts was signed with Credit Lyonnais.

Regarding the distribution of time deposits in Panama, which represented 84% of the total of this type of deposit, one should note the share of the BCCI, which with US\$ 245 million constitutes 27% of the funds deposited in that market and 31% of the total term deposits.

12. The steps that the BCRP was taking were also reflected in the handling of the call accounts, this in respect to a number of banks since the level of funds to be maintained in this account follows the operational goals of the moment. This evolution can be seen in attachment 2.

Although the number of banks that handled the call accounts was reduced to almost half, it is worth noting the concentration of these funds. Just three banks with numbered accounts in Panama currently handle more than 90% of the call accounts. (See attachment 2)

13. Finally, some comment must be made on the profitability of our funds abroad. In this sense it should be mentioned that with the exception of the BIS, which always paid on our funds with 1/4 percent below market, all the rest of our deposits on time have been paid at a rate similar to or above the market rate.

Regarding our deposits in the BCCI, for example, a calculation of the accumulated yield of all our deposits until June 1987 with respect to a referential market rate, shows a favorable total for this bank (See attached graph).

*Translation - Spanish***Central Reserve Bank of Peru**
DIM/3.08.2.1.0-No. 003-87

MEMORANDUM

To: Carlos Saito
Asst. Manager of International Investments,
Relations, and Planning

From: Arturo Handabaka
Chief, Market Research Dept.

Re: Relations with the BCCI

Ref: 1) Memo SGP 11/45 of 4/1/86
2) Board Agreement of 8/14/86
3) Memo SGP 11/256 of 12/26/86
4) Memo SGP 11/279 of 7/13/86
5) Telex BCCI-Panama of 7/22/87

Date: July 22, 1987

The purpose of this memorandum is to do an inventory of the main aspects that have determined our relations of international treasurership with the BCCI, as well as to make known new elements of judgment that should be taken into account in our future relations with that institution.

Through the first document of reference, the Asst. Management of International Investments, Relations and Planning, at the suggestion of the General Management, proposed the opening of correspondent relations with the BCCI-Panama, in view of the willingness of that entity to grant us lines of credit for purposes of foreign trade, as well as because of the good financial-economic situation of the home office in Luxembourg, i.e. the BCCI Holding, 100% owner of the BCCI Overseas of Grand Cayman and at the same time 100% of its Panama branch.

Due to the existing relationship between the BCCI-Panama and the home office, as well as the commitment of the latter to back all the activities of the first, it was established that the deposits that the BCRP made in the future would have as reference the capital and

reserves of the home office, since in 1984 it exceeded US\$ 1.009 billion, and the limit of deposits US\$ 100 million (in capital and reserves).

/Note: text may be missing, as the next page of the memo begins with a 3/

3. Given the difficulties at that time in getting facilities for purposes of foreign trade and the amount that the BCCI was granting in exchange, the Board of the Bank approved the correspondent relations, accepting the concrete proposal of that foreign bank to the effect that it would grant us a line of credit up to US\$ 60 million, at the same time making a deposit up to US\$ 200 million. (Document 2).

4. Subsequently, around the end of 1986, the BCCI decided to increase the previously-mentioned line to US\$ 110 million in exchange for the increase in our deposits up to US\$ 250 million. As indicated in document 3 of reference, our deposits between call and time rose on 11/26/86 to US\$ 255 million. This level, with some variations, has been maintained to the present.

5. The utilization of the line of credit, according to the Department of Operations in Foreign Currency, has at its moments of highest demand reached US\$ 80 million, approximately, there being no operational problems in the handling of the line, nor with the deposits which are kept in that institution.

6. However, it should be mentioned that the reciprocity that the BCRP maintains with the BCCI is more than what it has with the other banks with which it currently works, with the exception of the Deutsche Sudamerikanische Bank, which handles almost all the call accounts in Panama and has preferential treatment because of being regional. Something similar can be observed in the level of the ratio deposits BCRP/Capital and BCCI Reserves.

In effect, with the exception of the Banks Sudameris and Bladex, which being small have quite a high statement in Peru regarding their own capital and reserves, the deposits that the BCRP maintains in the BCCI represent 18% of the capital and reserves of this bank.

7. New elements of judgment have arisen that have led to this memorandum and that we believe should be taken into account for our future relations with the BCCI. In fact, in document No. 4 of reference, endorsed by No. 5, one can see unsatisfactory results of the BCCI Holding S.A. (Luxembourg) and what is more, they seem to worsen year by year. Their net earnings decreased substantially and with them the yield on their assets, indicating bad performance of the bank during 1985 and 1986.

In its annual report for 1986, the BCCI credited these poor results to adverse effects coming, on the one hand, from significant devaluations in certain developing countries where the Group operates and the smaller differential margins during the year; and, on the other hand, to the exceptional losses that the group had to assume as a result of the poor transactions of options contracts by the Grand Cayman subsidiary, which at the end of 1985 had lost US\$ 150 million.

These losses were absorbed almost totally during the 1986 fiscal year and it is hoped that they will not have a considerable influence on the results of this fiscal year.

CRS-9

In addition, proceeding with the Group policy of strengthening its patrimonial base, the 1986 report pointed to a considerable increase in the bank's capital. A part of this increase comes from the issuance and total subscription (by the stockholders themselves) of US\$ 250 million in stock, as well as of other subscriptions for US\$ 370 million in replacement of US\$ 306.5 million that they were redeeming.

8. Because of the above, and precluding some other greater problem that the BCCI could face, a fact that recently could be known in the middle of the next year with the bank balances or just shortly before through specialized means, this Department suggests reviewing the level of deposits being held in the BCCI, to the extent that the necessary reciprocity that should be maintained allows.

Sincerely

/illegible/

Translation - Spanish

Central Reserve Bank of Peru (BCRP)

MEMORANDUM

Date: 8/26/87

To: Cesar Ferrari Quine
General Manager a.i.

From: Ana Maria T. de Reategui
Manager, International Operations

RE: BCRP relations with the BCCI

Ref: Memo No. 302.2.0.1.0.0

Attached to this memorandum you will find the report referring to our relations with the Bank of Credit and Commerce International, which was requested by the Board of Directors of our Institution through the memorandum of reference, in expansion of Document No. 0536 heard in the session of the 13th of this month.

Sincerely,

BCRP RELATIONS WITH THE BCCI

1. In view of the restrictions that were being observed regarding the availability of lines of credit from abroad, the Board of Directors of this Central Bank decided to adopt measures leading to seeking, through the direct participation of the Central Bank, to offset those restrictions somewhat.

Among these measures was one to carry out operations with new correspondents, seeking to obtain reciprocity for deposits of the Central Bank, through lines of credit offered by those banks. In this respect the Board designated the President and General Manager to establish contact with banks from abroad.

2. In this context, in March 1986 I received the order from the General Management to evaluate the possibility of opening a correspondent relationship with the Bank of Credit and Commerce International (BCCI).

3. The Board of Directors of this Central Bank, in a session of April 1, noted the report prepared by the Management under my responsibility, in which it was recommended that the bank proceed to open the correspondent relationship with the BCCI and make deposits in that bank up to US\$ 100 million, a sum equivalent to 10% of the capital and reserves of the BCCI (Attachment 1).

In that matter, it should be noted that as a general standard for the purposes of proposing the maximum sums to be deposited in our correspondent banks, one takes into account 10% of the capital and reserves of the respective banks.

4. After analyzing the report mentioned in point 3, and after taking note of the verbal report presented by General Management, noting the offer of the BCCI to grant a credit line for purposes of foreign trade of up to US\$ 60 million, the Board of this Central Bank, in a session of April 1, agreed to make deposits up to US\$ 200 million. (Attachment 2)

5. From that time, the Management under me began steps to establish a correspondent relationship with the BCCI, Panama, as well as to sign an agreement on numbered accounts with that bank.

6. The steps referred to in point 5 culminated on April 28, 1986, the date on which after having reviewed the pertinent documentation (General Business Agreement for the Handling of Numbered Accounts, Comfort Letter and Commitment Letter), the "Numbered Account" agreement was signed with the BCCI, Panama, in which the opening of current accounts was made feasible, as well as call and term deposits. (Attachment 3).

7. On that same date (4/28/86) the BCCI, through its officials in Panama, formalized their offer of a commercial credit line of US\$ 60 million, to be used in the confirmation of letters of credit of importation and on demand and in the financing of exports. The offer was for a one-year period, with possibilities of renewal, and with an interest rate of prime plus 1%. (Attachment 4).

That offer was contingent upon the deposits made by this Central Bank, up to US\$ 200 million, being maintained with "sufficient equivalent totals," as noted in the communique of 4/28/86 (Attachment 5), which was attached to the letter in which the credit line mentioned above was offered.

In that respect, it should be noted that these communications were delivered as preliminary working documents, and were signed just by the BCCI officials, Panama, and without having evaluated the details of the operativeness of that line of credit.

8. Regarding the beginning of our deposits, through the instructions of General Management, action was taken in the following manner:

a) On May 5, 1986, the Deutsche Sudamerikanische Bank, Panama, was instructed to transfer with value date of May 6, US\$ 15 million to the BCCI, Panama, for the purposes of opening a current account in that correspondent. That transfer was aimed at initiating the correspondent relations and that sum of US\$ 15 million was maintained until the agreement was signed, through which they granted us the credit line up to US\$ 60 million.

b) As of May 7 and 8, 1986, deposits were made in call accounts, for US\$ 100 million, respectively, the sum of US\$ 200 million being kept until the end of that month.

The Board of this Bank, in a session of May 16, 1986, approved the creation of the Export-Import Fund (FLEX), in order to facilitate foreign trade. That fund was initially formed with US\$ 60 million offered by the BCCI.

In that session in addition, the distribution of these resources among the entities of the Financial System, at the proposal of the Assistant General Management, was approved (Attachment 6).

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of import credit on demand and with payment deferred up to 90 days, financing of exports based on letters of credit on demand or term of payment up to 180 days and financing of exports not based on credit letters with term of payment up to 180 days.

That line of credit was signed for a period of one year, subject to review every six months, and renewable after the year. The distribution of resources was the one agreed upon by the Board in its session of May 12, 1986 and the rate of interest on the financing was set at 1.25% over the prime rate, which is competitive with those charged by other foreign trade credit sources, ours being considered a "risk country."

As can be seen, the rate differed by 0.25% from the one offered by the BCCI in its communique of 4/28/87. This rate was the minimum one accepted by the Regional Office for Latin America of the BCCI, whose officials were responsible for the signing of the agreement, in consideration of the operational costs associated with the participation of more than 20 banking institutions of Peru. Initially the BCCI, Panama, made its interest rate offer under the understanding that the line would be handled exclusively by the BCRP and used for operations of significant sums.

11. In signing the agreement mentioned above, the BCCI notified us that in view of our deposit of US\$ 200 million, they were putting at our disposal the line of US\$ 60 million, under our mutual understanding that in case the total deposits should decline to below the credit facilities granted, the lines of credit would be reduced for us accordingly. (Attachment 8)

12. As of June 19, 1986 the BCRP signed the corresponding contracts of allocation of the FIEX-BCCI with the different financial entities, so that the resources of that line would be used.

13. The utilization of the FIEX-BCCI line, although quite gradual, did not show operational difficulties; to the contrary, in few months the banks of greater movement began to demand increases in that line.

In view of that situation, in December 1986, this Management began conversations with the BCCI in order to gain an increase in the line. After the evaluation of the banking needs and in coordination with the General Management, a request for increase in the line of US\$ 50 million was formalized, whose distribution is seen in Attachment 9. On this occasion, there was negotiation so that the line would take place with an increase in the deposits by US\$50 million.

14. On March 12, 1987, the second FIEX-BCCI agreement was signed, in the amount of US\$ 110 million, which included the US\$ 60 million from the first agreement (Attachment 10).

In this new agreement there are some favorable variations: the time for confirmation of the import credit letters is increased from 90 to 180 days and the financing of imports up to 180 days is included.

With the signing of this second agreement, the BCCI delivered to us a communique, in terms similar to those described in point 11, with the change that the deposits were US\$ 250 million and the line was for US\$ 110 million (Attachment 11).

15. It should be noted that throughout the period of validity of the FIEX-BCCI agreements, there have been redistributions of resources between the financial entities, based on the rates of utilization of those resources.

16. The initial deposits made by this Central Bank under the modality of current and call accounts, were subsequently converted to time deposits for the most part, keeping in mind the larger yield that this latter would provide compared with the former. (Attachment 12)

With respect to the characteristics of the term deposits, it should be noted that they have been being renewed generally in periods of one month, a rate of interest being obtained whose accumulated yield shows favorable results with respect to the one that would be obtained according to the referential market rate.

It should be noted that the rate obtained is significantly higher than the yield obtained by our deposits in other correspondent banks (Bank for International Settlements, BLADDEX, Swiss Bank, Bank of Tokyo, Credit Lyonnais, among others), in which, however, we have found it necessary to maintain deposits for security in case of attachment and in order to diversify our risks.

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At present, this Management is taking steps with the BCCI for a new increase in the line, of US\$ 110 million to US\$ 140 million, which would be obtained in reciprocity to the deposits already made in the amount of US\$ 250 million, which through a telex of 8/19/87 has been accepted by the BCCI. (Attachment 13).

That increase will be of great utility given the recent greater reductions observed in the availability of lines of credit from abroad.

Additionally, and in coordination with the General Management, the BCCI has been asked for US\$ 20 million additional, which would raise the line to US\$ 160 million.



FROM REPORT OF PERUVIAN CONTROLLER GENERAL 88-CG/SP

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*Translation - Spanish***Chart No. 6****Surpluses Shown in 1986**
(Millions of US\$)

Banking Entity	Approved Tech. Lt	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct
Deutch Sud.	140	268	117	90	64	23	47	93	9	-	29
Swiss Bank C.	140	148	163	-	-	3	-	-	-	-	-
Bco. Nac. Argentina	50	63	-	1	1	1	1	1	1	1	2
Bladex	20	-	-	-	-	-	-	-	-	-	-
Banque Sudamer.	20	1	-	-	1	1	1	1	1	1	1
Bank of Tokyo	140	-	-	5	7	8	10	11	11	29	9
Bank of Brazil	50	-	-	1	1	1	-	8	5	7	-
BCCI	200	-	-	-	-	15	16	3	2	-	6
Total:		480	280	97	74	52	75	117	29	38	47

The surpluses observed during the first months and which reached a total of US\$480 million and US\$ 280 million respectively are explained by the need to increase the number of banks with which the BCRP could operate through numbered accounts, and by the refusal of the BIS to renew the growing deposits that were kept in that entity.

However, during the months of March to October significant excesses were registered over the maximum limits of deposits approved by the Board of Directors, without the express authorization of that level, mainly in the Deutsche Sudamerikanische, Bank of Tokyo, Bank of Brazil and the BCCI.

Although the BCRP call accounts were handled in the Deutsche Bank, during the months cited the issuing institute kept resources in this account that exceeded the limit approved by the Board of Directors, without considering the important time deposits that were renewed in that entity. In the Bank of Tokyo and the Bank of Brazil, time deposits were made and kept above the limits referred to, which, in the case of the first bank, caused a greater excess, in considering the deposits in call accounts on the order of US\$ 6 to 7 million.

Early in November of 1986, an extraordinary entry of foreign currency coming from the sale of gold made came about, causing an increase in the levels of deposits of the BCRP in banks abroad. At a session of the Board of Directors (November 7, 1986), the limits were modified for the handling of the deposits according to what has been stated, and it was determined that they would be adjusted periodically at the suggestion of the International Operations Management, after acceptance of the General Management.

CRS-2

In evaluating the compliance with said limits, permanent surpluses were seen in the Deutsche Sudamerikanische and in the BCCI (overseas), in the amounts indicated in the following chart:

Chart 7

Excess Amounts Appearing in 1987
(Millions of US\$)

Banking Entity	Approved 1986				1987											
	Tech.	Lt.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	July	Aug.	Sept.	Oct.		
Deutsche Sudam.	200		11	-	-		61	-	89	61	45	29	93	3	6	
BCCI	200*		7	53	41	63	20	4	7	14	18	1		28	28	
TOTAL			18	53	41	124	20	93	68	59	47	94	31	34		

*As of Sept. 10, 1987, it is reduced to US \$160 upon the orders of General Management

The surpluses in the Deutsche are explained because of the decision of the BCRP to maintain time deposits in that bank above the US\$ 114 million after February 1987, among which some US\$ 38 to 45 million are included as collateral for the line of credit of DM 66 million granted, which, added to the resources in call accounts above US\$ 120 million, caused said situation. The BCCI case is discussed in a specific observation.

The deficiency mentioned originated in the lack of periodic information to high management regarding the status of total deposits per bank (time deposits, call and demand accounts), and the maximum limit approved by the Board of Directors in the matter, as well as the reasons that cause any excess, in order to decide on the pertinent corrective measures. This information is obtained, partly, through the daily reports called "Position of Eurodeposits on time" and "liquid assets in foreign currency," which, because of being statistical documents issued by different areas of the bank, are not consolidated or analyzed in order to issue a timely opinion on the facts noted.

One should also note the case of the deposits made by International Operations Management in the Credit Lyonnais during 1987, which, between February and July of that year reached a level fluctuating between US \$90 and 100 million.

The opening of the respective numbered account and the setting of the maximum limit to be deposited in that financial entity was not approved by the Board of Directors, as seen in the respective minutes, and according to what the Bank Administration admits. However, it is adduced that said authorization of the Board of Directors, regarding the periodic adjustment of the maximum limits for deposits (Session of November 7, 1986) included the power to decide on depositing resources in the Credit Lyonnais, which was not in keeping with the text of the session proceedings and attachments.

These situations have caused the failure to comply with the express instructions of the Board of Directors, meaning that greater risks were taken than those technically recommendable and authorized regarding the international reserves deposited in Panamanian banks.

3.4 Deposits have been made up to US \$270 million in numbered accounts opened in the BCCI (Overseas), obviating minimum standards of security and credit reciprocity

During the period in which numbered accounts were opened in Panamanian banks, an effort was being made fundamentally to protect the international assets against any risk of attachment or coercive action promoted by the creditors of the country, without overlooking the evaluation of the financial entity in which the resources would be deposited. Thus, to January 1986, authorization had been granted to operate with eight Panamanian banks up to certain maximum deposit limits.

Given the accelerated restriction of the short-term lines of credit for financing the foreign trade of the country, the Central Reserve Bank decided to work with banks that agreed to give some reciprocity for its deposits, through lines of credit.

Under these circumstances, the Board of Directors, in a session of April 1, 1986, approved a correspondent relationship with the Bank of Credit and Commerce Int. (Overseas)-BCCI, accepting the concrete proposal in the sense of receiving a line of credit for US\$ 60 million for making a deposit of US\$ 200 million, this being the first line of credit of this nature granted throughout the history of the deposits made by the BCRP.

The approval of the correspondent relationship under the conditions mentioned lacked the necessary information for meeting the assurances of the case and the minimum reciprocity, as seen below:

a. Document No. 212 attached to the minutes of the Board of Directors of April 1, 1986 as support for the approval, does not include all the minimum information required as general standards for approving correspondent relationships with banks abroad (Session of 3/4/82). In fact, information is not included on the financial status of the BCCI (Overseas) or of management ratios of the past three years, it being mistakenly pointed out that the BCRP only had information up to 1981. It is understood that for reasons of security it was necessary to evaluate the BCCI Holding, for purposes of requiring a "Comfort Letter" as an additional guarantee; but the fundamental security of the BCRP deposits in the BCCI (Overseas) was based on the management and performance of this bank, which was not evaluated.

Nor was there a comparison of the information of the Holding and the bank with the performance of other correspondent banks of similar magnitude, in order to evaluate their importance and management.

Document 212 evaluates the importance of BCCI Holding by comparing the level of its assets with respect to the largest banks in the world (IBCA Banking Analysis Limited-1984) sidestepping the analysis of the financial-economic status of the subject of the corresponding relationship: the BCCI (Overseas), and neglecting to comment on the importance of the bank in the financial markets in which it operates.

It should be noted that the approval of the correspondent relationship by the Board of Directors does not mean the corroboration of the sufficiency of the information provided by the Bank's administration and specifically the Management of International Operations. It is the

responsibility of the technical area to provide sufficient information to allow the adoption of correct decisions.

b. There was no evaluation of the background of the BCCI - Holding or of its main subsidiaries (BCCI-Luxembourg and BCCI-Overseas), considering that they were not correspondents of the BCRP, they lacked exposure and in the files of the issuing institution there was qualitative and quantitative referential information on these banks, contained in the "Application of the BCCI-Luxembourg for opening a branch in Peru" (A/D of 2/1/85). Among that information was a report of IBCA Banking Analysis Limited London which indicates the BCCI S.A. of Luxembourg as being "aggressive and innovative and that on several occasions it had had problems with the supervisory authorities," such as the Bank of England.

In addition, in evaluating that Bank from the legal point of view it considered it in 4th or 5th place, i.e. it placed it in one of the last places.

Although International Operations Management states it did not have such information in its possession, it knew of its existence and could have made an effort to obtain it. In any case the Bank Administration proposed to the Board the approval of the corresponding relationship, neglecting to report on that background dealt with at that level by the members of the Board operating until 1985.

c. There was no analysis or evaluation for practical purposes of the security of the BCRP deposits and of the effectiveness of a Comfort Letter, and of the importance of the fact that BCCI-Holding and its two most important subsidiaries had their main offices in Luxembourg and the Grand Cayman. These financial centers were characterized by their great liberalness and because the monetary authority does not guarantee the deposits or offer any services such as lender of last resort, i.e. in case of financial emergency the authority will not come with assistance from these financial institutions, the latter having to rely on the financial capacity of its stockholders.

It should be noted that this opinion was shared by the Central Bank, and it was a preponderant factor for withdrawing some 58,000 O.T. in gold which it kept in the Dresdner Bank-Luxembourg (A/D 6/6/85).

d. Documentary evidence is lacking prior to the approval of the correspondent relationship, of having requested and/or negotiated other concrete proposals for lines of credit in order to have alternatives among which to choose the best, considering the criteria of security and of minimum reciprocity. It is estimated that the BCCI (Overseas) proposal was the only one that existed and that it was accepted under conditions far from a minimum security policy.

The Bank Administration indicates that subsequently they requested lines of credit from all correspondent banks with which they maintained numbered accounts in Panama, which refused to increase their exposure in Peru. That action has not been documented.

The pertinent documentation (General Business Agreement for the Handling of Numbered Accounts, Comfort Letter and Commitment Letter) was signed on 4/28/86, the commitment being obtained from the head office (BCCI-Holding) to back its BCCI (Overseas) affiliate in all its activities. It is on the basis of this consideration that initially the Deputy Management of International Investments and Investments recommended a maximum deposit

limit of US\$ 100 million, equivalent to 10% of the capital and reserves of the Holding, in order to obtain the line of credit of US\$ 60 million; however, the Board authorized the deposit of US\$ 200 million for the same total line of credit.

CHART No. 8

Evolution and Importance of Deposits in the BCCI

	DATE	Deposits in the BCCI (US Millions)	Share in the Total Deposits	Amount Above Limit
1986	5/14	215,196	16	15,196
	6/27	201,933	15	1,933
	7/31	204,042	15	4,042
	8/29	199,031	16	--
	9/30	196,380	15	--
	10/31	206,772	15	6,772
	11/21	207,056	17	7,056
	12/31	253,287	24	53,387
1987	1/30	257,597	25	57,597
	2/27	261,499	28	61,499
	3/31	254,423	31	4,423
	4/30	253,435	28	3,435
	5/29	256,231	26	6,341
	6/30	270,709	28	20,705
	7/31	262,568	28	12,568
	8/31	251,269	29	1,265
	9/30	188,143	28	28,143
	10/30	188,227	31	28,227
	11/20	153,126	36	--
	12/30	114,353	33	--

With respect to the technical limits for deposits in the BCCI approved by the Board in the amount of US \$200 million as of May 1986 and of US\$ 250 million as of March 1987, excesses have been shown almost constantly in those authorized levels during the period May 1986 - October 1987 (one year and four months) as shown in Chart No. 8, the case appearing that between December 1986 and March 12, 1987 these were more than US\$ 50 million in excess, explaining the concentration of deposits in the BCCI (Overseas) Ltd., on the order of 24% to 28% without the express authorization of the Board or of the General Manager, according to the Agreement of the Board of November 7, 1986, but with the knowledge of the Management of International Operations, as indicated in Memorandum SGPII/3.08.2.0.0/256 of December 26, 1986.

In addition, through a letter of April 28, 1986 the BCCI (Overseas) Limited informed the BCRP that in consideration of the deposits of US\$ 200 million it was granting it a line of credit for US\$ 60 million, it being understood that in case of decline in the deposits below the credit facilities granted, the line would be reduced.

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It is appropriate to note that in March 1987, the line was increased to US\$ 110 million, but that the maximum amounts debited in their use only reached around US\$ 85 million. However, the reciprocity that the BCRP maintained with the BCCI was always above that received (US\$ 250 million in deposit against the line of credit used up to US\$ 85 million) and even much above what it was keeping with other banks with which it worked, no evidence being found of the reasons for this significant concentration of resources.

As can be seen in the following chart, the reciprocity that the BCR maintained with the BCCI was 3.31 more than what it had with the other banks with the exception of the Deutsche Sudamerikanische BK, which handled the call accounts of the BCRP in Panama and had preferential treatment since it was a regional bank.

The facts pointed out show that initially the BCRP did not investigate sufficiently into the background of the BCCI (Overseas), which would receive a significant part of the country's reserves in deposit, nor into the Holding that would support it in the operations, assuming a risk greater than the one technically recommendable and without considering a criterion of minimum reciprocity.

At the same time, during 1986 and 1987, the issuing institution kept high sums in the international reserves deposited in those banks, generating a high concentration of assets in currencies in that bank, thus increasing the risk initially assumed. On December 31, 1987, the total deposits in this bank reached US\$ 114,353,000.

If it had not maintained such high immobilized sums in this bank, the BCRP would have been more dynamic in the search for new lines of credit as reciprocity for the deposits that it could establish.

The lack of constant information for the Board on the total deposits maintained in the correspondent banks (term, call, etc.), and their relationship to the technical limit approved for that level, explain the permanence of this situation.

CHART No. 9

Concentration of Deposits and Credit Reciprocity of the BCCI with respect to Other Correspondent Banks

	Capital & Reserv. 12/86 (1)	Total Deposit. BCR-7/20/87 (2)	Expos.** (3)	Recip. (2) + (3)	Dp BCR/CAP & Res. (2) div. (2)
BCCI	1,471	265	80	3.31	18.0
D. Sudamerika BG	3,432	267	47	4.82	6.6
Credit Lyonnais	2,518	93	123	0.76	3.7
Banco do Brasil	5,448	66	86	0.77	1.2
Banco Nac. Arg.	1,145	53	16	3.30	4.6
Banque Sudameris	151	38	64	0.59	25.2
Swiss Bank Corp.	5,220	32	70	0.46	0.6
Bladex	75	20	55	0.36	26.6

** Latter data known provided by the foreign bank itself

Senator KERRY. Let me ask you this. What is the impact of this experience in terms of the Federal Reserve in Peru in its dealings with BCCI?

Mr. LLAQUE. Well, we have always been very careful in our relationship with our corresponding banks, as I said at the outset. This time, fortunately, we had no loss of any damage. This is very important for our Central Bank because under our constitution, our Central Bank does administer our country's reserves. And that is why we are so careful, I repeat.

Senator KERRY. When you say you had no loss, you were giving 50 percent on the dollar. So you took dollars and devalued them by 50 percent in order to be able to use BCCI in Panama. Is that not accurate?

Mr. LLAQUE. No. Technically in interbank operations this is not exactly the way it is. Let me explain. The deposits in a bank obviously earn passive rates and credits get active rates. There is a differential there. It is not a loss, but there is a differential between the passive rate it pays on the deposits and what it charges. This is really not a loss. This is a normal banking—

Senator KERRY. Is it normal to give 50 cents on the dollar?

Mr. LLAQUE. No. It is not that they gave us 50 cents on the dollar. It was simply a line of credit, and I want to recall once again what I already said. We had deposits in banks that did not give us any credits at all. It is not a matter of loss or gain. There was not an effective loss in the sense of the resulting account.

Senator KERRY. Mr. Llaque, thank you. Senator Cranston has a couple of questions and then we will move on to the next panel.

Senator CRANSTON. I think I have just two questions. First, how important is the phenomenon of drug money laundering in Peru? I would like to ask you to please be as specific as you can in terms of the amounts of money involved and its relative importance within the system of your country.

Mr. LLAQUE. We do not have any precise information on money laundering in Peru. We in the Central Bank set up standards, or set down standards for exchange operations, and we have free exchange at the present time so there is free availability and free transferability of foreign currency in Peru. Therefore, we cannot give any figures that could be indicative of money laundering. Our banks work freely abroad both in sales and in purchases and in all other banking transactions.

Senator CRANSTON. Do you have any impressions about the scale of money laundering without having any precise figures?

Mr. LLAQUE. Well, I do not have any information. I am talking as an official of the Central Bank. I have an area under me which has to do with exchange operations, but I do not have any information on the magnitude of this. We have not done any calculations of this kind.

Senator CRANSTON. What can you tell us about patterns of flight capital from Peru in the last 10 years?

Mr. LLAQUE. Well, in Peru there has been an economic policy which has changed a great deal over time. We have had differential exchange rates, we have had certain restrictions on capital, and this has caused some capital flight, more than likely, an aspect which has changed over the last few months. There is a lot of cap-

ital returning now, and there has been a notable return of capital to Peru over the last few months.

Senator CRANSTON. What has caused that return?

Mr. LLAQUE. In the first place, we established an exchange policy—a free exchange policy. For instance, there is no need to give the Central Bank the value of exports. There is no export control, and there is a new policy—a new investment policy from the point of view of the rules in the country as well as from the point of view of the rules of the Andean Group to which we belong under the Cartagena Charter, so there are certain advantages for foreign investors now, and this is what caused a return of capital. Not just foreign capital, but Peruvian national capital which had been held abroad.

Senator CRANSTON. Thank you very much.

Senator KERRY. Mr. Llaque, thank you very much. Again, we appreciate your testimony and we very much appreciate your patience and waiting until today. Thank you.

If we could have the second panel come up, Mr. Fausto Alvarado, Ms. Lourdes Flores, Pedro Cateriano, and Fernando Olivera.

Senator KERRY. Could I ask you each to stand and raise your right hand? Would you raise your right hand, please? Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ALVARADO. Yes.

Mr. OLIVERA. Yes.

Ms. FLORES. Yes.

Mr. CATERIANO. Yes.

Senator KERRY. Would you each identify yourself, please? State your name and title or position, and bring the microphone close to you. State your name and your title.

Mr. ALVARADO. I am Fausto Alvarado. I am a deputy. I am a member of the investigating committee on the illicit enrichment.

Mr. OLIVERA. I am Fernando Olivera. I am president of the investigative committee of the Parliament of Peru, the deputies examining the financial operations in Peru and abroad regarding the former President of Peru, Alan Garcia Perez.

Ms. FLORES. Lourdes Flores, the commission's head.

Mr. CATERIANO. Pedro Cateriano. I am a deputy and member of the investigative committee regarding the presumed illicit enrichment of former Peruvian President Alan Garcia Perez.

Senator KERRY. Each of you has identified yourselves in a way that makes a statement about the former President, which is not what we are looking at here.

We are looking at the question of BCCI, and I want to know the relationships, but I do not want to know unsubstantiated allegations or anything that is not known as a matter of fact, that is not supported by document or by testimony. What we really want to know is how BCCI operated in Peru, and to get a sense of what is known as a matter of record about its dealings there.

I must ask you in the openings to try to be brief, because we really want to have some time for questions. We are running behind again. We cannot go into the afternoon, and we have Argentina, which we also want to cover afterward, so the shorter you

are with respect to the openings, the more time we will have to ask questions.

Now, is one person going to speak for you in an opening? Is your chairman going to speak? I gather, Mr. Olivera, you will be presenting an opening statement?

Mr. OLIVERA. That is correct.

Senator KERRY. We look forward to receiving it, and again, I will repeat to all of you we are very appreciative for your patience, and thank you for making this journey.

STATEMENT OF FERNANDO OLIVERA, MEMBER, PERUVIAN HOUSE OF DEPUTIES; ACCOMPANIED BY FAUSTO ALVARADO, LOURDES FLORES, AND PEDRO CATERIANO

Mr. OLIVERA. Mr. Chairman, distinguished Members of the U.S. Senate, allow me as my first words to express a feeling as a Peruvian which all of us in the committee feel, and I am sure almost everybody in the country. It is a feeling of indignation and enormous concern to see the name of Peru involved in a case of corruption where the eyes of the world have been targeted.

Yesterday, we saw the picture which showed how the BCCI operated and an example of corruption of the Central Bank was given. This was the Central Bank of Peru, I mean. I have to say very briefly that despite the fact that this is a case where corruption of officers of the bank, the Reserve Bank of Peru, has been demonstrated, it is not representative of what we, the Peruvians, are.

The great majority of Peruvians are hard working and honorable from their ancestors the Incas, when they summarized the feelings of Peruvian people by saying "No seas osioso, no seas mentiroso, no seas ladrón."

This means, don't be lazy, don't be a liar, and don't be a thief, and I mean by that that in Peru we live in a democracy where the authorities don't cover up the commission of crimes, and that's why, in the Congress of my country, investigating committees have been set up to shed light on any commission of crimes or bribes, even up to the highest level.

These commissions before the U.S. Senate and before the eyes of the world are bound and determined to shed light on this case, and we have come here with a spirit of mutual cooperation between the two investigations which you are presiding over so well, Senator Kerry, and the investigations being carried on by our investigative committees, because unfortunately we must say that corruption transcends party lines. It does not distinguish as between ideologies. It does not respect frontiers or borders.

We can say here that the BCCI—BCCI are initials, not of Bank of Credit and Commerce International, but mean the Bank of Crime and Corruption International, and we have to defeat corruption everywhere, wherever it is, and we have to close ranks and fight together, all of us who fight for the cause of justice.

That is why I have come here to buttress our request for collaboration insofar as possible, because we are members of an investigative committee which has to expose its findings to the Peruvian Parliament and we will reveal things which can be revealed so that

the authorities of the world can support us in our investigations as well.

Moreover, we have to reserve some investigations that are still ongoing and which are still being confirmed or worked on. I will refer fundamentally to the operation of deposits of the international reserves of Peru in BCCI, in its Panama branch, and the operation of resale of 14 Mirage jets which belonged to the State of Peru and in which BCCI also participated, especially in its London office.

In 1986, the Central Bank of Peru deposited in Panama in the BCCI substantial amounts of our international reserves. It did so by a decision approved or made in May of 1986, and thereafter deposits were made reaching substantial amounts, and at one point even exceeded \$200 million.

Senator KERRY. Let me interrupt you there. The question would be asked by the casual observer, so what? The bank competed. There were other banks that wanted to get into extending a line of credit because this meant money to them. They are in the business of making money. Peru needed an outlet, so what is so strange about that? I am just trying to take us down the road here a little bit.

Mr. OLIVERA. It was argued, as the officer of the Peruvian and Central Bank already said, that there was a possibility of attachment of our international reserves, and by means of legal studies conducted, Panama was chosen as a place which offered security to avoid such seizures or attachments because the Government of Peru had entered into a kind of rebellion.

In 1986 in Panama the Reserve Bank had reserves already in a number of prestigious banks—the Deutsch-Sidmenkanische Bank, Banco Tokyo, the Bank of the Argentine Nation, the Swiss Bank Corp.—this means that not necessarily did they have to go and deposit Peru's reserves in the BCCI as well.

Also, we have to say that in the decision taken to choose BCCI in Panama there were some very irregular procedures used, to say the least. Fernando Olivera is not the only one saying this, and neither is my commission. We are a bipartisan commission representing all the political sectors, including the Marxist Party, but our Office of Central Audit says this. This is the office which is supposed to supervise our accounts.

Report 008 of this year does say this in its report on how foreign deposits were handled. The Controller General of the Republic says that after documented study that deposits were made up to \$270 million in numbered accounts opened in BCCI overseas following procedures for credit reciprocity and to get numbered accounts.

It is said here that to decide to place the Peruvian reserves there not all minimum information was even considered, as is usually considered to make such a decision, and in accordance with the rules of the board of directors itself.

Information was not included on the accounts and the state of accounts of BCCI overseas. The only accounts included were the holding committee—or company, rather, in Luxembourg, and this didn't have anything to do with BCCI in Panama and still doesn't. Panama is not the same thing as the holding company with headquarters in Luxembourg. So in a deceitful way, BCCI in Luxem-

bourg's records were used to justify deposits up to \$100 million at the outset.

Neither was there an analysis made of the financial situation over the past 3 years, saying in error that the Bank of Peru had data up to 1981. This was not so. It was understood that it was necessary to evaluate BCCI holdings in order to issue a letter.

In the second place, it was omitted to talk about the background of BCCI holding company and its principal branches because these were not corresponding banks of the Central Bank of Peru, and there was nothing about them in the files of the bank, whereas there was qualitative and quantitative information about these banks when they came to try to open accounts in Peru in February 1985.

There is a report which is the Institution of Banking Analysis Limited of London which said that BCCI already in 1985 was an aggressive, innovative bank which on a number of occasions had bothered the supervisory authorities such as the Bank of England in 1985 from the legal point of view. It was considered to be in a ranking four out of five. In other words, it was ranked very low, though the management—

Senator KERRY. Whose ranking was that?

Mr. OLIVERA. The General Office of the Controller of Peru. The General Office of the Controller of Peru. This information is in report 008—1988. Of the year 1988.

Pedro Cateriano has asked to say something.

Mr. CATERIANO. The General Office of the Controller of Peru under our constitution is a body which is autonomous.

Senator KERRY. I just wanted to know who had made that particular judgment. Please continue.

Mr. OLIVERA. Yes, sir. The report of the Office of Controller continues saying that though the Office of International Operations says it did not have this information at its disposal, it knew that it existed and it could have gotten it.

In any case, the administration or the management of the bank proposed that this corresponding relationship be set up and refrained from telling the board about this information at that time.

In the third place, the Office of the Controller says that evidence—documentary evidence does not exist before the approval of the corresponding relationship that other concrete proposals for lines of credit were or were not negotiated to decide which would be the best, using the criteria of security and minimum reciprocity. It is believed that BCCI's proposal was the only one that existed and was adopted in conditions that are very far from minimum reciprocity.

Senator KERRY. Are you saying you believe it was the only proposal or might there have been others?

Mr. OLIVERA. No, Mr. Chairman. This is what the officers were saying who were arguing to justify, we think, precisely that what should have been done was that other proposals should have been sought, especially because we already had relations with the Bank of Tokyo, the Swiss Bank, the Bank of the Argentine Nation. There were a lot of banks in Panama with which relationships already existed with Peru.

Senator KERRY. Excuse me for interrupting you, but I just want to understand. You are saying that you have found as a matter of fact that no other proposal was solicited. Is that accurate?

Mr. OLIVERA. This is what we have investigated in our investigating committee.

Senator KERRY. What is your conclusion? Only one proposal?

Mr. OLIVERA. Sir, the conclusion that we are supporting here, and that is why I am giving you this documented explanation, is that there was here in the decision to place Peru's international reserves in BCCI a powerful force at work which caused decisions to be taken very rapidly. A 3-page report, only 3 pages on BCCI Holding Co. in Luxembourg, was what made the decision to be taken to place huge amounts of Peru's reserves in Panama.

I was reading the conclusion about reciprocity that—the reciprocity that Peru got. The Office of the Controller said reciprocity, that the Reserve Bank of Peru got with BCCI, was always greater than what it got; \$250 million in deposits versus about \$85 million in lines of credit. This is much greater than the differential with other banks. No evidence has been found for any reason for this significant concentration of resources in this one bank.

Senator KERRY. The gentleman from the Reserve asserted that no deposits were lost, that nothing was lost to the people of Peru. Is that accurate? That in effect all the deposits that were made were then withdrawn, so there was no loss, ultimately?

Mr. OLIVERA. The losses can be quantified in a number of different ways. First of all, using the concept of reciprocity, Peru needed lines of credit, and it placed its international reserves without getting lines of credit in equal proportion.

Second, the officer of the Central Bank forgot to say that in May 1986 and in June 1986 when the accounts were opened in BCCI, \$50 million were held in a checking account that does not earn any interest at all. And this is concrete damage.

Third, there were deposits made above the limits authorized by the Central Bank of Reserve allowing BCCI to earn a profit. And we have to say to reach conclusions about why we feel that this conduct was irregular and suspicious and even criminal, as District Attorney Morgenthau alleges, is that there were very concrete observations made in 1987 regard the BCCI situation in the world, which have been mentioned here. There are the reports which already recommended withdrawal of deposits in July 1987. These were reports from London which were taken up by the Central Bank's relevant department.

Senator KERRY. When did those withdrawals take place?

Mr. OLIVERA. But despite that, substantial amounts were maintained, at least until December 1987 and January 1988. Coincidentally, that is when Panama entered into a crisis because of the denunciations or accusations against Manuel Noriega.

Ms. FLORES. This is a very important point. The information regarding the bad situation of BCCI around July 1987, although arguing that some credit should be paid, funds were not returned. They began to return them, but they did not finish returning them up to December 1988. That is something that for us sounds really curious. Although there were very clear reports saying that there was no reciprocity and that given argument in 1986 that we wanted to

protect funds, that was the main argument—we are trying to protect funds, we are trying not to be withdrawn. Nevertheless, knowing that we were in a risk situation, even more risky than the risk of it appears, we maintained ourselves up to December 1988.

Senator KERRY. Have you discovered anything with respect to the bank and its dealings with respect to officials who were responsible? Have you discovered anything concrete as to why that money was not withdrawn more rapidly? Do you have any answer to that?

Mr. OLIVERA. That was just what I was getting to, Mr. Chairman. We began this investigation because within our job, which is to examine investigations and financial operations having to do with President Garcia's state, in 1987 there was published in a magazine, Oiga, the fact that the President of Peru had an account in BCCI for \$450 million. That was where the connection came with the work of our committee.

After having had meetings with District Attorney Morgenthau in May and then again in June on the part of members of the committee, we discovered that all of this irregular and suspicious behavior and these transactions vis-a-vis our reserves and BCCI had a cause, and the cause was bribery. It was a payment of commissions, illicit commissions to officers of the Central Bank and to other persons which are still to be identified, which remains to be identified.

We have seen and we have—the documents exist in New York, as stated by District Attorney Morgenthau. In the complaint he filed before the corresponding court, he says the following. And I hope that Ms. Flores will read this out in English.

Ms. FLORES. I do know it.

Senator KERRY. Thank you.

Ms. FLORES. It is the third point of the indictment saying that defendants authorized, and caused to be authorized, the payments of bribes and kickbacks to agents of other banking and financial institutions. By virtue of that practice, defendants attempted to avoid and did avoid scrutiny by other banking and financial institutions. In 1986 and 1987 to obtain deposits and a banking relationship with the Central Reserve Bank of Peru, Defendants Abedi and Naqvi authorized and directed employees of the BCCI-BCC group to open a bank account in a Swiss bank in Panama to transfer bribes and kickbacks in the amount of a percentage of the deposits maintained by the Central Reserve Bank of Peru to two senior officers of that bank. The total of such payments was approximately \$3 million.

But you were also speaking of the 1987 documents, or possibilities. Yes, up to now we have received some documents showing us that there were very close relationships, not precisely from officers of the bank but from people outside the bank in a very high level.

Senator KERRY. What we would like to do is receive those documents into the record, if we may, because they certainly go to the question of a pattern of behavior. But again, I do not want to turn this into a trial court or something or into an accusatory panel. So I want to do that within the record, and we will decide how to treat those in the terms of the record.

But you have established both through your testimony and through the indictment that there is an allegation sufficient to bring an indictment with respect to the question of payoffs being

made in order to solicit the business. And you have described the inconsistencies in the decisionmaking that seem to support the notion that something happened. Yes.

Mr. OLIVERA. Yes. Definitely. And we think that the cause of this behavior and the decision to place Peru's international reserves in BCCI was corruption. And here we have a document of the Swiss Bank Corp. in Panama proving that BCCI oversees George Town Grand Cayman. From there, transfers were made to the Security Bank to the Swiss Bank in New York and transferred from there to an account in Panama of the Swiss Bank. These were the bribes for these officers. We do not know who handled these accounts. We know that the accounts were opened by Leonel Figueroa and Hector Neyra, the president and the general manager at the time, according to the counts filed by Morgenthau.

But there are other people under the Selva Negra and Terra Firma codes, and this required some clarification because we are convinced that there are other authorities higher up who intervened, as I am about to explain. I think it is important to say that in the indictment by the grand jury, two people are specified, Abedi and Naqvi, who ordered these transfers. This implies a very high level relationship in BCCI, not even at the officer level, who we have said participated in the transactions with BCCI.

INTERPRETER. Deputy Cateriano has also asked to speak.

Mr. CATERIANO. Mr. Chairman, it is also important to underscore that the usual practice of the Peruvian Central Bank in making this kind of a transaction is to have it done by the officials and technicians. Now, in this case, Panama, the general manager and the president of the Central Bank of Peru went to Peru themselves. This is very unusual and this was something that the Peruvian Central Bank did not do in carrying out this kind of operation normally.

Because in Peru the members of the board of directors are political. They are named by political people. The President of the Republic, in the case of the President and the members of the board, including the—there are four named by the President and three named by the Senate. That is why the function they carry out is not really technical. It is basically political. So traditionally, in the Central Bank, technicians, experts, carry out this sort of operation or transaction.

Mr. OLIVERA. I would like to continue, if I may. The contracts were signed with the Central Bank by A.M. Bilgrami, Cristian Nassim, J.M. Hrizui, and Akthar Kureshi.

We have discovered in our investigation and in our committee, the entry into the country of two persons involved in this BCCI scandal and who have been convicted for drug money laundering in a Tampa court. This is a document dated 1991, which I will give the committee in a spirit of mutual cooperation.

In this document that I am going to give you it is proven that this Pakistani national, Akbar Bilgrami Avida, entered Peru from Panama on December 18, 1986. A great coincidence here. That same date, General Manuel Antonio Noriega traveled to Peru, too. And why did he go to Peru? To be decorated by President Alan Garcia with the highest decoration offered by the Army.

Here is the proof of that. The relationship with General Noriega included unrecorded visits, as the Kerry committee heard from Mr. Blandon, who was the consul general in New York of Panama and who said that there was a disappearance in his official visit for 6 hours.

We also see here—we have also recorded another entry into Peru of another person who has also been convicted in Tampa, Amjad Awan. This is a person who had a great deal to do with the management of the personal accounts of corrupt people, such as being the personal banker of General Noriega. He entered Peru January 18, 1988, and stayed until there was a crisis in Panama and then this person, Amjad Awan, according to some information which has reached the commission, may be the personal banker of our own former President, President Alan Garcia.

Senator KERRY. I really do not want comments "according to somebody," "maybe." These are the allegations that I am really not interested in and the committee does not want. And I want to caution you against that. I want to know about BCCI specifically, but I do not want to know about somebody else's rumor or allegation at this point.

It is not going to be relevant to what the committee is trying to decide. I think we have really almost established—the critical component here, the critical component—is the pattern of visits by people and people that they met with or talked to. The degree that normal procedures were not followed. The degree to which the bank specifically undertook to meet with people in ways that were irregular and so forth. I think it is a question of influence and movement but not allegations by people outside.

Mr. OLIVERA. Mr. Chairman, I am referring to concrete facts. We have reports stating these things. I understand what you meant when you said what you just said. I understand very well. But this has a connection and the allusions are relevant.

I will reserve referring to the reports of very highly reputable investigators, private detectives such as Crowell & Associates who investigated Saddam Hussein, Duvalier, Marcos. I will reserve that for now and I will talk about the LARC report, because I do not want anybody to interpret what I am saying as being off the subject. But I am going to give you grounds, with documents to show how there is a connection—in connection with the decision to place our reserves in BCCI.

Did you want to say something, Senator Kerry?

Senator KERRY. I want specifically to see the connection with BCCI and the decision, very much. But let me just say, we have been going on for almost an hour now for a short opening statement, and we need—although I have interrupted it a number of times, we are going to need to try to tie this up.

What I need—and I think you have been doing it. Believe me, I think it has been very helpful that you showed deviation from procedure, you showed a pattern. What I want to understand is, were there any specific meetings that you are aware of and so forth.

Thank you.

Ms. FLORES. The main thing that you are asking, and I think you are right on that, is that if there was a personal relationship which was not relations just with the formal requests which are useful in

this case, which are common in this cases. And we do think there were. In 1986, Mr. Morgenthau has established, the former President Alan Garcia was consulted. That was the first fact which has been demonstrated.

Senator KERRY. Consulted by whom?

Ms. FLORES. He did not tell us exactly who he was. But there are some other facts which I think would help. Mr. Bilgrami was in Peru in 1986. What he said is that representatives of BCCI spoke with him, met him, and a decision was made at that level. We have that record.

Senator KERRY. Do you know the name of R. Alberto Calvo?

Ms. FLORES. No, I do not, but Mr. Cateriano could explain to you exactly who he was.

Mr. OLIVERA. Mr. Chairman, that is just what we are getting to, if you will allow me. I have a document here which we have obtained from the office of BCCI in Miami, FL, dated February 10, 1987. This is a document to Mr. Shafi and its says the following: Mr. Oscar Riizo Patron called from Lima to confirm that the President of Peru at any moment during the course of next week, February 16 to 20, can receive you. Because of the floods and other situations, President Garcia is traveling in the interior of Peru. Mr. Riizo Patron suggests to put 2 days on your schedule for this visit so as to give time for this meeting.

We will give you this document too.

Mr. Shafi—

Senator KERRY. Let me interrupt you, if I may. Let me just establish this document. This is a February 10 memo to Mr. Shafi from whom? Do you know?

Ms. FLORES. No.

Mr. OLIVERA. It is signed by someone called Cecile.

Senator KERRY. It is from the BCCI Bank, Latin American and Caribbean region, based in Miami, FL. Correct?

Mr. CATERIANO. Yes.

Senator KERRY. That document will be placed in the record.

[The information referred to follows:]

Feb. 10/87

4:15 p.m.

Mr. Shafi,

SEN 000504

Mr. Oscar Rizo Patron just called from Lima, Peru to confirm that the President of Peru can meet you any time and day during next week, Feb-16-20. Because of floods and other situations President Garcia is travelling inside the country.

Mr. Rizo Patron suggested to schedule at least 2 days of your visit so that there will be some flexibility for the meeting.

Mr. Rizo Patron requested to please advise him today or tomorrow your date of arrival and time you would like to meet the President next week.

Cecile.

BCC -- Latin American and Caribbean
Region

(Miami, Florida)

C 0002070

1) Deposits on 17/08/87

- Approximately \$265 millions.
- Of this amount, \$248,334,000 are in term deposits. The difference in operational accounts.
- The rentability is according to the market levels.
- The deposits are not subject to any conditions, nevertheless, if deposits are reduced below the line of credit (at this moment, \$110 millions) the line of credit would be reduced to the limits of the placements.
- Eventually the rentability of the deposits could be increased. But some worries persist about the quality and soundness of BCCI.

2) The first line of credit for (US60 millions) was offered at a rate of Prime plus 1% in april/86, but it was negotiated in May 1986 at a higher rate (Prime plus 1.25%). This rate has been kept up to now and maybe it could be reduced.
Through telex of 17/8/87 it has been asked to increase the line of credit for, at least, \$30 millions (eventually \$50 additional millions).

- The Central Bank would be more receptive if the existing credit facility is increased substantially, maybe duplicating it in order to keep a balance with the level of deposits.

Lima, August 18, 1987

C 0002017

Mr. OLIVERA. What I mean is that in February of—

Senator KERRY. I need to interrupt you. We get 15 minutes to vote, and I have a few minutes now to get over to the floor and vote.

I need to ask you to try to confer to see if you can organize maybe in the next 15 minutes or so because I do need to get to the next panelist and to Argentina, and I want to try to keep it as factually tight as we can.

We will stand in recess for the next few minutes.

[A brief recess was taken.]

Senator KERRY. The hearing will come to order.

Let me just explain to everybody that regrettably we are running tighter than we want to be. I have got to get to the Banking Committee markup before too long, so we need to be somewhat in summary, and some of the documents can be placed in the record. We will release some of the documents that explain some of what is going on, so if you summarize and we put the documents in, I think we are going to have the record that we need in terms of this issue.

Mr. OLIVERA. May I continue?

Senator KERRY. Yes.

Mr. OLIVERA. Thank you very much. I was just talking about the February 10, 1987, document coordinating a trip of Mr. Shafi to Peru to have a meeting with President Garcia. This was not to talk about the floods, quite obviously, floods that were going on in Peru at the time. I must say that in February 1987 the deposits in Peru and BCCI went up to \$261 million, in excess of \$61 million over the limit. This was the maximum excess over the limit throughout the whole period.

Here I have another document talking about Alberto Calvo. This is a document from Alberto Calvo to Mr. Shafi of BCCI, the Latin-American Caribbean Office, regional office, July 21. When the reports were received—negative reports about BCCI, Panama—meaning that the Reserve Bank was considering withdrawing its deposits, here I have this document which talks about a conversation with Alberto Calvo, who is not a BCR or BCCI or a Peruvian official.

This is a conversation with Daniel Carbonetto, who is an adviser of the President of the Republic, talking about how it's possible that steps are being taken to have a new conversation with President Garcia to see what can happen or what can be done about Peru's deposits. We will give you this document so it can be on the record.

Senator KERRY. I have the document. Tell me, who is Alberto Calvo?

Mr. OLIVERA. Mr. Cateriano can tell you.

Mr. CATERIANO. We have investigated who Mr. Calvo is, and we received the information that this is a banker managing Latin American relations for BCCI. He is an Argentine national. Mr. Alberto Calvo had relations before he was in BCCI in the Inter-American Bank, where he had some relations with Peruvian officers also working in the Inter-American Bank.

Senator KERRY. This memo that I am going to put in the record that follows the previous memo of February 10, this memo talks about further meetings and says that they agree to meet with the

president of the Central Bank 1 week after he takes office and after that they will visit with the President of the Republic.

So this is BCCI talking about top-level meetings between the president of the Central Bank and the President of the Republic. Is that correct?

OK, let me try to speed this along a little bit. There is a subsequent July 21, 1987, memo which is also from Mr. Alberto Calvo, also to Mr. Shafi. No, I have the wrong one here. Excuse me. There is an August 25 memo from Mr. Alberto Calvo to Mr. Shafi, and that memo talks about the relation with the Central Bank of Peru and——

Mr. OLIVERA. And a meeting with a friend.

Senator KERRY. Correct, and a meeting with a friend, and it talks about the Central Bank continuing its present operational relationship with BCCI if the line of credit could be increased, is that correct? Was the line of credit at that time increased?

Mr. OLIVERA. There was a statement that the line of credit would be increased.

Senator KERRY. This memo will also be made a part of the record.

[The information referred to follows:]

SEN 000557



LATIN AMERICA & CARIBBEAN REGIONAL OFFICE
 1200 BRUCELL AVENUE 15TH FLOOR MIAMI BEACH FLORIDA 33131 3050 U.S.A.

DATE July 21, 1987 - MKT/3647

FROM R. Alberto Calvo To Mr. S. R. Shafii

SUBJECT Conversation with Mr. Daniel Carbonetto

On Saturday July 11, 1987, between 8:00 and 10:00 a.m. I had a working breakfast at the Caesar Hotel, in Lima, with Mr. Daniel Carbonetto, Economic Advisor of the President of Peru, whom the public opinion considers the most influential person in the decision-making process regarding economic policies.

The purpose of the meeting was to exchange ideas about the best ways and means in which the Peruvian government could maximize the bargaining capacity of its gross reserves in order to get access to new loans or fresh lines of credit. In the course of the conversation Mr. Carbonetto expressed the worries of the President of the Republic about Panama's political situation, because of the placements that the government has in that country.

Mr. Carbonetto also told me that the presidency of the Central Bank has been offered to Mr. Javier Tantaleán, Minister of Planning, who has not accepted; but it is probable that the President Alan Garcia will insist.

Mr. Carbonetto asked me to go with him to visit the President Mr. Alan Garcia, and to brief him about our conversation. I politely refused with the excuse that I was leaving for Chile.

In reality I prefer to meet with the President after knowing what will be the policy of the Central Bank regarding the placement of its reserves and after having a chance of receiving your instructions on this matter.

We agree to meet with the President of the Central Bank one week after he takes office and after that we will visit the President of the Republic.

Sincerely yours,

R. Alberto Calvo

Enclosure: A paragraph of an article published in the weekly magazine "Oiga", dated July 6, 1987/page 16.

BANK OF CREDIT
& COMMERCE L.A.R.
15 FLOOR

cc: Mr. Bande Hasan

JUL 21 1987

RECEIVED

C 0002134

SEN 000466



LATIN AMERICA & CARIBBEAN REGIONAL OFFICE
1500 G Street, N.W. Suite 1500 Washington, D.C. 20005 U.S.A.

DATE August 25, 1987 MKT/4158

cc: R. Alberto Calvo *[Signature]* S.M. Shafi

subject Relation with the Central Bank of Peru CONFIDENTIAL

Attached please find a verbatim translation of the confidential document that our friend from Peru showed to you yesterday.

From the conversation I had with him at dinner, I came to the conclusion that the Central Bank would be willing to continue its present operational relation with BCC if the line of credit could be increased.

It would be important to counterbalance the unfavorable reports that the Central Bank has received from BCC.

Best regards,

R. Alberto Calvo
/eb

C 0002016

R. ALBERTO CALVO

November 27, 1987

Mr. Amer Lodhi
Chairman & Chief Executive
InterRedec Group of Companies
P.O. Box 670
Richmond Hill, GA. 31324

Following our conversation about Ms. Michelle Lemarche, I have made the following contacts:

1. Peru

At the Banco Central de Reservas del Perú, I talked to the Manager of the International Division, Mrs. Ana María de Restegui (Tel. 27-4810 and 27-6250) who told me that the Peruvian Government is interested in discussing that type of arrangements. For this kind of transactions the Banco Central de Reservas del Perú operates through the Instituto de Comercio Exterior (I.C.E.), where the Central Bank has a Delegate. I contacted the office of the General Manager, Mr. Eduardo Morales (Tel. 62-5742) but he has resigned effective November 30th. For that reason, I contacted Dr. Dora Valdivia (Tel. 62-5673) who is the Secretary of the Board and very knowledgeable about counter trade operations. The Instituto de Comercio Exterior decides upon the products that could be subject of the counter trade, and the Dirección General de Crédito Público of the Ministerio de Economía, decides about all the aspects of the utilization of the public papers in the transaction. In the Dirección General de Crédito Público, I got in touch with the Director Ing. Guillermo Rucínán (Tel. 27-0276) and with the Deputy Director Mr. Eduardo Doménac (Tel. 27-0276). Mr. Doménac told me that they are very interested in listening to the Lazard Freres Proposal.

R. ALBERTO CALVO

The Instituto de Comercio Exterior, the Ministerio de Economía and the Banco Central de Reservas del Perú, would be able to receive Ms. Lamarche on/about December 15th. The person who would coordinate the Meetings is Mr. Enrique Santa Gadea, Assistant to Mrs. Valdivia at the Instituto de Comercio Exterior (Tel. 62-5673).

2. Colombia:

As you know, Colombia does not have any arrangement for Debt Equity Swap and, on the other hand, the public documents of external debt have the lowest discount rate in Latin America, but the Government is interested in discussing the possibilities of counter trade operations. In Colombia, I contacted Dr. Rodrigo Llorente (Tel. 285-2539; Tlx. 43326 CAMC-CO) who as a former representative of the Inter-American Development Bank in Paris, has close contacts with some executives of Lazard Freres, (Mr. Christian Valenci). Dr. Llorente told me that he could organize and coordinate the meetings of Ms. Lamarche with all interested parties (Banco de la República, Federación Nacional de Cafeteros, etc.). He thinks that the meetings would take no more than 2 working days and that the ideal dates would be immediately before the 15th. of December.

Suggestions: I suggest that Ms. Lamarche considers the possibility traveling first to Colombia around December 10th. and then proceed to Perú. She can contact directly Dr. Rodrigo Lorente in Bogotá and Mr. Enrique Santa Gadea in Lima.

As you know, I will be travelling on those days but I will be very glad to assist Ms. Lamarche as much as possible in this endeavor.

Best regards,



Senator KERRY. Then there is—is there any other memorandum or letter or document pertaining to BCCI meetings with respect to these transactions?

Mr. OLIVERA. No, not for now, but what we have to say is that the Reserve Bank, being autonomous in nature, is made up of four representatives of the executive branch named by the President and three members named by the Senate. During Garcia's Presidency his party had a majority, named as President a person who had been the Secretary of the Presidency, so it has been proven that there is no reason for Alan Garcia to have been in any of this.

I would like to say very briefly what happened with the Mirage. This is a case which really deserves your attention if you will allow me.

Senator KERRY. We need to do it very quickly.

Mr. OLIVERA. In August 1986, Peru decided it would not make profits, substantial profits on the sale of the 14 Mirages. This was a decision that the Peruvian Government made to get rid of these Mirages because they could not—Peru could not afford to pay any more but it could resell these planes to another country.

This was in the sales contract with Marcel Dassault that appeared in three different paragraphs. But Peru did not do this. According to statements made by the representative of the Government, the statements made in the committee I preside, these sales were not made to third countries because this was not authorized by President Alan Garcia.

The damage to the country and the profit to third parties resides in the fact that the market price of these 14 Mirages, the price which was paid for each plane at that time, was \$37 million as stipulated in the statement of the Peruvian negotiator, Hector Delgado Parker. What Peru had to pay to Marcel Dassault, the manufacturer for each plane, because these planes were contracted for in 1982 to be manufactured later, were \$12 million. That is to say, there was a difference of \$25 million per aircraft.

Peru, however, did not make this transfer to third countries, for which all it needed to do was get the approval of the French Government. We have discovered, however, by Mr. Morgenthau's work, that this operation ended up as a resale.

BCCI ended up being the resale's agent and the London office of BCCI approved this sale, and according to what we've heard there was a falsification of documents to hide the country which was the final destination of these aircraft. We have received information that this plane was Iraq, was alleged to be Iraq during the period of Saddam Hussein. This true customer was being hidden because arms traffickers—international arms traffickers—were involved in this, an officer Asa working in BCCI of London.

Senator KERRY. Is this something that is fully documented?

Mr. OLIVERA. The documents exist in Mr. Morgenthau's office. They are in investigation phase and that is why we are stating this here in the Kerry commission to ask for the cooperation of international authorities so that we can clarify this. Mr. Morgenthau's people think that there was \$100 million gap, and we think it's between \$150 million and \$200 million.

Mr. CATERIANO. Sir, this requires an investigation, obviously. We have gotten a statement from Mr. Morgenthau for Peruvian televi-

sion. This was broadcast to our whole country, and there he affirms that this negotiation caused Peru to lose \$100 million and BCCI was apparently linked to this. This is something we need to go into.

Senator KERRY. Let me just say there is absolutely no disagreement from me. It is something that needs to be gone into, but this is not the place where we are going to be able to resolve it, and what I am trying to establish here are really the questions without unfairly making any accusations, even though the accusations have already been made specifically by the indictment by Bob Morgenthau and by your commission.

There are certain things that are on the table and you cannot avoid those, and I agree with that. But again, I do not want to go through every detail of them because there is no way that this committee can sort that out.

What we are trying to do is show the degree to which BCCI and its method of operation and the personalities and people who were involved with it have in fact created a situation in your country and in other countries where now people are left picking up the pieces and trying to sort it out.

In addition to that, to show the way in which by high level operations and conversations and meetings it appears as though they have left many people wondering what happened to the procedures in countries. That is not true only of Peru, it is true in some 60 nations or so, and it is true very much right here in the United States, so we share that.

Now having said that; I would like to ask you one question, if I may, and that is, has your effort to get at this as an investigative body been hindered by the bank secrecy laws? Has that made it difficult to find out what has happened here?

Mr. OLIVERA. Definitely. We have to state that present legislation favors the criminal, unfortunately, and the action of justice meets many obstacles. The information and the controls which are necessary are not forthcoming in order to—and this allows crime to be committed through legally constituted financial institutions. I think the situation has to be corrected.

Senator KERRY. Let me ask Ms. Flores, would you tell me to what extent Peru is threatened by drug money laundering and drug trafficking, and what has been the impact in Peruvian life of this kind of corporate activity?

Ms. FLORES. Let me tell you with numbers something which is a movement of money regarding the drugs. Peru receives or moves around \$2,000 million a year from money coming from drugs. That means that in all our foreign relationships and reestablishing credits and financial relationships with other countries, it is a very big problem to think that we could avoid the money we are taking from drugs. It is around \$2,000 million a year of money moving through drugs.

Senator KERRY. When you say \$2,000 million, I think we are probably losing something in the currency conversion, conceivably.

Mr. OLIVERA. It is \$2 billion in English. Mr. Kerry, on this same subject I want to give you two examples.

Senator KERRY. I must be fair. I have a neighboring country of yours waiting in the back here, and I really want to ask you for the summary statement very briefly, if I can.

Mr. OLIVERA. Yes. I will conclude saying that on this subject in the Upper Huallaga Valley there were four planes which went to pick up money every week, and it was detected that one citizen who was just a peasant had changed \$6 million in just 1 month, and finally we discovered he was connected to cocaine, and between 1985 and 1990 the number of acres went from 60,000 to 225,000 acres, and it's very difficult not to connect all of this thing to increased drug trafficking.

We need the cooperation of the authorities of the United States and the authorities of the rest of the world to achieve the goals of our investigation, that is, justice. We need to recognize the work done by Mr. Morgenthau. We want to be very clear about the shared feelings we have of cooperation with what you are doing.

We are getting cooperation from other bodies but not as much, so we would like to ask for cooperation from the Department of Justice, the Department of the Treasury, the Customs, and other offices in the Federal Reserve, for example, to awake their consciousness so that they will realize that this is a fight for justice—that this is a fight for justice and they cannot use bureaucratic procedures to deny cooperation in this fight for justice and our desire to defend the rule of law and which will allow us once and for all to defeat corruption and to get to those who are first and primary violators of human rights in Peru, which are the terrorists, so that there will be no quarter given them by our Government.

So I would like to thank you on behalf of my committee. I hope that we will continue this very full cooperation that we have had up to now. Thank you very much.

Senator KERRY. I want to thank you each of you for taking the time to be here, and let me say, as chairman of the Narcotics Committee we have sat here in this room and listened to our own Assistant Secretary of State for Narcotic Affairs talk to us about the problems in Peru.

I am personally very aware of the difficulties in the Huallaga Valley, the efforts and dangers that are going on there, and the great tensions in your society as a consequence of both the Sendero Luminoso as well as the whole problem of drug trafficking linked to those kind of efforts, and I simply say to you that banks that involve themselves in laundering that money are as much a part of the problem as anybody else who is involved in the entire line and chain of command.

So you have raised many questions. We have not answered a whole lot of them here today, and I think one has to say that, but the questions are very legitimate. They are very real, and they need to be addressed, and I think we will proceed here to continue to try to gather information and understand this, that it is very clear that BCCI launched one of those offensives that we have heard about in order to secure these funds and deal in Panama and present itself falsely, and I think that there is a great deal more of this story, though, yet to be told.

But I want to thank you very much. We appreciate it.

If I could ask the next panel quickly, because we really only have about 20 more minutes here to continue. Thank you very much.

Senator KERRY. I think, Mr. Castillo, it is my impression that there is not really a need for you to testify very much, because I

think we tried to steer clear of the gravamen any of the offenses. If you have something that you want to clarify in a couple of minutes, I would be delighted.

Raise your hand, raise your right hand, please. Do you promise to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DEL CASTILLO. I do.

Senator KERRY. Would you identify yourself, please, for the record?

STATEMENT OF JORGE DEL CASTILLO, MEMBER, PERUVIAN HOUSE OF DELEGATES

Mr. DEL CASTILLO. My name is Jorge Del Castillo. I am a deputy in Peru, too, representing the Aprista Party, and I am a member of the investigating committee in which the other people who preceded me are serving. I want to be very specific here and brief in honoring your request. Irresponsible accusations have been made.

Senator KERRY. There were no accusations made here that are not part of the indictment. And we are not going to try the indictment here, so if there is something that was said specifically here that is incorrect, then I want you to address that, but we are not going to go into whether or not the indictment is correct or incorrect.

Mr. DEL CASTILLO. No, I am not talking about Morgenthau's indictment. I am talking about the comments on the Mirage business, for instance. Let me start there. It seems that there is a confusion here with Deputy Olivera when he involves the contract of the Peruvian Mirages with BCCI. When the session began, you had not come in yet, but Senator Cranston read some documents connecting the Argentine operation of the Mirages with BCCI, not Peru.

Peru bought from Marcel Dassault, a State-owned enterprise of France, a total of 26 aircraft between 1982 and 1984 before Dr. Garcia was President. Fernando Belaunde-Thierrie was President at the time. When Dr. Alan Garcia became President, and I am going to give you a specific document on this.

Senator KERRY. The issue here on the Mirage is not really the record previously. The issue as I understood it was that BCCI facilitated a sale that was made to a Middle Eastern country. Now that is the issue. Is that true or not true?

Mr. DEL CASTILLO. That is not true. The Government of Peru under President Alan Garcia, the same day, July 20, 1985, as he took power, announced that since Peru was a poor country, it could not be spending money on weapons. And therefore, instead of buying 26 planes, he had given orders to reduce the order.

This was a restructuring of the contract, which was done directly between the Peruvian Government and the French Government. And I am going to give you the signed documents by the Foreign Ministers of Peru, Alan Wagner, and the French Foreign Minister as well, restructuring this contract.

Peru is not a country which is aggressive, nor one which encourages wars with other countries. Therefore, it would not resell planes.

Senator KERRY. But sir, the question is whether or not BCCI was part of the transaction for the sale of weapons. Were Mirages sold? Did Peru sell Mirages to another country?

Mr. DEL CASTILLO. Peru did not sell planes to other countries. It cut its contract back in a direct contract with the French Government, government-to-government, without any middlemen.

Senator KERRY. It is your testimony, then, that no planes were to be transferred from Peru to any other country?

Mr. DEL CASTILLO. In no way.

Senator KERRY. Let me move away from that. We are not here to get into, I am not going to be the decider of fact between this. You stated on the record that it did not happen; they have stated on the record that it did happen. And as I said, a lot of questions have been raised here.

The question I ask you is, with respect to BCCI, is there anything that you have heard with respect to BCCI that is factually incorrect or that you can help the committee to understand better?

Because the dispute with respect to President Garcia, as I said at the outset, is not for this committee to decide. I have tried to steer the people who testified a moment ago away from any accusations. I am not here to hear them. We know what is out in public. What I want to know is about BCCI. And so I am confident that in Peru this issue is going to be litigated, investigated, decided. It is not here that it should happen. And I have tried to acknowledge that there is a total other side to that.

There is no effort here to say that President Garcia did know, did not know, did something, or did not do something. And I accept your statement on its face. There is a controversy. And we cannot resolve it, we are not here to resolve it.

So if you could help me with respect to BCCI, is there a fact that you can show me, by document or otherwise, that is incorrect in our current understanding of BCCI's relationship with Peru?

Mr. DEL CASTILLO. Yes, I will discuss that, and I will try not to get off the subject. I am going to give you the documents to conclude the prior subject on the government-to-government contract.

Senator KERRY. I will make those a part of the record.

[The information referred to follows:]



BANK OF CREDIT AND COMMERCE INTERNATIONAL
 SOVEREIGN LIMITED
 APARTADO 8-0987 ESTAFETA EL DORADO PANAMA REPUBLIC OF PANAMA

3 de mayo de 1991

Doctor
Jorge del Castillo Olives
E.S.M.

Estimado doctor del Castillo Olives:

Nos permitimos responder a las preguntas contenidas en su nota del 2 de mayo de 1991 de la siguiente forma:

1. En esta Institución Bancaria no existe ninguna cuenta especial No.000144000 a nombre de María del Pilar Norez Bodereau de García o María de García ni del señor Alan Gabriel Ludwig García Pérez ni de ninguna otra persona.
2. Por no existir dicha cuenta No.000144000 en esta Institución Bancaria no se han efectuado depósitos ni transferencias de ningún tipo en relación con la misma.
3. En esta Institución Bancaria no existe ni ha existido cuenta o depósito a nombre de María del Pilar Norez Bodereau de García, de María de García, de María Norez, de María N. Bodereau ni a nombre del señor Alan Gabriel Ludwig García Pérez.

Atentamente,


 A. G. Olives
 Gerente


 Oficial



Banco
Santander

José M. Maceda
Subdirector General Adjunto

Yo, José Manuel Maceda Fernández, Subdirector General Adjunto de Banco de Santander, S.A. de C. y Secretario General de su División Internacional, a solicitud de D^a María del Pilar Norzúg Bédereau

C E R T I F I C O

Que no ha existido ni existe en el momento ni en el futuro nombre de la solicitante, ni de María Norez, ni de A. V. Alejandro Norez, y que, por tanto, no se ha realizado - ni podido realizar - transferencia alguna a su favor.

Se expide esta certificación en Madrid el 22 de Mayo de 1991.

Félix

Asesoría Jurídica
División Internacional



GENERALE

Service Communication

Bruxelles, le 17 mai 1991
L/FLo/cv/19-91

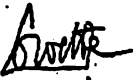
Docteur A. CARRANZA GUEVARA
c/o Jean DOERNER
rue Aldringen 13

L - 1118 LUXEMBOURG

Monsieur,

En réponse à votre lettre du 16 mai, je vous confirme que la Société Générale de Belgique S.A. en tant que société à portefeuille n'exerce pas d'activité bancaire et ne peut recevoir des dépôts de particuliers.

Veuillez agréer, Monsieur, l'expression de mes sentiments distingués.


Filip Lowette

Filip Lowette
Responsable Communication Groupe

Générale de Banque

Direction

Bruxelles, le 17 mai 1991

Monsieur,

Nous nous référons à la visite que vous nous avez rendue le 14 mai 1991 et au cours de laquelle vous nous avez commenté les circonstances dans lesquelles Mr. Alan Gabriel Ludwig GARCIA, ex-président de la République du Pérou, fait l'objet d'une enquête parlementaire dans votre pays.

En préparation de cette visite, vous nous avez fait parvenir une version photocopiée (téléfax) d'un rapport d'enquête daté du 28 février 1991, établi par LARC INVESTIGATIVE SERVICES et adressé à Monsieur Fernando OLIVERA, Diputado Presidente, Frente Independiente Moralizador, Jose Granda 105; Depto. 14, SAN ISIDRO, LIMA, PEROU.

L'examen du document en question, en particulier des raisons sociales des institutions financières mentionnées, nous amène à vous confirmer que notre banque n'est en aucune façon visée par ce rapport d'enquête pour le motif que nous n'y sommes pas cités. En effet, la raison sociale de notre banque en Belgique, tant à l'époque des faits rapportés qu'actuellement, est "GENERALE DE BANQUE" (en français) et "GENERALE BANK" (en néerlandais),

Veuillez agréer, Monsieur, l'assurance de notre considération distinguée.

Fr. J. GROSJEAN
Compliance Officer

Vu par Nous, Notaire Frank DEBRYT, à
Molenbeek-St-Jean, pour la présente
certifier que le présent document
a été signé par le présent document
Molenbeek-St-Jean, le 17 mai 1991.

W. SLACHMUYLDER
Directeur Général

Vu par Nous, Notaire Frank DEBRYT, à
Molenbeek-St-Jean, pour la présente
certifier que le présent document
a été signé par le présent document
Molenbeek-St-Jean, le 17 mai 1991.



Monsieur Alfredo CARRANZA

Elias Aguirre 126 Of. 305
MOLANBECK

POUR COPIE CONFORME

**DIRECTION DES AFFAIRES INTERNATIONALES****SEMI-BUREAU CENTRAL ET ORIENTAL
AGENCEUR LUTHE, POCHE ET MOUVEMENT****Paris, le 11 juillet 1981**

**Monsieur Alan GARCIA
c/o HOTEL DE LUTEC
65, rue de St Louis en l'Île
75004 PARIS**

Monsieur,

Comme suite à votre demande, nous vous confirmons que la SOCIETE GENERALE n'a pas de succursale ni à BRUXELLES, ni dans aucune autre ville de BELGIQUE.

Nous vous prions d'agréer, Monsieur, nos salutations distinguées.

J. R. PERE





Monsieur Alan Gabriel GARCIA PEREZ
Madame Maria del Pilar NORES DE GARCIA

DIRECTION COMMERCIALE

Comme suite à votre demande par lettre du 10 juillet 1991, nous déclarons par la présente, que nous sommes la SOCIETE GENERALE ALSACIENNE DE BANQUE, en abrégé la SOGENAL.

En conséquence, nous ne sommes pas concernés par le rapport fait en date du 28 février 1991 par Larc Investigative Services à Miami (Florida) 1515 NW, 7th Street, National Office Building suite 310, ce qui est d'ailleurs confirmé, sauf erreur ou omission de notre part, par les recherches que nous avons effectuées dans notre Etablissement.

La présente déclaration est faite sans reconnaissance préjudiciable de notre part.

Bruxelles, le 10 juillet 1991

A. QUOIX
Directeur

De Fransen
D. FRANSENS
AFF. JUR. & CONTENTIEUX



BANK OF CREDIT AND COMMERCE INTERNATIONAL
OVERSEAS LIMITED
 APPOINTMENT HOUSE PO BOX 1280 PORT STREET GEORGETOWN GRAND CAYMAN

MN/gcm/1214
 May 22, 1991

Mr Jorge Del Castillo Galvez
 Holder of Peru Passport # 005361
 Congreso Nacional
 Lima, Peru.

Dear Sir,

RE: A/C # 000:44000

With reference to your letter of May 22, 1991 we confirm that the subject account number quoted by you does not pertain to this office.

Thanking you,

Your's truly,

Manager

GREAT WESTERN BANK **GW**

A Federal Savings Bank

100 S.E. Second Street
Miami, Florida 33131-2199

May 23, 1991

Deborah S. Prutzman, Esq.
 ARNOLD & PORTER
 65 East 55th Street
 New York, NY 10022-3219

Re: Alan Gabriel Garcia Perez, born in 1949; and
Maria Del Pilar Nores Bordereau De Garcia,
a/k/a Maria Del Garcia, Maria Nores, or
Maria N. Bordereau, also born in 1949.

Dear Ms. Prutzman:

This is to advise you that our Research Department searched Great Western Bank's account base, as well as CentTrust Bank's records, for any accounts corresponding to the above-referenced names. Those names were in turn matched to the birthdates you previously provided us. We were unable to locate any account matching that information.

If you should have any questions, please do not hesitate to contact me.

Very truly yours,

GREAT WESTERN BANK
 Legal Department



Anabel I. Nemrow, Esquire
 Associate Counsel

AIN:eb

cc: Dr. Jorge Del Castillo Galvez
 by Hand Delivery

PATTON, BOGGS & BLOW

2550 M STREET, N.W.
WASHINGTON, D.C. 20037-1380
(202) 457-6000
TELECOM 457-6018
TTY TOLL 187798

200 WEST 100TH STREET
BALTIMORE, MARYLAND 21201
(410) 554-0000

100 BALBOA TERRACE, SUITE 200
SAN DIEGO, CALIFORNIA 92108
(619) 582-4111

100 NORTH 5TH STREET
GREENSBORO, NORTH CAROLINA 27401
(919) 870-1131

SUITE 100
100 LINCOLN STREET
DENVER, COLORADO 80202
(303) 555-1175

May 24, 1991

(202) 457-6030

VIA TELECOPY (212-223-1939)

Deborah S. Prutsman, Esq.
Arnold & Porter
65 East 35th Street
New York, NY 10022

Dear Ms. Prutsman:

Our client BCCI has informed us that the nine-digit account number you referenced in your fax of May 6, 1991 (#000144000) does not comport with the standard numbering system BCCI uses for its accounts. Our client suggests that perhaps the Societe Generale in Brussels, Belgium might be able to further assist you. Please let me know if I can be of further assistance.

Sincerely,

Deborah M. Lodge
Deborah M. Lodge

DML/mle

cc: Jerome Levinson, Esq.

A4 THE WALL STREET JOURNAL TUESDAY, JULY 30, 1991

Private Eye, in Odd BCCI Tale, Tells Of Snooping on Ex-President of Peru

By MICHAEL ALLEN
And JOSE DE CORDOBA

Staff Reporters of THE WALL STREET JOURNAL
MIAMI—It was a slow day in the private-eye business when Rafael "Ralph" Garcia got the call. Peruvians, a pack of them with titles a mile long and a real itch to know more about the finances of some ex-president. Would he take the case?

Would he ever? "I'm saying to myself, 'I'm in the major leagues now!'" says Mr. Garcia, a former Drug Enforcement Administration agent who operates a detective service out of his house when he isn't parked behind his desk at the Miami jai-alai arena, where he's head of security. He figured he'd charge his new clients \$50,000—twice what he normally makes in a whole year of sleuthing.



Rafael Garcia

And for awhile, it looked as if he was onto something big. Mr. Garcia produced a preliminary report suggesting that Alan Garcia, the charismatic former president of Peru and no kin to Ralph, looted millions of dollars through the now-notorious Bank of Credit & Commerce International. The Peruvian political scene was plunged into turmoil. There was even talk the ex-president might wind up in jail.

But now, Ralph Garcia wishes he'd stuck with divorce cases. Peruvian power brokers are finding holes in Mr. Garcia's dossier against the ex-president. The Peruvian media have hounded him and even suggested that he doesn't exist. The Florida State Department has lodged an administrative complaint charging, among other things, that he "conducted regulated activities in a negligent manner." Worst of all, he says, he isn't getting paid any longer.

"Fifty thousand dollars," he snorts, as the closed-circuit television in his office flickers with the latest round of jai alai, a betting sport played somewhat like racquetball. "I haven't gotten another \$50."

Whatever the outcome of the travails of the two Garcias—some of it might be sorted out Thursday at a hearing by the U.S. Senate subcommittee on narcotics and terrorism—the story offers an unusual peek into the world of financial snooping. It also shows how hard it is to separate fact from fiction in the mushrooming scandal surrounding BCCI, the rogue banking operation shut down this month by regulators amid allegations of massive fraud.

Ralph Garcia, a burly 42-year-old whose size and good-natured bluster suggest a Cuban-American Jackie Gleason, has spent a career plying the fringes of the underworld. Hired by the Washington, D.C., police department in 1970, Mr. Garcia says he spent his first year "deep, deep undercover," infiltrating Cuban organized-crime circles.

Soon after, he joined the DEA, beginning a seven-year federal career that he concedes was a bit rocky. Though he received praise for his willingness to take on tough assignments and won the nickname "Machine-Gun Garcia" for spraying a drug dealer's deserted car with bullets, he also says he got into administrative squabbles over postings and other matters. Eventually, Mr. Garcia says he and his bosses reached a mutual agreement. "It was like, retire or we'll send you to Timbuktu," he recalls.

Mr. Garcia moved to Miami and opened a one-man private detective agency. Working with local criminal defense attorneys, he got involved in a few high-profile cases. He also got a job with the jai-alai arena. But he never really hit the big time.

Until he ran into Fernando Olivera, Mr. Olivera, a young Peruvian congressman who has made a career of fighting corruption, was looking for evidence that the former president, Alan Garcia, had looted the treasury. He obtained Ralph Garcia's name through a Miami tax attorney who had done some probate work for him. In a first meeting in a bayside condominium, Mr. Olivera produced a few leads. For example, the politician recalled seeing an interview of Julio Iglesias in which the Latin crooner mentioned that a former Peruvian president had bought property next to him in swank Indian Creek Isle here, says the detective.

And there was also the controversial relationship between the Peruvian Central Bank and BCCI during Mr. Garcia's presidency. In the mid-1980s, Peru deposited half the country's foreign-exchange reserves in BCCI's Panama operation, despite warnings from some Peruvian central bank officials that BCCI was in bad financial shape and paid low interest. Former President Garcia has defended the action, noting that he wanted to protect Peru's reserves from foreign creditors angered by his decision to suspend payments on the country's \$22 billion foreign debt.

Bank Records Cited

The Miami real estate lead hasn't panned out. But the private detective scored big in peering into Alan Garcia's bank records—or so he thought.

Not only had Alan Garcia been introduced to BCCI by former Panamanian

strongman Manuel Antonio Noriega, but he had used the bank to deposit \$50 million between 1986 and 1988, detective Garcia said in his report to Mr. Olivera. Then, the money allegedly was moved to a string of accounts at other financial institutions in Europe and the U.S. The level of detail was astonishing. The report listed specific account numbers and names under which they were opened, many of them a variation of the Peruvian first lady's name, Maria del Pilar Noreas Bodereau de Garcia.

Mr. Olivera trumpeted the findings in the Peruvian Chamber of Deputies in April, breathing new life into what had been a flagging investigation by his commission. Mr. Olivera became a national hero and Mr. Garcia's APRA party plunged into chaos.

But Alan Garcia's operatives quickly took the offensive, passionately denying that he had accounts abroad or had stolen any money. Jorge del Castillo, the former mayor of Lima, produced letters from several of the banks in the report denying that any such account could be found. In some cases, the institutions noted that they didn't even use the sort of account numbers mentioned in the detective's report.

Back in Miami, Ralph Garcia's fortunes plummeted. Peruvian journalists began appearing at an office address listed on Ralph Garcia's stationery. Because of a misprint, there wasn't such an office, a fact that was dutifully reported in Lima in articles suggesting that there wasn't a Ralph Garcia. When the reporters finally tracked him down, they laid siege to his house. The detective's teenage son drove them off with water balloons.

Protest Filed With State

Harder to dismiss was the Florida State Department, which regulates detectives. Acting on a protest from Alan Garcia's representative, Mr. del Castillo, the department last month lodged an administrative complaint that Ralph Garcia operated a branch office without a proper license, that he failed to cooperate with a division investigator and that he "provided information to his client and represented the information to be factual when he knew such information had not been verified."

Mr. Garcia's attorney, Dennis G. Kaine, concedes that the first count might be true, strictly speaking, but vehemently denies the rest. He says Florida regulators moved much faster than they normally do—in this case, the complaint followed a one-month investigation—and hints at political manipulation. "You would have thought from the way these guys came in here like gang-busters that they were talking about 1,000 kilos of cocaine."

John Russi, director of the department's licensing division, denies that his men acted hastily. "When we get a complaint on someone, we investigate it [and] we try to handle it as quickly as possible," he says.

So how exactly did the disputed information wind up in Ralph Garcia's hands? "I wish like hell I knew," he shrugs. He

says he got it from a Fort Lauderdale company called Mercantile Credit Association Inc., widely used by private detectives and which, Mr. Garcia says, has given him accurate information in past cases. He also notes that he hadn't expected that Mr. Olivera would release the report so soon.

Mercantile Credit, which bills itself as providing the "world's most accurate, up-to-date, informative credit reports," won't identify the source of its information. Wallace Irell, president, says Florida authorities instructed him not to comment, and besides, "when two elephants are fighting, you get out of their way."

But a person familiar with Mercantile's operations asserts that the alleged information about Alvin Garcia was procured through an intermediary who, in turn, contacted a third person unknown to Mercantile. Mercantile charged its customer, in this case Ralph Garcia, \$200 per bank account found in the U.S. and \$650 for international accounts, according to the person.

Mr. Garcia is consoled by the support offered him by patrons at the jai-alai arena, as far as it goes. "I have to defend myself 24 hours a day," says Mr. Garcia, who has netted just \$3,500 for his troubles. "I can deal with this, but what I can't deal with is that I haven't made any money."

State of Florida



Department of State

I, Jim Smith, Secretary of State of the State of Florida, do hereby certify that the attached letter from John M. Russi, Director of the Division of Licensing, to Mr. Jorge Del Castillo Galvez, is an accurate and correct statement of the status of the investigation currently being conducted on LARC Investigative Services, Rafael Nicasio Garcia, President, pursuant to Chapter 493, Florida Statutes.

Given under my hand and the
Great Seal of the State of Florida,
at Tallahassee, the Capital, this the
11th day of June 1991



Jim Smith
Secretary of State

CR2E022 (8-87)



FLORIDA DEPARTMENT OF STATE

Jim Smith
Secretary of State

DIVISION OF LICENSING

The Capitol, MS #4
Tallahassee, Florida 32399-0250
(904) 487-0482 FAX 488-2789

June 11, 1991

Mr. Jorge Del Castillo
Diputado Congreso Nacional
Lima, Peru

Dear Mr. Del Castillo:

As regards your complaint of May 16, 1991 regarding LARC Investigative Services of Miami, Florida, Rafael N. Garcia, President, and the investigation conducted by Mr. Garcia on Mr. Alan Gabriel Ludwig Garcia, you are respectfully advised that the investigation conducted by the Miami Regional Office, Florida Department of State has been forwarded to Tallahassee for review to determine investigative completeness and legal sufficiency.

An initial review of the investigation that has been conducted to date is deemed to be sufficient to determine that probable cause exists to proceed by Administrative Complaint against Mr. Garcia of LARC Investigations for various violations of Chapter 493, Florida Statutes, the chapter which regulates private investigators in the State of Florida. The totality of the administrative charges to be lodged against Mr. Garcia have not yet been determined. No Administrative Complaint has been prepared since it has not yet been determined whether or not the investigation is complete.

Upon final conclusion of the investigation, within two weeks a copy of the Administrative Complaint, the charging document in an administrative proceeding, will be provided to you.

If I may assist you further in this matter, please feel free to contact me at your convenience. Otherwise, I will provide copies of the investigative report and the Administrative Complaint as indicated.

Sincerely,

 A handwritten signature in dark ink, appearing to read "John M. Russi".

John M. Russi
Director

JR/bt

Sunbelt Savings

May 21, 1991

Ms. Deborah Prutzman
 Arnold and Porter
 Park Avenue Tower
 65 E. 55th Street
 New York, New York 10022

Re: SL-8612, Sunbelt Federal Savings, FSB
 Irving, Texas - In Conservatorship (4/26/91)
ALAN GARCIA PEREZ

Dear Ms. Prutzman:

I am sending this letter to you pursuant to our telephone conversation on Friday, May 10, 1991. I am an attorney in Sunbelt Federal Savings, FSB's Legal Division. On Tuesday, May 7, I received Mr. Jorge Del Castillo Gelves at Sunbelt Federal Savings. After reviewing a Power of Attorney executed by Alan Gabriel Garcia Perez and Maria Del Pilar Norrea Bodereau de Garcia, and after confirming the authenticity of such document, I undertook a review of Sunbelt's records to determine if certain account relationships existed.

Specifically, I was requested to search Sunbelt's records for an account allegedly in the name of Alan Garcia Perez which was closed sometime prior to December of 1989. This account was allegedly originally established with Western Federal Savings and Loan Association prior to the formation of Sunbelt Savings Association and Sunbelt Federal Savings, FSB. A search of our records indicated that no such account, either open or closed, existed under any variation of Mr. Perez's name.

I was also specifically requested to determine whether or not there was an account in the name of M. Bodereau. Once again, I was presented with information that such an account did exist, including an account number, allegedly from Western Federal Savings and Loan Association. I have been unable to locate such account for Maria Bodereau. Further, review of the late May, June and early July 1988 wire transfer records revealed no information relating to a \$2,000,000.00 wire transfer.

Therefore, a review of account records transferred to Sunbelt Savings and subsequently transferred to Sunbelt Federal Savings, FSB from Western, indicate no accounts under the names or variations thereof listed above. The account number as referenced is not a valid Western Savings account number and was no help in locating any documentation. Further, review of the wire transfer

Ms. Deborah Fritzman
May 21, 1991
Page 2

records do not indicate the receipt in June of 1988 of an approximate \$2,000,000.00 wire.

If you have any questions, please give me a call.

Sincerely,



Barry D. Johnson
Sunbelt Federal Savings, FSB

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Sunbelt Savings
VIA FACSIMILE (214) 222-1222

May 29, 1991

Ms. Deborah Prutzman
 Arnold and Porter
 Park Avenue Tower
 68 E. 55th Street
 New York, New York 10022

Re: SL-8612, Sunbelt Federal Savings, FSB
 Irving, Texas - In Conservatorship (4/26/91)
ALAN GARCIA PRUTZ

Dear Ms. Prutzman:

I have previously given to you the results of an internal investigation performed at your request relating to certain deposit accounts in the former Western Savings Association of Texas and a wire transfer allegedly made in June of 1988 into Western Savings Association.

Sunbelt was investigating an approximate \$2.3 million wire transfer in June of 1988, which did not go into any deposit accounts. We have subsequently determined that the approximate \$2.3 million wire transfer received in June of 1988 is not involved as we can determine, with Mr. Garcia or his wife.

It would be my hope that this letter answers any questions which you have relating to this matter.

Sincerely,

Barry D. Johnson
 Sunbelt Federal Savings, FSB

cc: Jorge Del Castillo Galves
 c/o Alde Octolaza
 (via fax: (817) 384-1989)

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July 19, 1991

Ms. Lourdes Flores
Member of Commission
Guardia Civil 1150
San Isidro
Lima, Peru

Dear Congresswoman Flores:

Based on the information provided to the Resolution Trust Corporation (RTC) by you and other members of the Commission, we could not confirm the existence of transactions or account relationships with either Centrust Savings or Western Savings (now Sunbelt Savings).

Of course, we would give consideration to making further inquiries should additional information become available.

Sincerely,

A handwritten signature in dark ink, appearing to read "J. Dudine", is written over the typed name and title.

James R. Dudine
Assistant Director, Investigations

cc: C. J. Sullivan
Wm. Dudley
Wm. Roelle
T. Schulz
Mr. Jones

Mr. DEL CASTILLO. BCCI, Mr. Chairman, came to Peru in 1984. Probably it was a source of surprise in Peru, as in 60 other countries as well, how much good faith people had. As you know, it seems that when any bank wants to get into a country, it wants to get in touch and contact with important groups of people in the country.

And in March 1984, BCCI in Peru asked for authorization from the Superintendency of Banks and Insurance to set up a branch. So you will see the level of reliability that a bank, apparently a very solvent bank, seemed to have at that time.

BCCI, to ask for this authorization, asked for and got the legal advice of a very important law firm in Peru, and here in exhibit No. 1, that I am going to give you, I am going to give you a sealed copy dated March 14, 1984, from the Superintendency showing that BCCI asked for permission to set up a branch.

And it says that its legal domicile will be the law office of Sterling, Arias & Davis & Associates, which is a very well known law firm. Dr. Sterling, who is a person whom all of us respect and could not possibly be suspected of anything illegal, he is a member of Dr. Lunes-Flores' party, and is the President of the Peruvian Senate. He is beyond reproach. This is exhibit No. 1.

In 1984 the Superintendency, in a document in November, asked the Central Bank to process the approval. I am giving you a list of all of the Central Bank staff members from 1980-90.

Here there is a very interesting person who was the general manager of the Central Bank between 1980 and 1984, until October 1984. Remember that BCCI's request came in March, and he was there until October. They say in Lima, and this is a saying or speculation, I recognize, that this same person, the general manager, was the promoter of BCCI in Peru.

This person is called Brian Jensen Rullio. In 1984, Mr. Brian Jensen Rullio resigned from this post at the Central Bank, and he moved to Miami. And in Miami he was named manager of BCCI. So if anyone knows about the links of Peru with BCCI, it is Brian Jensen, because he had been general manager of the Central Bank, and because he was later a Miami manager of BCCI.

Brian Jensen, until yesterday, was representative in Peru, named by the Minister of the Economy, Carlos Bolona, as the representative of Peru to the World Bank. Yesterday, though, the President of Peru, Alberto Fujimori, dismissed him from this position when he learned of evidence that this person, Brian Jensen, was allegedly a link to BCCI. And he lives in Washington now, and I think it would be interesting for you to hear his testimony.

He was general manager, starting January 19, 1981, until October 1984, when BCCI already had 6—had been working 6 or 7 months. Or had been working for 6 or 7 months to try to set up its branch in Peru. The branch in Peru was approved by the director of the Central Bank on February 1, 1985. We are still talking about the prior administration before Dr. Garcia.

Senator KERRY. Can you get into the 1986 and 1987 stage, where the transaction began in terms of the credit line?

Mr. DEL CASTILLO. Yes, I just want to read two lines of the director's report of February 1985. This board of directors is made up of very serious people, I think all of them have impeccable reputa-

tions in the county, and I am sure that they were all surprised, as Dr. Sterling was, and as many other people who were on it in good faith must have been.

The report said, or the agreement said, that the Board, feeling that the opening of a foreign bank at this point shows confidence in our country, and taking into account that this is a bank which is presently one of the most important in the world, and nothing has been found against it, the Board has decided to act in favor of the request.

This same report includes an authorization of the Superintendency, and I am including the documents, the official documents which appeared in the press in Lima, establishing this branch. Later this branch was not actually set up, but all of the steps were taken by the public authorities of Peru so that it could have been set up.

On April 1, 1986, and I am sending the text of the board of directors' report, the decision was taken by the board of the Central Bank to establish a corresponding relationship and deposits, and I do not want to refer to more details because Mr. Llaque has explained all of this very clearly indeed. It was the Director of BCCI in July that said it was necessary to revise some factors or some areas.

Senator KERRY. I hate to interrupt you here, but as you know, I promised I would give you an opportunity to respond to the prior panel. I cannot go through another entire panel of testimony separately now.

Let me come to some key questions. It has been asserted by the investigative team as they have spoken that there are irregularities in the way that the line of credit was extended. And that there are significant questions in Peru.

And let us leave the President completely out of this. Let us assume that there is no President Garcia. Just the way BCCI worked, when suddenly the Government made a decision that it needed some credit, and went to Panama. Now, why did it go to Panama? Was there something about the way BCCI worked? Do you find that? Or do you think that BCCI is a terrific bank with no problems?

Mr. DEL CASTILLO. Mr. Chairman, I am going to refer to the Peruvian constitution, and I am going to leave you a copy of it. But there it says that the Central Bank is an autonomous body. It does not depend on the executive branch. This is very important.

Senator KERRY. I accept that. But answer my question. I mean, I take it that what you are saying is the BCCI relationship was bad, but that somebody else had something to do with that, and that not the President. Is that what you are saying to us?

Mr. DEL CASTILLO. The only officers who were responsible for the BCCI matter were the members of the Board, no one else.

Senator KERRY. The members of the Board of the Federal Reserve are responsible, correct, is that what you are saying?

Mr. DEL CASTILLO. Yes, sir.

Senator KERRY. Was BCCI a good bank to deal with or not? Yes or no?

Mr. DEL CASTILLO. I do not know this background. I have come with the purpose, as you know, of stopping—and you have not al-

lowed this to happen, fortunately, but stopping undue links to be drawn to be drawn here. I do not judge BCCI pro or con.

Senator KERRY. Fair enough.

Now, from your perspective, can you share with the committee a view of BCCI? If you do not have knowledge of that, then I will make part of the record any clarification you have of any comment to which you object. But I do not want to take the time now because of the gentleman from Argentina who is waiting, and I want to get some of that on the table because it is important as to Argentina's experience with BCCI.

Mr. DEL CASTILLO. Senator, it has been said here that Mr. Morgenthau allegedly made a link between President Garcia and BCCI regarding presumed bribes. And we have begun an investigation in Peru on this. But I have, and I am leaving you, an EFE cable, which was the only one that referred to a question of this sort. And this press release says—asks if President Alan Garcia was being investigated in Peru regarding his links with BCCI, and if this was connected to the bribes. Morgenthau said, no. I leave this with you because there is no evidence that Morgenthau said anything different from this.

Senator KERRY. Let me say to you, Mr. Castillo, that I respect that and the committee accepts what we have heard today completely neutrally, with respect to President Garcia. As far as we are concerned, that is outside of this committee at this time.

It is between the people of Peru and its own Government and own processes for determining that, and it is between Mr. Morgenthau and his indictment process, which is totally separate from here.

But at the moment we are really trying to get a picture of the questions that have been raised by this. The fact that there was a soft credit line, if you will, with an imbalance in the amount of credit for the amount of cost, the fact that it had to go to Panama and BCCI was so prepared to help the country find a way around the laws and went to Panama and had secret accounts and so forth, raises the very kinds of issues that we are trying to raise.

And while nothing is dispositive here of any of those issues, that is what we are trying to show. In a sense, your very conflict is itself a statement about BCCI. And the kind of operation that it has left behind it. And this is the wake, if you will. This is the fall-out.

Those banking institutions or those institutions that perform above board and so forth, do not have these kinds of accusations flying around them, and do not leave these kinds of question marks, hopefully.

So I think it has served its purpose of leaving in people's minds the sense that it came in, offered itself where other banks would not go, provided an opportunity to get around the legitimate credit interests of the rest of the banking world, took advantage of a country's plight in that respect, made money off it, and left a lot of chaos in its wake.

And as I say, nothing here is dispositive of any of that. But I genuinely want you to feel that this record is open to you, and if there is any comment that you feel you need to make publicly be-

cause putting it in the record is not sufficient, I want to give you a last opportunity to do that now.

Mr. DEL CASTILLO. I will be very brief. It was very good not to accept comments on presumed or alleged bribes by BCCI, not to these officers mentioned by Mr. Morgenthau, but having to do with the President having accounts in BCCI. In your power, you have records from all of the banks, without exception, all the banks mentioned in the reports of Cole and Belar, proving that these accounts do not exist. Not only are these from BCCI, but these are from the Sun Belt Bank of Dallas, the Societe General from France, the Societe Santander from Spain.

Senator KERRY. Let me say that you are putting in the record things that never came out previously. I mean, none of this was talked about.

Mr. DEL CASTILLO. Yes, but Senator, they have not been talked about here, but in the press.

Senator KERRY. But we are not here to try to sift out what has been out in the press, and I think the other side very respectfully heeded to my earlier caution. So I think it is really fair not to make this committee now the recipient of any rebuttal of something that has not been set forth.

So on that note, I would like to, again, leave the record open for you to submit some of this, but I am not going to receive it at this point in time, if that is fair.

Mr. DEL CASTILLO. Very well, I will conclude. These are matters to be refuted in other bodies.

What I would like to say, you asked me what my impression was about this whole BCCI business. My general impression, without admitting any value judgment about this bank, which I see is a bank with multiple evidence of corruption in many parts of the world, but my impression is that when it went to Peru in 1984 and later in 1986, this evidence that we have now was not known at that time.

BCCI worked in London until 2 weeks ago. It has had offices until last year here in the United States, if I am not mistaken. In Peru where it came and surprised people, but if people of the Central Bank in 1987 on their own initiative decided to reduce their deposits in BCCI, but I think this was a decision which is sort of indicative of what we are seeing now.

And I think that here there has been an attempt to have coincide certain meetings held by the President with BCCI people. I say supposed meetings because they haven't been proven. Nobody knows who this Riizo Patron even is. He's not an officer or an official of the Peruvian Government. I do not know who Oscar Riizo Patron even is. Calvo, I don't know who he is either. These people have been mentioned.

Senator KERRY. Let me say it is very obvious that BCCI have left investigators in Peru a lot to do, investigators in London a lot to do, investigators in New York and Washington and all around the world. And it is too bad that so much investigative effort is going to have to be consumed by this one enterprise, but obviously it is.

Mr. DEL CASTILLO. I just want to thank you for your courtesy and for the opportunity you have given me to speak, and I think that you have acted with great justice.

Senator KERRY. Thank you, sir.

Gentlemen, if you could please take your places there. I ask you if you would stand and would you raise your right hand. Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. RODRIGUEZ. Yes, we do.

Mr. ALCONADA SEMPÉ. Yes.

Senator KERRY. Would you state your name, please, for the record?

Mr. RODRIGUEZ. Yes, I am Jesus Rodriguez. I am a Deputy of the Argentine Congress.

Mr. ALCONADA SEMPÉ. My name is Raul Alconada Sempé. I was Secretary of Defense and Secretary for Special Projects of the Foreign Ministry of Argentina.

Senator KERRY. Would you please describe briefly for the committee the history and the significance of the involvement by BCCI in Argentina?

STATEMENT OF JESUS RODRIGUEZ, MEMBER, CHAMBER OF DEPUTIES, ARGENTINA; ACCOMPANIED BY RAUL ALCONADA SEMPÉ, FORMER SECRETARY OF DEFENSE AND FORMER SECRETARY FOR SPECIAL PROJECTS, FOREIGN MINISTRY, ARGENTINA

Mr. RODRIGUEZ. Yes, sir. To save time, we will try to be brief.

We know that Ghaith Pharaon came to Argentina May 17, 1981, that November 18, 1986, the Central Bank of our country authorized the transfer of 28 percent of the capital and votes of a financial holding company property of the Company Rio de la Plata. This company was having economic difficulties and today its officers are being tried, and these trials have been going on since 1985, approximately.

Then on November 2, 1987, an authorization of the Central Bank of Argentina was given to this financial company to increase its capital and to acquire more stock, and it became BCCI.

Senator KERRY. What year did it become BCCI in Argentina?

Mr. RODRIGUEZ. November 2, 1987.

Senator KERRY. Did BCCI or Mr. Pharaon, to your knowledge, seek political influence through their investments in Argentina?

Mr. RODRIGUEZ. I really do not know, Mr. Chairman, but I could refer to some statements that Mr. Pharaon made in trying to become an Argentine citizen at that time. He said that he had been working for 22 years in business; that he had graduated from Harvard Business School and was on the staff of Harvard Business School as an expert; and that he was an industrialist with much experience in the Middle East and other countries of the world; that he worked in cement, petrochemicals, shipbuilding, oil, insurance, hotels in the United States and in other countries.

He said that he was a majority shareholder in Intergroup Development Co., and in accordance with information from a specialized magazine, Building Design and Construction of 1987, he was number 27 in rank of all companies, so that he had offices in Dallas and Florida, and BCCI was a bank originating in Luxembourg with branches in 72 countries, including the United States;

and that he had activities in the Citrus Bank in Miami and in the Central Trust Bank in California.

Now, regarding your concrete question—

Senator KERRY. What year did he say all these things? When did all these things come out?

Mr. RODRIGUEZ. According to our information, about 1988.

Senator KERRY. He was involved prior to that, was he not?

Mr. RODRIGUEZ. He said that he had been working in business for 22 years before that.

Senator KERRY. What role has the Argentine Parliament had in investigating BCCI's involvement in Argentina?

Mr. RODRIGUEZ. You know, Mr. Chairman, Argentina, the Congress of Argentina is one of the branches of Government, and there are a number of different types of background that the Congress has at its disposal, different kinds of documentation that I would like to give you. This documentation refers to the following.

March 2, 1990, there was a request to the executive branch for information made by Deputy Felgueras regarding information of an international nature regarding the illegal activities of BCCI.

On May 31, 1990, there is another request for information by Deputies Jello Rosas and Alvarez-Guerrero, also in connection with BCCI activities and the establishment of a hotel which was being built in Buenos Aires.

July 13, 1990, another deputy and I presented reports regarding these linkages, and in July 19, 1990, additionally another request for information was submitted by Mr. Felgueras regarding the connection with Hotel Hyatt being built at that time in Buenos Aires.

Unfortunately, none of these requests for information was responded to by the executive branch of our Government. I ask that a translation of these requests be inserted in the record.

Senator KERRY. So ordered.

[The information referred to follows:]

Parliamentary Form No. 58—July 19, 1990

8—Felgueras and Rodriguez (Jesus): a resolution. Information request from the Executive Branch concerning presidential statements about the construction of the Hyatt Hotel at 1433/35 Cerrito Street in the Federal Capital and the bilateral treaty proposals being studied by the Foreign Ministry in order to impound the bank deposits in cases of drug trafficking.

Resolution project

THE CHAMBER OF DEPUTIES OF THE NATION RESOLVES

Addresses itself to the National Executive Branch in order to receive information from the competent entities:

1. What was the "personal" call that President Carlos S. Menem had to make to free up from "red tape, corruption and the hope of gifts" the authorization to construct the Hyatt Hotel alongside the French Embassy? * * * (*La Nacion*, page 3, July 13, 1990)

2. What are the "things" that—according to the same declarations in the aforementioned newspaper—which, according to the President " * * * could put a break on an investment which in this case was worth \$30 million dollars?"

3. If the sale of the Alzaga Unzué mansion—Cerrito 1433/35—at the hands of the Hotel Corporation of Argentina (HCA), belong to the Hyatt chain, has anything to do with the presidential statements in *La Nacion* on July 13.

4. If the link between the Bank of Credit and Commerce International (BCCI) and the Hyatt chain is the multimillionaire Ghaith Pharaon?

5. If there exist links between the banking entity Bank of Credit and Commerce International and the laundering of drug money.

6. If in the scandal created by the sale of the Alzaga Unzue house there is an owner-stockholder of a bank which takes care of the laundering of dollars that come from the traffick of drugs.

7. If among the projects under study in the Foreign Ministry of bilateral treaties with the United States, the United Kingdom and Italy, among other countries, "designed to authorize the impounding of bank deposits in the cases of narcotics traffickers," it is understood that the bank of Credit and Commerce International (BCCI) recognized before the courts in Miami its culpability in the laundering of \$32 million dollars coming from the traffick of drugs by the Medellin Cartel.

8. If the investment of BCCI in the deposit of \$32 million dollars—for the purchase of the Alzaga Unzue mansion—a deal which counted on the support of the Economy Ministry, under the rubric of the foreign debt capitalization scheme, responds to that announced in an advertisement by the hotel business which said: " . . . the presence of a banking entity responds exclusively to the determinations of Central Bank circular A1.109."

9. If the motives which caused Menem to invite into his office the principal shareholder of a bank accused of drug money laundering (Ghaith Pharaon) are linked to the fact that the then head of the Central Bank, Javier Gonzalez Fraga and Hector Grimberg, the former partner of President Menem in a law firm, were, respectively, economic and legal advisors to the Hotel Corporation of Argentina (HCA) of the Hyatt chain.

10. If another member of the hotel enterprise is Cristian Zimerman, the ex-president of the Central Bank during the time of Martinez de Hoz.

RICARDO E. FELGUERAS—JESUS RODRIGUEZ.

Fundaments

Mr. President: Carlos Menem, president of the nation, declared to the press that he had to "personally" make a call in order to free up from "red tape, corruption and the hope of gifts" the authorization to construct the Hyatt Hotel alongside the French Embassy. He said these actions could put a break on an investment worth \$30 million. On March 2, 1990, we presented a Resolution Project (No. 4,273-D-89) in which we asked whether if the scandal created around the sale of the Alzaga Unzue house there was (sic) an owner-stockholder of a bank in charge of laundering dollars coming from the trafficking of drugs. We also asked if there existed ties between the banking entity Bank of Credit and Commerce International (BCCI) with the laundering of narcodollars.

The Foreign Ministry announced (*Ambito Financiero*, July 17, 1990) the study of bilateral treaties with the United States, the United Kingdom and Italy, among other countries, to "authorize the impounding of bank deposits in the cases of narcotics traffickers." The Bank of Credit and Commerce International (BCCI) recognized before judicial authorities in Miami its culpability for the laundering of \$32 million from drug trafficking by the Medellin Cartel and the same entity (BCCI) invested \$32 million to purchase the Alzaga Unzue mansion, by HCA before the Central Bank even though the hotel enterprise communicated that "its presence in the deal was due to a disposition of Central Bank circular A1.109."

Faced with the presidential declarations and the bilateral treaty proposals being studied by the Foreign Ministry to "impound the bank deposits in cases of narcotics traffickers," we ask the quick response to our current question and to that which we brought up on March 2.

The silence of the Executive Branch and of the pertinent entities on this subject causes us to demand the quick approval of this project.

RICARDO E. FELGUERAS—JESUS RODRIGUEZ.

Senator KERRY. Is this in conjunction with BCCI?

Mr. RODRIGUEZ. Yes, sir. Because we knew that through the capitalization process, BCCI was investing in a Hyatt Hotel which was being built in Argentina, and from a newspaper report in *La Nación* in October 1988, we knew about the accusation against BCCI in the United States, and we had at our disposal the analysis of this committee, Senator Pell's analysis regarding money laundering.

Senator KERRY. What time period, Mr. Rodriguez, are you now referring to?

Mr. RODRIGUEZ. We are talking about the year 1990. More recently than that, Mr. Chairman, May 17, 1991, the president of our

bloc, our electoral bloc, and other deputies submitted the idea to the Congress of setting up a commission to analyze drug trafficking and the modus operandi of the way they work and their effects on society and the State.

In order to be brief, Mr. Chairman, and not to abuse your patience, I would like to very briefly quote some of the bases used for setting up this congressional committee.

Senator KERRY. This congressional committee was for investigating BCCI?

Mr. RODRIGUEZ. To investigate everything having to do with drugs in Argentina. The urgency of setting up the committee, we thought—or think, is based on the need to clarify to public opinion the various responsibilities and liabilities of various officials involved. If this is not done, the credibility of the whole Government, and even the democratic system, will be jeopardized.

Second, the history of drug traffic has shown that infiltration of drug trafficking rings into Government has been a decisive step in their growth. This is not true in Argentina, but we could imagine consequences, the consequences if this were to happen in the future.

Third, the need to draw up policies which will allow us to act coherently and consistently throughout the Government at the various levels to get information which is now being done in a very disjointed way.

Four, the advisability, Mr. Chairman, to stop intervention of foreign bodies, which would be tantamount to admitting that the national bodies are impotent.

Five, to allow a multidisciplinary and multiparty report to be set up.

And six, to see how much penetration there has been into the drug enforcement bodies and police bodies in Argentina. The Government and most of the parties in Argentina find the setting up of this committee a positive thing.

Senator KERRY. That committee was set up when?

Mr. RODRIGUEZ. Let me be clear. We asked that the committee be set up May 17, 1991.

Senator KERRY. Prior to that, had you, in the course of your parliamentary efforts, had any contact with BCCI?

Mr. RODRIGUEZ. No. Personal contacts of no kind at all, but I did have the desire of clarifying episodes which had come out in the press, and that was the reason why we had been asking for information. The President, in a report published in the *La Nación* newspaper, talked about the construction of the Hyatt Hotel, which was being built in Buenos Aires. This happened in 1990, and this was an article which came out in *La Nación*, which is the newspaper in Buenos Aires.

Senator KERRY. Now, the efforts that you are currently making to investigate, Mr. Rodriguez, is the Government—are you meeting with cooperation in this effort?

Mr. RODRIGUEZ. In Buenos Aires or in Argentina, there are many intensive judicial investigations going on.

Senator KERRY. These judicial investigations that are going on, do they center on BCCI at the current moment?

Mr. RODRIGUEZ. No. Some are connected with a Spanish suit having to do with drug trafficking, being investigated by Judge Servini de Cubria in Argentina; also involved here is BCCI. This week there was a seizure of the BCCI offices in the city of Buenos Aires.

You understand, sir, that on this subject we can only say that we respect the functioning of justice, and our desire that this situation will be clarified very soon, and finally, to say to you, adding some information, that our party in the Chamber of Deputies has initiated a political suit against the judge who was handling this case. Servini de Cubria is her name.

Senator KERRY. Now, Mr. Rodriguez, one of the things that you have been involved with in your career is the effort to try to open up the stock ownership process and, in other words, to have more open system of knowing who owns what and moves what. Is that correct?

Mr. RODRIGUEZ. Yes, Mr. Chairman. We, together with some other legislators, are authors of a law which was promulgated in Argentina providing for giving names, or putting names on all stock of all corporations in order to identify clearly who are the owners of each of these companies, following the comparative legislation in many other countries as well.

Unfortunately, one of the initiatives of President Menem's Government in August, September 1990, was to derogate this law or cancel it, which makes it more difficult to investigate or to find out exactly who is the owner of each one of the companies existing in Argentina.

Senator KERRY. Does it also frustrate the capacity to learn more about BCCI?

Mr. RODRIGUEZ. It makes it more difficult to find out, for instance, if the shareholders of BCCI or the members of the Board of BCCI, Argentina, are also owners of stock in other companies in Argentina.

Senator KERRY. Is that a frustration to the investigative effort to determine the BCCI track?

Mr. RODRIGUEZ. It is an additional difficulty, Mr. Chairman, but I wanted to be absolutely clear that this was not the reason used by President Menem to cancel that law to which I referred.

Senator KERRY. What is the status of BCCI in Argentina now?

Mr. RODRIGUEZ. Very concisely, let me say, first, never did the Central Bank of Argentina have deposits of its international reserves in BCCI. Never. I also must add that during 1990 the Central Bank of Argentina, in its analyses of the regulatory practices in the BCCI branch, reached an agreement whereby the branch would cease all operations in Argentina. Toward the end of May 1991, this subsidiary was not operating any longer, having closed its branches.

Finally, BCCI Argentina was totally closed July 30, 1991. And, as I said this week, I do not have the exact information, Mr. Chairman, because I do not have the report of the Central Bank in order to answer this question properly.

Senator KERRY. Do you recall what was said in the press with respect to the closing?

Mr. RODRIGUEZ. No, I do not. If you forgive me, they are saying here that BCCI asked for its own closure. It asked itself that its activities be closed in Argentina.

Senator KERRY. We are on the back of a vote here. We are going to take our last recess. We will complete this in total when I return in about 10 minutes from now.

We will stand in recess for 10 minutes.

[A brief recess was taken.]

Senator KERRY. The hearing will come back to order. We need to try to proceed very rapidly. I apologize for that, but I have a banking wrap-up. They are trying to get the banking bill out, and I have been here all morning and, therefore, need to try to get over there. So we will have to truncate this a little bit, and I ask your understanding on that.

Mr. Rodriguez, share with the committee, if you will, what the status of money laundering and drugs are in Argentina right now.

Mr. RODRIGUEZ. It is difficult to answer that, Mr. Chairman, especially because precisely on the matter of drug trafficking, an investigation, a judicial investigation is opening just today.

Senator KERRY. Is it known to be a problem in the country? I take it if there is a judicial commission that is opening, it is a problem.

Mr. RODRIGUEZ. Indeed, it is a problem, and so much so that I read you the bases for our party's coalition asking for this commission. It is not that we are trying to interfere with the work of the justice system, but because we think it is necessary to instill in collective consciousness and in everyone's mind the political and social implications of drugs and thus the power of drugs.

Mr. ALCONADA SEMPÉ. Mr. Chairman, just one brief clarification. During Dr. Alfonsín's Presidency, when I was in the Foreign Ministry, we had a major concern with introducing the whole subject of drug trafficking in Argentina because, thank God, until some time ago, Argentina was not affected, either as a consumer or producing country. And it was starting to be used as a transit country.

One of the serious problems is that society sometimes is not aware of the tragedy that occurs. And we think that we have nothing to do with it. The effects that foreign investigations are having and investigations in Argentina now are useful for us to become aware of how serious this is. That is why Deputy Rodriguez was talking about investigating a phenomenon that we do not want to consolidate itself or to have time to consolidate itself because if we do not do something now, it will be too late.

Senator KERRY. Mr. Alconada Sempé, I agree with that, and let me just ask you now that you have spoken up. When you worked in the Foreign and Defense Ministries, and you are a former Secretary of Defense for Argentina, what was the policy of the Government with respect to arms sales?

Mr. ALCONADA SEMPÉ. Argentina is not an important weapons-producing country. We produce secondary or medium-sized weapons, but the main principle guiding us was not to sell weapons to any county involved or potentially involved in any conflict with another country. We did not sell to either one, either side.

Second, we did not sell weapons to countries subject to doubt about their international policies. That meant that despite great

economic problems and despite the fact that we needed to make such sales of planes or ships, that we did not do so because the countries that wanted to buy were countries that were fighting each other.

When these operations are conducted, they have to appear in the budget as possible income. In other words, the Parliament takes cognizance of weapon sales whenever they occur.

Senator KERRY. Just as we do. Did the Government at some time seek to sell its fleet of Mirage aircraft?

Mr. ALCONADA SEMPÉ. Yes. Are you talking about President Alfonsín's Government or this one?

Senator KERRY. I am saying normally. When you were Secretary, when you were at Defense. If a sale was to take place, how would that transaction have been effected?

Mr. ALCONADA SEMPÉ. First a political decision had to be taken by the Defense and Foreign Ministries and the Economics Ministry. A special committee made up of three State secretaries which would be deputy ministers. And they had to authorize both sales and purchase operations. And when there was a sale, it was a special committee within the Defense Ministry which dealt with the operation, having people in the Ministry carry out the sale.

But during our ministry—answering the question now and a statement by a Senator of California this morning, during President Alfonsín's administration, the Mirage planes were not offered for sale—the Mirage sales to which reference was made this morning.

Senator KERRY. When did you leave Government service, as Minister of Defense?

Mr. ALCONADA SEMPÉ. I left Defense in May 1988. But I continued as Secretary of Special Issues in the Foreign Ministry, which also had to do with the sales of arms. And that I left in July 1989.

Senator KERRY. Did you learn some information, such as sale of military weapons that was to take place, of the Mirage?

Mr. ALCONADA SEMPÉ. Not through the press. Through contacts with armed forces people, air force people. I suppose if an attempt was made to sell that many planes or such an important number of planes for Argentina, we would have known about it or heard about it.

Senator KERRY. Did you learn anything about BCCI in any kind of sale?

Mr. ALCONADA SEMPÉ. No. During our Government and during these 2 years of the new Government, I had no knowledge that this bank was directly connected to this.

Senator KERRY. Mr. Alconada Sempé, were you shown some documents earlier today regarding BCCI's transaction of some weapons, the Mirage, et cetera? Have you seen those?

Mr. ALCONADA SEMPÉ. This morning here I saw a copy of some documents connected to Mirage aircraft with photographs and analysis of planes with flight hours, et cetera. These were anonymous papers. I can't say anything about where they came from or who their authorship. I do not know what the origin of these documents might be. I was told that they were found in an office of that bank, in the Miami offices. But I do not know that these are authentic or what their origin might be.

Senator KERRY. Let me say for the record that these are documents provided to us by BCCI in response to our subpoena. And they speak specifically about Mirage 3CB, general description of airplanes manufactured in France, modified to the Argentine Air Force requirements following years of combat experience.

Is there any particular reason why documents involving Mirage aircraft from Argentina would be in the hands of BCCI?

Mr. ALCONADA SEMPÉ. Yes. This is a question that I am asking myself as well. If it was air force documentation, and the cases that I have known about in the Defense Ministry, these are papers which have the letterhead of the Defense Ministry or the air force or the combined chiefs of staff. I suppose these are papers that this bank had. I do not doubt that, but I repeat that I do not know anything about their origin or how the bank came into possession of such details.

Senator KERRY. Do you know anything about whether or not at recent—in the last few years, there was an attempt to try to make this kind of transaction through BCCI?

Mr. ALCONADA SEMPÉ. No, I don't know anything about that.

Senator KERRY. On pages 31–35 of these documents regarding ground support equipment, it is suggested that the Argentine Air Force will provide engine test cell, portable. On another page it says Argentine Air Force will provide necessary contractor to support intermediate level component repair until full capability is established in customer country. Costs will be negotiated directly with contractor representative.

With respect to pilot training, in any and all training in Argentina, customer country spares and equipment will be provided to support the training effort. Total costs to be negotiated separately.

This seems to be indicative of a transaction which was being brokered through the bank, and I wonder if you can shed any light as former Defense Minister on how that might be, given the procedures that you've described that existed for the sale of weapons. Obviously, as a former Defense Minister, this seems to be a transaction you are unaware of. Is there any way in which this kind of sale can be carried on secretly without your knowledge?

Mr. ALCONADA SEMPÉ. No. Sales without the Defense Minister knowing, from 1983 on, it was impossible, because it was only the Defense Ministry that authorized such sales. What does exist, and I think this is a general problem throughout all countries, is that there are countries that have arms, countries that need arms, and the famous middlemen crop up. The brokers, the sales agents, and these are the people that try to match the buyer and the seller.

And sometime these people just crop up spontaneously, not at the instructions of either the buyer or the seller. They just try to look for such a deal. This is what may have happened. It may have happened that the bank was trying to find information in order to go out and find a buyer and get the buyer interested in dealing with the seller.

Senator KERRY. The reference here is to Mirage aircraft that have been modified to the Argentine Air Force requirements. That is what it says right here. It says Mirage 3CB. General description. Manufactured by Avion Marcel Dassault, France. Modified to Argentina Air Force requirements. Down here in the bottom is a no-

tation; 22 units of aircraft, plus adequate spare parts, including 6 spare engines, compare at a price of \$110 million.

Is this the first time you ever saw this document? Today?

Mr. ALCONADA SEMPÉ. Yes. This morning.

Senator KERRY. Have you ever heard discussion of the sale of 22 units of aircraft by Argentina through the Bank of Credit Commerce International for \$110 million?

Mr. ALCONADA SEMPÉ. No, not until today.

Senator KERRY. That has never surfaced in any way in your experience in Argentina itself?

Mr. ALCONADA SEMPÉ. That's right.

Senator KERRY. Is there a way in which 22 aircraft could be sold and shipped out of Argentina through a bank like this under the circumstances that appear in this kind of document?

Mr. ALCONADA SEMPÉ. I would dare to affirm that the economic situation of Argentina is impossible, because the volume of \$110 million is a substantial amount for the work of the Treasury and the Finance Ministry. This amount of money could not have gone unnoticed.

And from the military point of view, this could not have gone unnoticed that 22 planes were missing because this is a substantial percentage of the total number of aircraft that the Argentine Air Force possesses.

Senator KERRY. It could be that the transaction did not, in effect, get consummated. It may have been in some kind of shopping stage where no customer was found. I do not know.

Mr. ALCONADA SEMPÉ. That's a possibility. That is a possibility. As I said before, that they were looking for somebody to then make a deal. But as far as the Argentine Government—yes? But I would like to stress as far as the prior Argentine Government and as far as I know about this Argentine Government, the planes were not sold or placed for sale.

What is possible though that this bank, as a broker or middleman, tried to find someone interested and then see if they could get the seller interested as well.

Senator KERRY. Rio Cuarto is what? Rio Cuarto.

Mr. ALCONADA SEMPÉ. It is one of the Air Force bases of the Argentine Air Force.

Senator KERRY. Page 39 of this document says Argentine Air Force will provide an organizational and intermediate training program, including on-the-job training, and will provide fully qualified instructor personnel to conduct the training. The training will be provided in Rio Cuarto, Argentina.

How could that kind of offer be made without somebody in Argentina in the Air Force agreeing to provide training and without providing the base?

Mr. ALCONADA SEMPÉ. Of course the offer is made based on the Defense Ministry and the Air Force authorizing the sale. It's a premise, a hypothesis of the author of this paper that they would have the air base and the pilots for purposes of this training. It is part of the purchasing of aircraft, that if you buy aircraft of certain sophistication, the training goes with the purchase.

Senator KERRY. Did any sales of aircraft take place while you were the Defense Minister?

Mr. ALCONADA SEMPÉ. The only attempt that occurred during my job was the sale of planes to the United States. Unfortunately, this attempt failed.

Senator KERRY. Did BCCI handle that?

Mr. ALCONADA SEMPÉ. We dealt directly with the Pentagon, the head of the Joint Staff. The Minister of Defense came up here to talk to Pentagon officials, and this was CID. The idea was to sell Argentine planes, but unfortunately, this never came to fruition.

Senator KERRY. What year was that?

Mr. ALCONADA SEMPÉ. 1988. The end of 1987, the beginning of 1988. But these were not Mirages. These were aircraft produced, manufactured in Argentina.

Senator KERRY. So there was no sale that you ever knew of or were aware of of Mirage aircraft.

Just one or two last questions, if I may, Mr. Rodriguez. Are the accusations that are currently being made in Argentina about what is called Yomagate, which is a whole series of questions referring to former in-laws of the President. Are those accusations at all related to BCCI's involvement in Argentina?

Mr. RODRIGUEZ. The case is before the courts right now. I recall that the judge, the lady judge, has also been indicted by the Chamber of Deputies. Her actions are being also audited by the Supreme Court. Therefore, we can't really say much at this point. Just add information from the newspapers exclusively where there is a witness who has appeared in court saying that he came to Argentina at the suggestion of Mr. Pharaon, and that this witness also involves former officials of the Argentine Government in this whole episode which we have come to call Yomagate.

I repeat, these are just newspaper reports about such episodes.

Senator KERRY. Did any high Government officials ever intervene on behalf of BCCI's hotel project or other projects?

Mr. RODRIGUEZ. In the public presentation of the hotel project, in capitalizing the foreign debt, professional role was taken by a person who later became the president of the Central Bank, Javier Gonzales Fraga. He was an adviser at the time.

Senator KERRY. And his name, that was president of the Central Bank?

Mr. RODRIGUEZ. Javier Gonzales Fraga, president of the Central Bank under Menem.

Senator KERRY. Did the President ever say whether or not he had to intervene personally? Did he say that publicly?

Mr. RODRIGUEZ. I will give you a concrete reference on this, Mr. Chairman. In a report in a newspaper, La Nacion, July 13, 1990, the President, answering a question, said personally he had to free the adjudication or the bidding to build the Hyatt Hotel free from bribes and kickbacks, et cetera.

Certainly because our request for information points exactly there, to find out why President Menem said this and the officials presumably involved in a matter of this kind, and when he talks about demarches or steps, what kind of steps was he talking about that the President had to engage in?

Senator KERRY. Has your effort to try to get into BCCI's dealings now been frustrated or difficult for any reason?

Mr. RODRIGUEZ. Unfortunately, we have received no reply I mentioned to you for request for information that we in the Chamber of Deputies have forwarded to the executive, and none of them have received a reply to date.

Senator KERRY. Well, unfortunately we have gone well beyond the time that I thought I was going to be able to hear, and I regret that because I know that this winds up being a little bit shorter and somewhat constricted. I am going to leave the record open because I think staff may want to talk to you about specifically what we are going to put in in terms of your documentation.

I would like to thank the interpreters very, very much for the excellent job that they have done. I know it is very difficult to do this simultaneously and with some of the complicated concepts that we have been dealing with here, but I very much appreciate it.

And I particularly appreciate the time that you have taken. I think it has been helpful to us to try to understand what you do know and what you do not know and what the state of knowledge is with respect to Argentina and what the capacity to be able to get at this is.

I think there are some serious questions about what BCCI was doing there. We are not going to ask them all here, but we are getting at least a sense of some of the tentacles that are out there. And it may be that down the road we are going to want to talk to some of your law enforcement experts about the problems of money laundering and the bank enforcement issues which neither of you are expert in but which are very important to us in understanding the international linkages of the flow of this money.

There is an awful lot of information that is going to come out in the course of the Morgenthau investigation and also our own. We are going to probably have to wait until some further investigative work has been done before we proceed down that road.

Thank you very much, gentlemen.

[Whereupon, at 2:30 p.m., the committee adjourned, to reconvene at 10:03 a.m., August 8, 1991.]

NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

THURSDAY, AUGUST 8, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:03 a.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senator Kerry.

Senator KERRY. The hearing will come to order.

Good morning. This morning we are going to hear the testimony under oath of Mr. Masihur Rahman, who was the Chief Financial Officer for BCCI from 1975 through 1990. I want to say for the record that Mr. Rahman is here voluntarily having come to the United States following threats to his physical safety in London. He has not been able to talk publicly for the last year about BCCI as a result of a court order that was entered into in London at BCCI's request.

On Saturday, my staff and the staff of the Federal Reserve went to meet Mr. Rahman at Kennedy Airport in New York with a short amount of notice that he was coming, and that he was concerned about his physical safety. And in cooperation with U.S. Customs officials and Immigration officials. And I express my appreciation to the State Department and to Bob Kimmet who assisted in guaranteeing that his entry was facilitated. He is now here before us of his own desire.

He is testifying today in accordance with a revised court order granted in London last week at my request, which permits him to testify. This court order specifically permits him to testify before the U.S. Senate. And in addition, I would add, that his testimony is secured with the full and complete cooperation of the Federal Reserve and the Manhattan District Attorney, Mr. Bob Morgenthau, and of the Justice Department.

Now obviously, and I say it right up front, the scheduling of a hearing like this during recess and on short notice is unusual. I was personally reluctant to do it, but I think that the circumstances are urgent enough that it was important that we do it. Most importantly, I think Mr. Rahman feels very strongly that he wants to get this story out, that he has been living under a personal cloud, which I have come to understand quite well, as I have met

him and his family yesterday. He has two very attractive, intelligent young children who are feeling the pressures of this transition. And his wife is here, who joins him, who is seated right in back of him. She is American, from New York, and is also feeling the tensions and pressures of what has happened to their life as a consequence of this.

Therefore, we really made a decision that because of the threat to physical safety, and because of his own personal feelings about the need to get this behind him, that we would proceed today. I personally talked to Senator Pell and to Senator Brown in order to clear with them the notion of proceeding forward. And Senator Brown, who cannot be here because he is on a trip out of the country.

Let me just review quickly for the record, the BCCI road that we have travelled to this point, and then Senator Cranston has asked me to read into the record a few comments of his, and he has submitted some questions.

First, we have learned a lot about BCCI to date. We know that BCCI was a bank whose senior officers created a web of corruption that extended literally around the world. Second, we know that because of its unique status of being located everywhere but regulated no where, in the context that most of us think of bank regulation, BCCI became a natural haven for the movement of narcotics money or the proceeds of crime, or even for nefarious deals.

Third, we know that BCCI's chief officer, Agha Hasan Abedi, and others systematically developed ties with leaders around the world, with people in positions of influence, and provided these people at various levels with favors and benefits of various kinds, ranging from creating charities to strengthening these leaders politically or otherwise, to helping to arrange arms deals, to creating slush funds of the kind that General Noriega had.

Fourth, BCCI used its political ties to obtain open control of many banks around the world, which became part of the BCCI family, and secret control of other banks, which we have seen in the case of a number of banks here in the United States.

Fifth, foreign and domestic intelligence agencies developed close ties to BCCI. We know of some of those ties, though not all of them. Knowing of BCCI's criminal activities, the CIA and other intelligence agencies, made use of BCCI for a variety of purposes, some yet to be disclosed.

Sixth, we know that law enforcement and regulators in this and in other countries had a certain amount of information, substantial by the late 1980's, concerning the nature and extent of BCCI's criminal schemes. And yet with the exception of the prosecution of some low-level personnel in Miami, that nothing seemed to happen until this issue hit the front pages, and until recently.

Seventh, we know that BCCI is an institution which lost billions of dollars, and we will hear something of how that happened this morning. And those billions in losses were systematically concealed by BCCI's leadership. And our witness this morning will define that leadership and the extent of the knowledge within the bank of that. And that this loss or series of losses were hidden in part by BCCI's practice of obtaining substantial central bank deposits from governments all over the world. The collapse of BCCI has already

threatened some of these governments, and it will be some time before the full extent of government losses globally will be understood.

Eighth, we know that the accountants a lawyers hired by BCCI wound up helping the bank to conceal the true nature of its activities for some time, and that that occurred even after serious allegations had arisen about criminal activity. The consequence of these facts, largely hidden until recently, is now demonstrated daily around the world. In India, money laundering rackets involving BCCI and aides to assassinated Indian leader Rajiv Gandhi are now under investigation.

In Pakistan, issues arise about BCCI's involvement in its illegal nuclear arms development program.

In Egypt, the Government has closed BCCI on money laundering charges after a run on the bank.

In Argentina, as a result of hearings which this committee held last week, allegations have been raised that BCCI was brokering the sale of French Mirage jets to Saddam Hussein.

In Cameroon, a Government with few resources now has even less as a result of BCCI-related losses.

There isn't an American who doesn't understand the impact of the drug problem in this country. It's a problem for all of us, but also for people all around the world, not just Americans. And arms trafficking has brought misery around the globe. The spread of nuclear weapons, needless to say, creates even greater risks of confrontation and of destruction.

When a bank like BCCI moves drug money and big dollar weapons money, and helps terrorists acquire the material to make nuclear bombs, if that is what they did, while political leaders who were supposed to be protecting them move aside, then governments themselves wind up becoming partners in the enterprise of those criminals. A big part of this problem is that BCCI came to believe that it could buy anything and facilitate everything.

We have learned a lot in recent weeks, but I must say to you what strikes me particularly is the degree to which this bank thought it could steamroll any obstacles that lay in its path. Certainly laws and standards were no barrier. Why? Because BCCI thought it could buy everything—buy lawyers, buy accountants, buy regulators, buy access, buy loyalty, buy government, buy safety, buy protection, and even buy silence. And what it could not buy or did not need to, it could facilitate.

You need a Mirage jet to go to Saddam Hussein, BCCI could facilitate it. If you wanted weapons in the Mideast and possibly even atomic weapons, who do you call? BCCI. You want drug money to move from cartel to safe haven. BCCI. It gave new meaning to the term "full service bank." [Laughter.]

Today, we continue the process of trying to understand what happened with BCCI and who was responsible. And hopefully, out of all this will come a stronger effort by government and the private sector to prevent this kind of behavior from scarring the political landscape, and the business landscape.

Mr. Rahman, we are very pleased to have you here today. You are an intelligent and thoughtful person who has spent a lifetime really in the field of finance and who understands this bank as

well, I suppose, as most people, with perhaps a few exceptions of those who were at the highest level, as I think you will describe.

Before we begin, I would like to make a part of the record the court order which permits you to appear here today, and we will label that for today's hearing, exhibit 1.

[The information referred to follows:]

Adrian Wherry	Chris Williams	Guy Jordan	Frances Williams	Adam Smith	David Headland	Peter Cassidy
John Bishop	Anthony Smith	Lady Walker	Keith Bentley	Robert Smith	Jonathan Channing	Angela Nash
Mark Pegg	David Jones	Mark Collingwood	Richard Smith	Andrew Wilson	Steve Lewis	
Mark Dwyer	John Thompson	Lawrence Poyser	Mark Lane	Richard Gifford	Simon Scott	
Peter Lawrence	Robert McCullough	Mark Ray	Stephen Telf	Edward Davies	Donna Morris	
Shirley Newman	Marka Roberts	Peter Ward	Ronald Decker	Ann Holman	John Morris	

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And by Post

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Our reference

Your reference

Direct line

31st July 1991

Dear Sirs,

Senate Foreign Relations Committee Subcommittee on
Terrorism, Narcotics and International Operations
- Testimony of Mr Masihur Rahman

Thank you for your fax of the 26th July 1991 and please accept
our apologies for the delay in replying thereto.

We are pleased to be able to report to you that at our request
the provisional liquidator has consented to a variation of the
Order to allow Mr Rahman to participate as a potential witness
or as a witness in the hearings to be conducted before the
Senate Committee.

It would be of great assistance to us in the future conduct of
matters on behalf of Mr Rahman if you could inform us by return
fax of the particular matters upon which the Committee requires
Mr Rahman's assistance by way of evidence.

We should also point out at this stage that due to matters that
have arisen in relation to the on-going conduct of litigation
on behalf of Mr Rahman in this jurisdiction, it appears most
unlikely that Mr Rahman will be able to travel to the United
States to meet with you until, possibly, sometime around the
23rd August 1991. We will, of course, update you with regard
to Mr Rahman's timetable.

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- 2 -

In relation to timetables it would be of assistance to us if you could inform us of the dates when you would like Mr Rahman to come to the United States and the likely timetable of events in relation to his appearance before the Committee.

If you do have any queries please do not hesitate to contact us and we will do all we can to be of assistance to you.

We look forward to hearing from you by return.

Yours faithfully

A handwritten signature in cursive script, appearing to read "Masans", followed by a diagonal slash.

MASONS

Senator KERRY. And I will read, as I promised Senator Cranston I would, his opening comments.

This is a statement by Senator Alan Cranston.

Thank you, Mr. Chairman. The events of the last 2 weeks have certainly contributed to the sense of the enormity of the scandal associated with the Bank of Credit and Commerce International, as well as to the feeling that we are still a long way of discovering the full truth about this criminal enterprise.

For that reason, I am pleased to add my welcome to our witness today. I hope he can shed the kind of light on this investigation which will not only illuminate, but also serve as beacon for further investigation. Since our hearings last week, information on several aspects of the BCCI scandal have come to my attention.

Mr. Chairman, as you remember, last week, I mentioned the case of the London Financial Times journalist, Anson Engh, who was found murdered in his Guatemala City apartment. At the time I mentioned the suspicion in journalism circles in Guatemala that Engh's murder was related to arms trafficking allegedly carried out by BCCI in collusion with top leaders of the Guatemalan military. Since then, information concerning Engh's death has come to my attention, that I believe is of direct concern to this committee's deliberations.

First, according to people who talked by phone with Engh in the days before his death, the British journalist mentioned to them he was working on a "big story" related to BCCI in Guatemala.

Second, although officials in Guatemala have sought to characterize Engh's assassination as the work of common criminals, the murder seems to be the work of professional hit men. In this regard, I mention the following details given to me by close friends of Engh. Apparently a silencer was used in the killing, which was done by a single bullet wound to the head. Guatemalan authorities said no bullet was found either in the body or in the apartment. I am told that Engh's head was wrapped in a towel and his body left in the bathroom, something consistent with efforts to keep the murder secret for a period of time.

According to those closest to Engh, a set of documents were stolen from his desk. And reportedly, the Guatemalan authorities have impounded a set of computer disks Engh used for his work.

Once again, I urge President Serano to take all necessary steps to insure that Engh's killers are brought to justice, no matter what their rank or station in life. Some have characterized, wrongly, BCCI's operation as a victimless crime. Anson Engh's death suggests how vacuous a lie that is.

Mr. Chairman, last week, I also brought to the committee's attention BCCI's apparent attempt to serve as an intermediary for the sale of 22 Mirage aircraft belonging to the Argentine air force. Yesterday my office received a very credible report concerning attempts to sell these sophisticated aircraft. According to a highly credible source in Argentina, whose name I cannot reveal, the planes were to be sold in August or September of 1989 by way of BCCI. The would-be purchaser was a man whose name later became sadly familiar to every household in our land, Saddam Hussein.

According to this Argentine source, whose honesty is not in question, BCCI in Argentina was working with a retired, high-ranking naval officer in promoting the sale. It apparently did not take place because of rivalries between the Argentine armed forces themselves.

Finally, Mr. Chairman, the role played by Pakistani authorities, both those of the current government and those of the Zia dictatorship in the BCCI scandal, have raised many questions, some of which I hope we can get answers to today. Among the questions I hope we can address are those concerning BCCI's role in Pakistan's nuclear program, its alleged participation in the destabilization overthrow of Benazir Bhutto's democratic government, the reported break off of U.S. foreign assistance moneys, and other issues of generalize corruption in Pakistan.

As I said, I hope there are some answers today, because, as one can see, there are no lack of questions. Thank you.

Senator KERRY. That completes the statement by Senator Alan Cranston which he asked that I read this morning.

Mr. Rahman, may I ask, please, that you stand so that I can swear you in? Would you raise the right hand? Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. RAHMAN. I do.

Senator KERRY. Thank you. Please be seated, and if you could, pull the microphone close to you. I think that would be very helpful. Would you state your full name for the record, please?

TESTIMONY OF MASIHUR RAHMAN, FORMER CHIEF FINANCIAL OFFICER, BCCI, LONDON

Mr. RAHMAN. My name is Masihur Rahman, M-a-s-i-h-u-r R-a-h-m-a-n.

Senator KERRY. Mr. Rahman, where are you currently residing, or where were you residing until recently?

Mr. RAHMAN. I was residing in London until recently.

Senator KERRY. What day did you leave London?

Mr. RAHMAN. I left last Saturday.

Senator KERRY. Now, you are how old?

Mr. RAHMAN. Fifty-seven.

Senator KERRY. You were born where?

Mr. RAHMAN. I was born in Calcutta, in India.

Senator KERRY. Could you tell us a little bit about your background, please?

Mr. RAHMAN. Yes. My father was in the judiciary. He was Chief Justice of the High Court, and he was the first Muslim in the subcontinent to acquire the esteemed title of ICS, Indian Civil Service rank, and went to judiciary.

Senator KERRY. What years would he have been in that role?

Mr. RAHMAN. That was going back to the early 1940's and late 1939's, and therefore I was born and brought up to an extent in a judicial home and that has stayed with me, I think, all my life.

He died—we had nine brothers and sisters, and when he died soon after that the partition of India took place, and we had to leave for Pakistan. That was East Pakistan, from Calcutta, and whatever pension rights he had also lapsed because of the chaotic conditions.

So from a very early age of about 9, all our brothers and sisters had to self-educate themselves in the house. We didn't go to any formal schooling, and I did matriculation along with my sister privately. After that, I got a scholarship to go to the university and I finished my university—

Senator KERRY. What university was that?

Mr. RAHMAN. Dacca University—that's the capital of what was East Pakistan in those days—and I graduated in 1956 and went to England where I was working and studying at the same time from 1956 to 1961. I qualified as a CPA—in England it is called FCA. I am a Fellow of the Institute of Chartered Accountants, which is the equivalent of C.P.A. in the United States of America. I also did simultaneously cost and management, which is an FCMA title, which is industrial accounting.

So literally I and my brothers and sisters have had to grow up on our own. My mother is illiterate, and we had to sustain ourselves by working in the day and studying at night, and I became the first person in the whole of the subcontinent to get both chartered accountancy and cost and management titles, and with these I returned back to Pakistan, and immediately after that—

Senator KERRY. What year did you return to Pakistan?

Mr. RAHMAN. 1961, and immediately after that I was appointed in a Government organization which was the Industrial Development Corp., the Pakistan Industrial Development Corp. This corporation oversaw all the heavy industries of the country, including petrochemicals, steel mill, refinery, shipbuilding.

Soon after my arrival in Pakistan—

Senator KERRY. That was a political appointment?

Mr. RAHMAN. No, I was a technocrat, and I was appointed directly as finance chief—chief of finance.

Senator KERRY. Chief of finance of this unit?

Mr. RAHMAN. Of PIDC, yes. Soon after that, the PIDC itself was split in two parts, West Pakistan Industrial Development Corp. and East Pakistan Industrial Development Corp., so I went along with the East Pakistan Development Corp. and became the chief of finance of that operation.

We had about 11 industries in that year, and by the time I left in 1966 we had 74, 75 industries, including—it was a very hectic period of development in Pakistan, in East Pakistan, and we saw very heavy industries like steel mill and refinery and petrochemical projects come out.

In that capacity I met a lot of very important organizations like the World Bank, IMF, various credit agencies of the world, various large corporate bodies—Japanese, Italian, British—who were actually doing the construction work, so I had a very full life.

Senator KERRY. Now, is it fair to say, Mr. Rahman, that you really held two jobs in your life, other than working when you were getting your education? But from the time you got your formal education, which was unique because you were the first person in the subcontinent to have these two degrees, you were with this Government agency in charge of this finance on the development side, and then second you moved to BCCI, is that correct, or to the other bank?

Mr. RAHMAN. To another bank.

Senator KERRY. To a second bank, but banking was the only other job?

Mr. RAHMAN. Yes.

Senator KERRY. You spent a couple of years with another bank?

Mr. RAHMAN. Yes. During the time in PIDC, because of the very big size of this corporation all the banks used to call on us to do banking business with the corporation. At that time, I met both Mr. Naqvi and Mr. Abedi.

Senator KERRY. What are the full names of Mr. Naqvi and Mr. Abedi?

Mr. RAHMAN. Mr. Naqvi's name is Mr. Swaleh Naqvi, S-w-a-l-e-h N-a-q-v-i, and Mr. Abedi was Agha Hasan Abedi—A-g-h-a Hasan, H-a-s-a-n, A-b-e-d-i.

Senator KERRY. These are the two gentlemen who became primary figures in BCCI?

Mr. RAHMAN. Yes. At that time they were in United Bank, which was also a very new bank in Pakistan, and in 1966 they persuaded me to leave the public sector and go to the private sector in the banking industry, so this was my first entry into the private sector and into banking, and I was made executive vice president though I was very, very young. I was hardly 30 at the time, and I

had not done banking before, so it was a very esteemed title to get at that age.

There were six executive vice presidents in United Bank——

Senator KERRY. Let me stop you there for 1 minute. I just wanted to get some of your background up until the beginning of the bank, and then I want to go back to the beginning of the bank, but let me come to the present for the moment and the circumstances that bring you here.

Would you share with the committee the events recently in your life that led you to jump onto an aircraft last Saturday and flee to the United States?

Mr. RAHMAN. As you will hear later on, I was the chief finance officer of BCCI and in that capacity I dealt with all the audit affairs of the whole group and met Price Waterhouse, and Ernst Whinney partners throughout this period.

In 1989, I was made chairman of an investigation committee by the board at the recommendation of Price Waterhouse, during which time I got to know many, many affairs of the bank which I did not, and this disturbed me very much, because I was the professional in the bank and these were items which horrified me and I wanted to resign forthwith, as soon as I finished my report.

First, they did not believe me. They tried to persuade me to stay on. They tried to persuade my wife to stay on and persuade me, but I refused and I left. That was on August 1 I left.

Since then, my family and I have been hounded. All sorts of direct and indirect threats have been used, to the extent that Scotland Yard got to know about it and the Guildford police got to know about it, and the Guildford police is in Surrey, and they had special security put around our house and special equipment put in the house for direct access to the police station, and my wife and children were suffering greatly because I was continuing to attend office prior to my handing over, and they were being terrorized by these situations and my wife was having to put the children under the bed every night for fear of some physical violence or some gunshots.

Because another senior executive, Mr. John Hillbery, who was in BCC and left at the same time, he informed us—he lived very close to where we did—that there had been a gunshot through his window and he had reported to the police. He was going to join me in trying to make a claim on BCC for compensation because we received nothing when we were released. But he withdrew from this case very hurriedly because of this fear out of this incident.

So my wife having heard this, she was even more terrified and my children were disturbed. We had to pull them out of school.

Senator KERRY. When did you pull them out of school?

Mr. RAHMAN. That was—I can't recall exactly. It was after a few months of my leaving BCC. Then I felt that it was impossible to have this tension on me while I'm trying to restructure my life, so I requested them to leave for America. So they left. I found a job in another bank.

Senator KERRY. When did they leave for America?

Mr. RAHMAN. They left about 3 months ago, and I continued—and she was very concerned, and many of my friends and colleagues were concerned for me, and they constantly asked me that,

how can you carry on with this tension and live in the heart of London when anything could happen any day? Some even offered to come and live in my small flat, but I preferred to be on my own.

I sincerely believe that in life all that will happen is already written down. This is a part of my culture, and I believe anything which will happen to me, and the date and time it will happen to me, is already down, so I don't worry about these things and I don't concern myself with these things, and so I stayed on.

In the meanwhile, you may know that I was requested by the district attorney to come to America to give a deposition.

Senator KERRY. Before we get to Mr. Morgenthau and his request to you, can you describe for me some of the things that were frightening your wife that you told me about last night?

Mr. RAHMAN. Well, the only direct physical threat was made to me just as I was leaving by another executive of the bank, Mr. Abbas—Mazhar Abbas, M-a-z-h-a-r A-b-b-a-s—who was in a meeting with me, and Mr. Iqbal Chaudhry who was the new CEO after all this crisis, and I was pleading with Mr. Iqbal Chaudhry and Mr. Mazhar Abbas, who are both junior to me effectively in the bank, that why are you sacking so many good executives when the people who are named are still in the bank, who have been identified by Price Waterhouse, and by my committee?

They are still in the bank, and if, indeed, you are sacking all of the other good executives, why are you not paying them compensation? So this line of argument went on and finally I told them that if you force such people who have given their life to the bank to just go and become jobless and with no money to eat grass, then they may turn to any situation. They may go to court and they can fight you from the court, and Mr. Abbas said well, they can go to hell. They can go to court if they like.

So I said, if you carry on like that, I myself may have to join them, and the moment I said that he became furious and he said that, let me tell you openly, in front of Mr. Chaudhry that if you open your mouth, or if you go to court, I've personally killed people in my life in Multan in Pakistan, and I'll use the same gun on you.

Now, he was so junior to me I didn't even take it seriously. I thought it was a funny thing to tell me, so I told him off. I said, you haven't even contributed one bit to the growth of the bank. What are you talking about?

So I just ignored him, but it stayed with me, but after I left, several of my friends and ex-colleagues were bringing information that people from Abu Dhabi, that people from BCC who were named in this report, have said that my life is not worth the paper it's written on, and again I ignored all of this, because, as I said, I don't worry about these things.

But more recently my lawyers, who have charged a lot of money for just getting nothing for me, suddenly began to change their tune and they started to suggest to me that I should agree with the liquidator to keep quiet.

I said, this injunction which was brought by the criminal bank, by the criminal people have all been exposed, so how can I continue to have an injunction thrust on me after new management is supposed to be there, liquidator is supposed to be there, Bank of England is supposed to be there, and they had no real answer, and

they said well, apparently Sheikh Zayed will not give money if you talk, and we need his money because so many millions have suffered, and that is a very powerful argument, because I had helped in building the better part of the bank, and we will discuss that also later on, and thousands of people were employed—14,000 people employed from 83 nationalities.

They were good people, and you will see when we go through this deposition that not more than 20 people were involved in all that you are hearing about, and yet thousands of people have suffered both as employees and over 1 million people have suffered as customers, who are very loyal, good customers. They were not illegal customers, all of them.

So when this argument was given I was a bit confused as to really, is it correct that Sheikh Zayed would not give any more money if I talked, but at the same time the press in U.K. started naming me, and some of them started naming me as the whistle-blower, and even my picture came in the press, and I am not a whistle-blower in any capacity.

I was a chief finance officer. I happened to be chairman of the investigation committee to which the board appointed me. I happened to write an honest report. I happened to resign, and I've suffered for that, but I am not a whistle-blower and I am not the destroyer of thousands of people's lives.

But when this happened, information came to me that even clients who have lost all their savings, innocent people, any one of them could come for me any time. So I needed a vehicle through which I could explain all that I have to explain, and the British Government and the British judiciary was refusing me this right, and they would not even explain why everybody could talk what they liked—all the press could investigate and write what they wanted, and I am a key central figure about the reports, and I am not able to talk on some pretension.

So I argued with my own lawyers and I said, you fight back for the injunction. You fight back. He said, you haven't paid for all your fees up to now, and this will cost extra and you'll never win. Anyway, we fought back again, and I was horrified to hear that the Lord Chancellor himself had instructed the judge that my injunction should continue.

Now, I don't know why I'm so important. I'm a British subject. I have my own rights. Why the Lord Chancellor should instruct the court to injunct me from speaking horrified me, and my own lawyers were suggesting that after all my life is ruined.

I have no job. I have my house, which was a part of my salary package, was about to be taken. They told me in so many words that it will take 3 days for the Government to take the house back once you start talking.

Senator KERRY. Who told you that?

Mr. RAHMAN. Sorry?

Senator KERRY. Who told you that?

Mr. RAHMAN. My own lawyers, that it will take less than 3 days for you to lose your house as soon as you—

Senator KERRY. You lost your house at some point?

Mr. RAHMAN. Not yet, but it may be happening now.

Senator KERRY. But didn't you take a choice? You sold the house and moved into London?

Mr. RAHMAN. No. What had happened is that we had a bigger house in Surrey, in the better days, I should say.

Senator KERRY. That was the house paid for by the bank?

Mr. RAHMAN. All, yes. What the bank had, which was a scheme which I myself helped evolve, is that because the senior founder executives were always moving, traveling, working weekends, our families were suffering and since we were deemed to be also shareholders of the bank, which we will explain later on, I recommended to the president and others that we should at least have a home sort of bequeathed to us as sort of advance compensation toward the share value which is building up rapidly, so that at least the family whom you are never seeing could at least have a roof over their head if anything happened.

That scheme was approved. And that scheme is all in writing and we are required never to pay back the loan as long as we worked for BCC. Effectively, because we always expected to live and die with BCC, it was never repayable. And whatever token interest was charged, which was a small amount, 5 percent, was also given to us as an allowance to be deducted. So effectively, it was a part of our salary package for which we were working these long hours.

And within days of this injunction matter, they moved on me and nobody else for foreclosure of the house. Nobody else has had their property foreclosed. But they instantly moved on me. I am fighting that. But my own lawyers are telling me that the day you open your mouth, 3 days within that, the house will go.

Senator KERRY. Now Mr. Rahman, I just want to finish on the personal aspects of this before we move back into the history.

I understood from your wife, Ellen, that there were nights when you were not there, that cars would come into the driveway and simply turn off the engine and sit there. Then they would turn on the engine and drive out. Is that accurate?

Mr. RAHMAN. Yes. She told me several times.

And that is one of the reasons I told her to leave. I don't know if they were press people. I don't know if they were somebody from BCC. But I wasn't going to take any further risk because it's a very, very quiet part of Surrey that we live in. It's a very, very—hardly any houses. It's a wooded area. So we felt that we can't take any further risk and we just sent the family away.

Senator KERRY. Did you receive some phone calls or did she receive phone calls?

Mr. RAHMAN. She received some she told me about, I have not received any, where people just tried to find out where I was or didn't say anything and just cut off.

Senator KERRY. It is my understanding that on one occasion she received a phone call in which she was told that you had had a terrible accident and would not be—is that accurate?

Mr. RAHMAN. Yes, she told me. When I came back she was crying and she told me about this. I said, look, if anything happens, somebody you know will tell you rather than an unknown person, so please don't get disturbed by unknown people talking like that.

Senator KERRY. And on another occasion was she telephoned and told that you were going to be killed and that your life was not worth very much?

Mr. RAHMAN. That, I mean, a lot of people were saying that. A lot of people were saying this to me, obviously to me and to her, friends who meant well. But you know it's incredible how you can sit over here knowing that you're the only one who knows about the report and you did all this.

Senator KERRY. And finally she told me that there was one occasion, the breaking point was when a telephone call came regarding the children. Is that accurate?

Mr. RAHMAN. She told me, also. That's why we were afraid that, you know, going to school was also very dangerous. So I just pulled them off school.

Senator KERRY. And what was that phone call, do you recall?

Mr. RAHMAN. I can't remember the details, but it was in this nature, that the children are at risk.

Senator KERRY. And that is when you decided she should leave the country?

Mr. RAHMAN. Yes, I decided that she should leave. Of course, she did not want to leave, leaving me behind. And I said, look, I cannot start running because running is a one-way traffic. You know, you start running and then you don't stop running. So I was not going to do that until just last week.

And last week, as I started to explain, my fear limit went up because an ordinary depositor has suffered, then any one of them could be violent. My pictures had come openly in the press. The Independent, Daily Independent, had covered an article saying that Mr. Rahman has fled for his life and there's a killer on the loose. I don't know whether they just make up the stories or it sounds good. And that's how it was.

So I decided that it's best not to confront everybody, just to leave.

Senator KERRY. Now Mr. Rahman, because today you are going to, as you tell this story, refer to some documents. I am going to put those documents into the record now so they are a matter of public record.

Let me just quickly identify them. Document No. 1 is an interim report by Price Waterhouse on the audit for 1989. And it is a report dated November 17, 1989, which was the precursor to the final audit report coming in. And that is document No. 1.

[The information referred to follows:]

Southwark Towers
32 London Bridge Street
London SE1 9SY

Telephone: 01 407 9989
Telex: 684057 d
Telegrams: 01 378 0647

Price Waterhouse



17 November 1989

The Board of Directors
BCCI Holdings (Luxembourg) SA
39 Boulevard Royal
Luxembourg

Dear Sirs,

INTERIM REPORT ON RESULTS AND OPERATIONS

At your request we have compiled a brief report on the results and operations covering the nine months to 30 September 1989. We understand that this information is required for submission to the Institut Monetaire Luxembourgeois, the Bank of England and the other banking supervisory authorities comprising the College of Supervisors.

This report is based on unaudited information which has been provided to us by management and from our colleagues in other offices who have recently completed interim audit work at major locations. Such work comprised testing of systems and controls and preliminary credit reviews at major locations throughout the Group; further details of the audit scope are set out in Appendix 1 to this report. Our review of the loan portfolio is continuing with a view to reaching agreement on the levels of provisions required at an early stage, although the number of issues to be resolved may cause a delay in the normal reporting timetable.

The contents of this report have been discussed with Group management and their comments incorporated as appropriate. We have also had discussions with the Audit Committee about the matters raised in this report.

The report has been prepared to provide an understanding of the Group's results and operations to those concerned with its consolidated supervision. It should not be released to other parties without our specific permission in writing.

We wish to express our appreciation of the courtesy and co-operation extended to us by management and staff of the Group during the course of our work.

Yours faithfully,

PRICE WATERHOUSE

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

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BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 1: UNAUDITED RESULTS TO 30 SEPTEMBER 1989 AND OUTLOOK FOR THE YEAR

Unaudited Results to 30 September 1989

- 1 The unaudited results of the Group for the nine months ended 30 September 1989 are summarised below. Although we have reviewed the aggregation of the Group results and made limited enquiries of Group management we have not audited these results.
- 2 From our work and that of local auditors we appreciate that closing procedures at 30 September are not as stringent as at the year end, and adjustments are likely to be required in the following areas, which could significantly reduce reported net profit:
 - * Loan loss provisions
 - * Increased country risk provisions
- 3 In addition the application of full year end procedures in two further areas could result in further adjustments:
 - * Reconciliation of inter-group balances
 - * Taxation

	<u>\$ million</u>	
	Unaudited 9 months ended 30 September 1989	Audited Year ended 31 December 1988
Net interest income	265	399
Other operating income	312	377
Operating expenses	(427)	(584)
Profit before loan loss provision	150	192
Loan loss provision	(70)	(145)
Profit before taxation	80	47
Taxation	(57)	(74)
Profit/(loss) after taxation	23	(27)
Outside shareholders' interests	(14)	(22)
Profit/(loss) attributable to shareholders	<u>9</u>	<u>(49)</u>

- 4 The full unaudited results for the nine months and the Statement of Condition at 30 September 1989 are summarised in Appendix 2.

SECTION 1: UNAUDITED RESULTS TO 30 SEPTEMBER 1989 AND OUTLOOK FOR THE YEAR

Salient features of the results to date

- 5 Overall the bank has performed reasonably over the past year considering the significant repercussions that could have resulted from the US indictment. The Group has continued to remain relatively liquid and also attract some new business. Management have informed us that of the 73 countries where BCC operates 46 have shown improved results since 1988 and 8 more have improved results in local currency terms. Initiatives are being started in a number of areas such as credit cards and "one-off" deals, which the bank hopes will further contribute to profits.
- 6 The net interest income margin has dropped because fixed interest income currently earned on long bonds and certificates of deposit is funded by variable rate deposits, the cost of which has risen in line with the rise in interest rates and is also affected by the Group's difficulty in attracting low cost US dollar deposits.
- 7 Other operating income of \$312 million for the period to date is 10% higher than last year principally in the UK where there have been a number of short term property related transactions which have contributed over \$10 million.
- 8 Operating expenses have been held in check and totalled \$427 million, which is in line with last year.
- 9 The results for major locations for the nine months are summarised in Appendix 3.

Outlook for the year

- 10 Senior management are anticipating an improvement in the results in the fourth quarter in order to report operating profits for the year of between \$220 - \$240 million (1988 - \$192 million) against unaudited operating profit to date of \$150 million.
- 11 In the past the Group has not been able to meet its forecasts, in part due to special external factors. Management's estimate of \$220 - \$240 million for the year is reliant upon historically better fourth quarter operating results and "one-off" deals each generating in the region of \$1-2 million in profits contributing approximately \$10 million in the last quarter. Such deals are, we understand, being pursued vigorously during the remainder of the year and some have already been identified.
- 12 Management's estimate for loan loss provisions is \$100 million, (1988 - \$145 million), including approximately \$11 million for sovereign risk, and for taxation, \$75 million (1988 - \$74 million), giving a forecast profit after tax of \$45 million.
- 13 We believe, however, that additional specific and country risk provisions are likely.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 2: AUDIT AND ACCOUNTING ISSUES

Inter-branch/affiliate balances

- 14 At 30 September 1989 a net debit balance of \$39 million (1988 under \$20 million) has been included in the balance sheet under the heading 'Due from banks'. The balance arises from the cancelling out of inter-branch and inter-affiliate balances resulting in an unreconciled difference, including in-transit transactions. Whilst we appreciate the volume of inter-branch/ inter-affiliate transactions we strongly recommend the bank carries out a full inter-branch and inter-affiliate balance confirmation and reconciliation procedure as at 30 November 1989 in order to investigate and fully reconcile the outstanding entries before the year end.

Accounting for interest, fee and commission income

- 15 At periodic intervals the Group debits significant amounts of penalty interest, management commitment and advisory fees and other charges to customers' loan accounts.
- 16 These charges are not always in accordance with the terms of the loan agreement with the customers. In the past we have noted that certain customers have rejected the charges and we are concerned that, particularly in respect of the International Loans, the charges are often rolled up into the loan balance. We recommend that the Group should only recognise such income when the charges are agreed in writing and are substantially recovered by the end of the relevant accounting period in which the charges are made.
- 17 Whilst the bank as a policy suspends interest on all Identified Risk Facilities which it believes requires specific provision, we have expressed concern, in the past, over the Group's policy for the suspension of interest on other "non-performing loans". We continue to note that certain of the Group's operating units take an optimistic view of the recoverability of interest for accounts that are failing to meet interest or principal repayment schedules, and clearer guidance is required in this area.

Accounting for Commission and other income

- 18 Whilst its volume of trade related business has continued to increase, UK region, in developing new business areas, has also entered into certain short-term property related agreements with customers whereby BCCI assists in the funding and arrangement of property purchases and provides administrative assistance in any refurbishment/redevelopment and subsequent sale of the property. In return BCCI receives either a fixed minimum commission or part of the profit on the sale.

SECTION 2: AUDIT AND ACCOUNTING ISSUES

- 19 The accounting policy adopted on these arrangements places considerable emphasis on management's judgement rather than a formal, measurable basis. In particular we note that at 30 September 1989 UK Region had credited commission of some \$3.4 million to profit and loss in respect of underlying transactions that had not been completed until after that date.
- 20 Management has confirmed that for the 1989 accounts, the bank will adopt an acceptably prudent accounting policy for "one-off" deals such that front-end fees and profits are recognised either on completion or over the life of the transaction, as appropriate.

Valuation of trading securities

- 21 The Group's policy is to value securities held for trading purposes at market value, while investments in securities which are intended to be held until maturity are carried at cost. There are one or two instances where this policy is not being strictly applied.

EEC Seventh Directive

- 22 The EEC Seventh Directive is being implemented in 1989. This has potentially significant implications for the financial statements for Holdings and SA both being Luxembourg registered companies. Whilst the majority of the Seventh Directive is concerned with Group accounts and consolidation procedures to which the Group already adheres, the Directive prohibits asset revaluations. It is expected that the Directive will be applicable to banks in 1991.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 3: CREDIT

Scope of Work

- 23 Our work to date has comprised a review at major locations only and has focused on the identification and recoverability of doubtful loans. The review of loans booked in more than one location (which we call International Loans) has been coordinated centrally.
- 24 This work has been completed in a number of territories but there are still major issues to be resolved in some territories and in respect of certain International Loans.

Major loans

- 25 At 30 September 1989 the concentration of lending to customer groups whose exposure exceeds 10% of the capital fund of the group totalled \$1.9 billion, an increase of \$296 million since 31 December 1988, as set out below and in more detail in Appendix 7:

	<u>Total funded Exposure (\$ million)</u>	
	<u>30 September 1989</u>	<u>31 December 1988</u>
CCAH related loans (paragraph 28)	854	689
Customer A	404	349
Customer E	260	194
Customer C (excluding CCAH related)	197	188
Customer F	<u>187</u>	<u>186</u>
	<u>1,902</u>	<u>1,606</u>

- 26 In our previous report we expressed concern about the high concentration of lending to a small number of individual counterparties. This has continued in the nine months to 30 September principally through the application of interest and charges. Management has initiated negotiations with these customers to agree reduction programmes and significant repayments are anticipated before 31 December 1989 and in early 1990.
- 27 For customers C and E management have informed us that their priority is to reduce the clean exposures (which both currently exceed \$100 million) and to ensure that interest and charges are serviced. For customer A management are considering a reduction programme, details of which are provided in Appendix 7.

SECTION 3: CREDIT

CCAH\$'million

- 28 The CCAH related lending may be analysed as follows:

Loans to major customers	782
CCAH Share Subscription Account	52
CCAH Debenture	20
	<hr/>
	854
	<hr/>

- 29 The Group has provided advances to a group of customers (including customers B,C,G,L,N and O) which are secured on approximately 39% of the shares of CCAH, the holding company of First American Bankshares Inc., a major regional banking group in the Eastern United States with banking licences to operate in six separate states. The principal shareholders of CCAH are also shareholders of BCCI.
- 30 The loans to these customers have increased by \$113 million since 31 December 1988 as a result of interest and charges being applied. Some \$41 million has been repaid during 1989 but this has been offset by new drawdowns of \$42 million.
- 31 On 18 July 1989 CCAH had a rights issue and the Group advanced \$52 million to a share subscription account. The allocation of this loan between CCAH shareholders has yet to be established.
- 32 We understand that BCC management are presently advising the shareholders in connection with the sale of the shares of CCAH and that further developments in this regard may be expected before the end of the year.
- 33 At 30 September 1989 the bank held approximately 106,400 CCAH shares as security (before allocation of the rights issue). These shares had a net asset value per share of \$2,868 based upon the unaudited management accounts at 30 June 1989. This implies that the multiple of net asset values required to cover the existing loans (excluding the rights issue loans) is 2.57 times. We understand that the median multiple of net assets applicable to bank share transactions in the United States since 1981 is in the region of 2.1 times. This implies that a shortfall on the sale of the shares could be of the order of \$140 million which may not be fully recoverable from the shareholders.
- 34 Management are expecting repayments before 31 December 1989 which should reduce this shortfall.

SECTION 3: CREDIT

Limit Excesses

- 35 At 30 September 1989 the following loans had funded balances which were over \$25 million in excess of approved limits.

<u>Borrowers Name</u>	<u>\$ million</u>		
	<u>Funded Balance at 30 September 1989</u>	<u>Funded Limit</u>	<u>Excess</u>
Customer A	404	255	149
Customer E	260	180	80
Customer C	315	265	50
Customer B	178	140	38
Customer L	115	85	30

- 36 We understand that the Board is currently reviewing these limits and these loans should be brought within their revised limits before 31 December 1989.

PROVISIONS

Specific Provisions

- 37 The major locations which have reported as at 30 September 1989 have provided estimates of the 1989 loan loss provision charge. These estimates are set out in Appendix 6 and indicate a provision requirement for those territories that have reported of \$67.5 million compared with a forecast prepared by management of \$48 million. This does not include the provision requirements for five locations who have been unable to finalise the provision at this stage for which management's estimates are \$13.2 million.
- 38 We are also concerned about the recoverability of certain International Loans, particularly those which have not yet met interest or principal repayment schedules and certain risk facilities booked in Grand Cayman for which provisions have yet to be agreed. A full list of these loans has been provided to management and we have requested additional information in respect of these accounts. We expect to see evidence of performance and compliance with repayment programmes, if we are to accept their inclusion in the 1989 accounts without provision.
- 39 The auditors of National Bank of Oman have identified a significant number of accounts which are not meeting interest or principal repayments and for which provision may well be required.

SECTION 3: CREDIT

Country Risk

- 40 A summary of the Group's cross border exposure to lesser developed countries against which provision is required is summarised below and set out in more detail in Appendix 4:

	<u>Exposure at risk (\$ million)</u>	
	<u>30 September 1989</u>	<u>31 December 1988</u>
Nigeria	247	261
Phillipines	30	30
Zambia	26	29
Sudan	20	25
Others	26	26
	<hr/>	<hr/>
	349	371
	<hr/>	<hr/>
Provision	100	100
	<hr/>	<hr/>

- 41 In 1988 after discussions with the regulators provision for country risk exposures was made using the Bank of England matrix as a guideline and taking into account special circumstances relating to BCCI's exposure. The matrix is unchanged from 31 December 1988 although a revised matrix requiring higher provision is expected to be published by the Bank of England before the end of the year. The exact impact on individual countries is not yet known although the Bank has indicated to BCCI at the College meeting that on major exposures, for example Nigeria, it expects the bank to provide at a higher level.
- 42 We have undertaken preliminary calculations of the provisions at 31 December 1989 which shows an additional provision requirement of at least \$20 million in 1989 against which management expect to provide \$11 million. A summary of the Group's exposures together with existing and proposed additional provisions is included in Appendix 4.

General Provision

- 43 At the last meeting of the College of Banking Supervisors, management reaffirmed their commitment to build-up the general provision over a period of time to at least 1% of gross advances, as adjusted for facilities covered by cash collateral or specific provisions.
- 44 At 31 December 1988 the general provision amounted to 0.6%. To increase this to 1% at 30 September 1989 would require a charge against profits in excess of \$35 million. Management on the other hand has indicated that they will only increase this provision by some \$10-12 million (ie to 0.75%) with additional provisions in 1990/91 to reach the 1%.

SECTION 3: CREDIT

Control issues

- 45 Whilst there has been some improvement in credit procedures we still note the need for more stringent controls over the Group's loan appraisal and authorisation procedures. We have noted examples of some new loans totalling \$52 million where appropriate documentation supporting the lending is not available or where Central Credit Committee or Board approval procedures have not been complied with.
- 46 We are currently assisting management in a review of the credit management function carried out by the Central Credit Division.

Conclusion

- 47 Management have made considerable efforts to provide us with background information on the International Loans during 1989 which we are still evaluating. We remain concerned about the adequacy of provisions held against accounts which are not meeting principal and interest repayment schedules.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 4: TREASURY OPERATIONS

Results

- 48 The activity levels in Central Treasury have generally shown small increases over 1988 although volumes still remain relatively low when measured on a number of deals per day basis and many of the limits are unutilised. The main features of the current year's trading have been:
- a greater emphasis on the Japanese securities markets, particularly the Japanese equity markets. Trading in these markets is undertaken by a newly formed team within Central Treasury who work closely with Nomura and other large securities houses in order to formulate investment strategies;
 - a small increase in activity in US stocks and the associated derivative products;
 - increased activity in the foreign exchange markets (including futures and options);
 - lower activity in the US Treasury markets.
- 49 Whilst the trading results show a considerable improvement over last year, the investment and liquidity management results reflect the costs to the Group of maintaining a relatively high level of liquidity.
- 50 Based upon our estimates of average investments/borrowings and interest yields/costs the results of Central Treasury may be estimated as follows:

	\$ million	
	9 months to 30 September 1989	Year to 31 December 1988
<u>Trading activity</u>		
Activities undertaken by Central Treasury	4.2	(7.5)
Externally managed funds	2.1	(3.7)
	<u>6.3</u>	<u>(11.2)</u>
<u>Liquidity management and investment</u>		
Net profit/(loss) on liquidity management and investment activities	(14.9)	6.9
Loss before local overheads	<u>(8.6)</u>	<u>(4.3)</u>
Local overheads	(3.6)	(5.9)
Management charge by BCC SA	(0.5)	(0.5)
	<u>—</u>	<u>—</u>
Loss before intra group subsidy *	<u>(12.7)</u>	<u>(10.7)</u>

- * The above figures exclude the effects of paying a 1% margin over LIBOR on funds deposited by Group Companies, the effect of which is estimated to be an additional cost of \$26 million (year to 31 December 1988 - \$40 million). We understand that this margin has been reduced to $\frac{1}{2}$ % over LIBOR from 1 October 1989.

SECTION 4: TREASURY OPERATIONS

Accounting records

- 51 It should be noted that the foregoing figures are only estimates based on average balance assumptions since the actual results of Central Treasury are contained within the accounting records of Grand Cayman branch. Given the organisational structure of Central Treasury including its reporting lines to the Treasury Committee and its integral role in the management of the Group's liquidity, we continue to believe that it is vital that the results of Central Treasury activities be reported separately. We are advised that arrangements have since been established for Central Treasury to become a separate self-accounting unit by the year end.

Utilisation of funds

- 52 The source and utilisation of funds by Central Treasury as at 30 September 1989 may be summarised as follows:

	\$ million	
	30 September 1989	31 December 1988
<u>Sources</u>		
Banks	242	330
Branches and affiliates	3,768	2,887
Non-banking financial institutions	450	650
Repo funds	1,097	719
Currency Swaps	<u>330</u>	<u>227</u>
	<u>5,887</u>	<u>4,813</u>
<u>Utilisation</u>		
Due from banks	1,063	1,028
Certificates of deposit	<u>683</u>	<u>353</u>
Total funds with banks	1,746	1,381
Due from branches, affiliates and NBFIs	511	510
Trading portfolio	178	143
Investment portfolio	669	691
Externally advised and managed funds	131	125
Currency Swaps	<u>330</u>	<u>249</u>
	3,565	3,099
Funds provided to Grand Cayman for banking and treasury activities	2,129	1,515
CHMA/FDMA funding	<u>193</u>	<u>199</u>
	<u>5,887</u>	<u>4,813</u>

SECTION 4: TREASURY OPERATIONS

- 53 It should be noted that the results shown earlier were based only on funds managed directly by Central Treasury and hence excluded the funds provided to Grand Cayman and the GNMA/FNMA funding. The results are therefore based on total funds of \$3,565 million (1988 - \$3,099 million).
- 54 The investment portfolio comprises US treasury bonds and other securities which the Group intends to hold to maturity. Such investments are carried at cost and any premiums or discounts are amortised over the period remaining to maturity. The market value of the portfolio at 30 September 1989 was \$62 million (31 December 1988 - \$93 million) below cost. The Group continues to be exposed to significant interest rate risk arising from those investments in long dated instruments which were acquired in 1985/86 and continue to be funded by short term deposits, although there has been a reduction in the exposure.
- 55 The above analysis also demonstrates that the trading portfolio represents only 3% of the \$3,565 million of funds managed by Central Treasury and hence this activity can be viewed as being totally separate from the investment and liquidity management activity which utilises the majority of excess funds placed with Central Treasury.

Risk management issues

- 56 In our reports to the Audit Committee in November 1988 and March 1989 we recommended that the Group should develop a formal interest rate risk policy together with the relevant limits and interest rate gap position, as a matter of priority.
- 57 We understand that Central Treasury has recently purchased an asset and liability management software system "Sendaro" which, once operational, will be used as a limit system for managing interest rate risk. However until such time as the system is implemented the Group remains exposed to interest rate risk.

Reorganisation of the Group Treasury function

- 58 Throughout 1989, the Group has been developing a strategy for the reorganisation of the Group Treasury function and in connection with this two papers have been submitted to the Bank of England giving details of the proposed new structure. The initial paper dated June 1989 set out a structure based on three 'flagship' dealing rooms to be located in London, New York and Tokyo. The first step in this strategy is to enhance the capability of the existing London dealing room.
- 59 The second paper dated September 1989 added a fourth flagship dealing room to be located in Abu Dhabi and gave further high level comments on aspects of the enhancement of the existing London dealing room.
- 60 Whilst these papers evidence a certain amount of progress towards the restructuring of the Group Treasury function, progress continues to be slow with certain elements of the strategy still awaiting approval from regulatory authorities. No implementation date can be reliably predicted at present for other parts of the new strategy beyond the UK upgrading already in hand.

SECTION 4: TREASURY OPERATIONS

- 61 It should be noted that in connection with the above approximately \$250 million of surplus funds generated by the UK region and previously managed by the existing Central Treasury are now managed by the UK region themselves via their London dealing room. The majority of these funds are placed on overnight deposit.
- 62 The bank held a meeting with the Bank of England in October 1989 at which it discussed its programme for setting up a UK Treasury operation and in particular whether the Bank of England would permit BCCI to "pool" its group funds or merely restrict operations to UK originated funds.

Other Treasury Operations

BCC (Emirates)

- 63 Losses of approximately \$1.2 million have been incurred in trading options and futures contracts. We understand that management intend to prohibit any new overnight positions from being taken.

UK Region

- 64 UK region have one interest rate swap with Hammersmith Borough Council. On 1 November 1989 the UK courts declared illegal all swaps entered into by Hammersmith. It appears likely at present that this decision will be challenged in a higher court. The replacement of this swap would currently cost approximately \$0.6 million. In addition \$0.2 million of accrued interest has also been credited to the profit and loss account.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 5: CAPITAL

- 65 The capital fund shown by the unaudited accounts at 30 September 1989 amounted to \$1,513 million, an increase of \$96 million since 31 December 1988 made up as follows:

	30 Sept 1989	31 Dec 1988	\$million Change
Share Capital	745	726	19
Reserves	197	160	37
	942	886	56
Subordinated capital notes	437	412	25
Outside shareholders interests	134	119	15
	1,513	1,417	96

- 66 There was an increase in capital of \$100 million in April 1989 which largely accounts for the change since 31 December 1988.
- 67 Included within the caption of subordinated capital notes are Convertible Capital Notes of \$330 million which mature on 30 June 1991 unless converted into Ordinary shares before then at \$40 per share. In the current circumstances we believe there must be some doubt that the conversion will take place.

Transactions with shareholders

- 68 Based upon information provided by major locations, loans to and deposits from shareholders at 30 September 1989 and 31 December 1988 are set out below:

	30 September 1989	31 December 1988
Loans	1,146	1,137
Deposits	836	1,212

- 69 As noted in our previous report ICIC has provided loans to shareholders, including ICIC Foundation and ICIC Staff Benefit Fund, secured on BCCI shares.

SECTION 5: CAPITAL

Capital Adequacy

70 Information on the capital assets ratio at 30 September together with the risk adjusted capital ratio at that date is set out below:

	<u>\$ million</u>	
	<u>30 September 1989</u>	<u>31 December 1988</u>
Total Assets	21,503	20,637
Capital Fund	<u>1,513</u>	<u>1,417</u>
Approximate risk adjusted assets	<u>14,800</u>	<u>14,400</u>
Approximate adjusted capital	<u>1,270</u>	<u>1,312</u>

	<u>30 September 1989</u>	<u>31 December 1988*</u>
Capital/Total assets	7.0%	7.4%
Capital/Risk adjusted assets **	8.5%	9.1%

* adjusted for increase in capital of \$100 million in April 1989.

** The capital/risk adjusted assets ratios would be 10.1% and 10.2% respectively on the basis that the capital notes maturing in 1991 are converted into equity capital.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 6: TAXATION

Income statement charge

- 71 The tax charge for the period is high because:
- No tax relief is available on losses of \$12 million and \$39 million arising in BCCI Holdings and the Grand Cayman branch of BCCI (Overseas) respectively.
 - The group continues to earn significant profits in high tax areas such as Pakistan, India, Bangladesh and Zambia.

Enquiry by UK Inland Revenue

- 72 The Inland Revenue Special Investigation Section enquiry has continued to progress slowly although we understand that on the bank's part all requested information has been provided. It now seems unlikely that the outstanding queries will have been resolved before the accounts for the year are required to be finalised although management have expressed their intention to try to reach agreement as soon as possible and accordingly has sought a direct meeting with the Inland Revenue.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

SECTION 7: REGULATORY, COMPLIANCE AND CONTROL ISSUES

US Litigation

- 73 The bank's defence lawyers have informed us that the Florida trial is expected to begin on 15 January 1990 and last for three to six months. The lawyers will attempt to come to a pre-trial settlement with the prosecution, but the lawyers do not expect the prosecution to be amenable. As such there is now a real prospect of a trial.

Compliance Issues

- 74 As a result of inspections carried out by Federal and State Regulators in the USA at the end of 1988 the bank signed in June 1989 Memoranda of Understanding ("MOU") with the Federal Reserve Bank under which it agreed to:
- Desist from violating the Bank Secrecy Act ("BSA") and related regulations
 - Develop policies and procedures to cover:
 - . BSA compliance
 - . Detection of suspicious activity related to the flow of funds and acceptance of deposits
 - . Establishment and evaluation of loan loss reserves
 - . Strengthening internal controls
 - Prepare and submit progress reports detailing the action taken in respect of the foregoing.
- 75 The bank has made great efforts to comply with the MOU particularly in developing the policies and procedures manuals, with assistance from Price Waterhouse US, which have been submitted before the due dates.
- 76 In response to the MOU the US Agencies have undertaken to accept funds from overseas locations of BCCI only when there is a clear indication of the source of those funds and a form is completed by the transferor with details. We understand that there has been a noticeable drop in the funds transferred from other BCCI locations to the US agencies because of this onerous requirement to obtain the necessary details from their customers. Most of their US dollar transactions formerly with the US agencies are being routed to third party banks. Management are investigating this matter to satisfy themselves that there is nothing untoward in such transactions.

SECTION 7: REGULATORY, COMPLIANCE AND CONTROL ISSUES

- 77 Whilst the Federal Regulators have yet to formally endorse the manuals the bank has started implementing the revised procedures to demonstrate compliance with best banking practice in the US. It is anticipated that the manuals will be adapted and implemented in other countries in due course.
- 78 Federal Regulators commenced inspections at each of the US Agencies on 23 October 1989, the results of these inspections are yet to be determined.

Due Diligence Reviews

- 79 The programme of due diligence reviews which started earlier in the year has continued at the locations which are the subject of the indictment and is being extended to Cayman, Hong Kong, Gibraltar and the Isle of Man. Reviews are also to be conducted in Canada and Spain. As a result of the reviews a number of suspicious accounts have been reported to the authorities and other accounts have been closed.

Internal Controls Group

- 80 We are pleased to acknowledge the formation of a special group responsible for the implementation of internal control recommendations, within the Central Audit Division, the 'Internal Controls Group', and we look forward to working closely with this group in achieving the required internal control improvements throughout the bank.
- 81 The Internal Controls Group are concentrating their initial efforts on the three major units - Hong Kong, Kenya and Cayman - highlighted in 1988 as having major issues yet to be resolved. Our local auditors in Kenya have been pleased to note very significant improvements in controls and those in Hong Kong also noted some improvements.

Internal Controls review

- 82 Despite the many improvements at operating unit level we would emphasise that several of the major matters arising from our review of internal controls during 1988 had Group wide applicability and will require central management direction and commitment to change if the required level of improvement is to be realised. This is especially so in relation to management structure, credit, treasury and systems. We recognise that there now appears to be significant management commitment to improvement of controls and appreciate it will take time to implement fully.

SECTION 7: REGULATORY, COMPLIANCE AND CONTROL ISSUES

Computer systems

- 83 Computer audit specialists from our central audit team have continued to review centrally, updates to the Falcon, Mini Falcon and Autodeal systems which are utilised by operating units. Our reviews confirmed that these systems continue to provide reasonable controls over the authorisation, accuracy and completeness of data. We are pleased to report that recommendations to address control weaknesses identified in the course of our reviews have generally been addressed by the bank. There remain, however, two major outstanding areas:
- disaster recovery and back-up procedures. The bank is seriously exposed as a result of the absence of alternative computer facilities, and a detailed plan which could be implemented in the event of a major loss of facilities.
 - data transmissions between locations are not encrypted which could result in confidential data being read by unauthorised individuals. Management have informed us that they are considering the installation of modems with encryption facilities.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

AUDIT SCOPE

As with last year, the 1989 audit of BCCI Holdings (Luxembourg) SA has been conducted under the supervision of partners and staff from Price Waterhouse London.

We have continued with our practice adopted last year of grouping reporting units into three categories for the purpose of specifying the level of audit work for Group reporting purposes at each operating unit.

	<u>Number of locations</u>
Type 1 : Full scope audit with defined materiality limits	25
Type 2 : Limited audit	27
Type 3 : Statutory/Regulatory audit	20
	—
	72
	—

Instructions to local auditors

Detailed audit instructions were issued to local auditors for the audits of locations specified as Type 1 or Type 2 audit scopes.

Type 1: Full scope audit with defined materiality limits

Local auditors were required to carry out an interim audit visit and report to Price Waterhouse London by end October 1989 on their operating units:

- (1) Credit facilities as at 30 September 1989
- (2) System of accounting and internal control with specific emphasis this year on the status of implementation of previous years external auditors' recommendations for improvement.

The local auditors are required to report to us by end January 1990 on their operating unit's results for the year ending 31 December 1989. The materiality limits we have advised to them when considering possible adjustments to the group results are as follows:

Adjustments affecting asset and liability reclassifications	\$5,000,000
Adjustments affecting income and expenditure reclassifications	\$500,000
Adjustments in aggregate affecting profit after taxation	\$250,000

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

AUDIT SCOPE

• Type 2: Limited audit

Local auditors are required to carry out specified procedures to enable them to report to us by end January 1990. The specified procedures they are required to carry out in respect of their operating units are as follows:

- (1) An analytical review of the financial position at 31 December 1989 and the results for the year.
- (2) A review of the accounting policies adopted in the preparation of the accounting statements to identify and quantify any deviations from group policies.
- (3) A review of the recoverability of credit facilities.
- (4) A review of specific elements of the system of accounting and internal control with specific emphasis on the status of implementation of previous years external auditors' recommendations for improvement.

In reporting to us, the local auditors of Type 2 locations need only consider potential adjustments within the materiality limits specified for Type 1 locations.

• Type 3: Statutory/Regulatory audit

No group audit requirement has been specified for auditors of Type 3 locations although local auditors have been requested to advise us of any significant matters which they feel should be brought to our attention.

Central audit team

In addition to the audit work at operating unit level we have also specified that certain audit work and co-ordination responsibilities be carried out by the central audit team based in Price Waterhouse London.

The responsibilities of the central audit team comprise, inter alia:

- a review of major International Loan facilities operated on a Group wide basis;
- an audit of the central treasury operations in Abu Dhabi which form part of the results of BCCI (Overseas) - Grand Cayman;
- an audit of the consolidated financial statements of BCCI (Holdings) including the aggregation of the individual branches of BCCI SA and BCCI (Overseas);
- a review of the computer systems developed centrally but operated locally.

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

AUDIT SCOPE

Overseas visits

In order to obtain first hand a current understanding of the operations and local economic environment staff from the central audit team and other Price Waterhouse offices have visited or are due to visit certain countries and operating units as follows:

Grand Cayman
Cameroon
Djibouti
Egypt
Hong Kong
Kenya
Nigeria
Pakistan
Sudan
Thailand
USA

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

UNAUDITED RESULTS FOR THE 9 MONTHS ENDED 30 SEPTEMBER 1989

Consolidated Statement of Earnings

	S million	
	Unaudited 9 months ended 30 September 1989	Audited Year ended 31 December 1988
Interest income	1,558	1,892
Interest expense	(1,293)	(1,493)
Net interest income	265	399
Other operating income	312	377
Total income	577	776
Operating expenses	(427)	(584)
Net operating profit	150	192
Loan loss provision	(70)	(145)
Profit before taxation	80	47
Taxation	(57)	(74)
Profit/(loss) after taxation	23	(27)
Minority interests	(14)	(22)
Profit/(loss) attributable to shareholders	9	(49)
<u>Movements on reserves</u>		
Balance brought forward	110	207
Profit/(loss) for period	9	(49)
Premium on issue of shares	56	-
Exchange translation and other reserve movements	(27)	(36)
Appropriations	-	(12)
Balance carried forward	148	110

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

Unaudited Consolidated Statement of Condition at 30 September 1989

	\$ million	
	Unaudited	Audited
	30 September 1989	31 December 1988
ASSETS		
Cash and due from banks	6,467	5,960
Certificates of Deposit	1,756	1,595
Investment in securities	2,197	2,241
Loans and advances (net)	10,142	9,838
Accrued interest	372	383
Investment in affiliates	63	65
Property and equipment	248	255
Other assets	258	300
TOTAL ASSETS	21,503	20,637
LIABILITIES		
Demand deposits	3,042	3,137
Savings and time deposits	13,298	12,524
Due to banks	2,891	2,827
Floating rate notes	22	43
Accrued interest	311	284
Provision for taxes	19,564	18,815
Other liabilities	70	66
	356	339
TOTAL LIABILITIES	19,990	19,220
CAPITAL FUND		
Issued and paid up shares	745	726
Legal reserves	49	50
Retained earnings and other reserves	148	110
Shareholders' equity	942	886
Subordinated capital notes	437	412
Minority interests	134	119
	1,513	1,417
CAPITAL FUND AND TOTAL LIABILITIES	21,503	20,637

APPENDIX 3

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

UNAUDITED RESULTS FOR THE 9 MONTHS ENDED 30 SEPTEMBER 1989

Location					\$'000
	Operating Profit	Estimated Loan Loss Provision	Profit/ (Loss) Before Tax	Tax	Profit/ (Loss) After Tax
BCCI (Overseas)					
Grand Cayman	(27,885)	11,000	(38,885)	-	(38,885)
Pakistan	17,067	1,500	15,567	10,275	5,292
Bangladesh	5,793	400	5,393	3,263	2,130
India	6,633	1,500	5,133	3,336	1,797
Turkey	2,448	1,000	1,448	706	742
Panama	3,286	1,000	2,286	-	2,286
Jamaica	3,059	-	3,059	1,805	1,254
Sudan	3,128	300	2,828	1,832	996
Florida	3,229	1,000	2,229	300	1,929
Others	23,427	3,800	19,627	7,634	11,993
Total Overseas	40,185	21,500	18,685	29,151	(10,466)
BCCI SA					
UAE	12,676	6,000	6,676	1,335	5,341
UK	5,701	10,000	(4,299)	-	(4,299)
Jordan	4,683	600	4,083	2,000	2,083
Luxembourg	3,363	2,700	663	274	389
Los Angeles	(1,021)	100	(1,121)	30	(1,151)
Others	9,752	2,600	7,252	3,161	4,091
Total SA	35,154	22,000	13,254	6,800	6,454
SUBSIDIARIES & AFFILIATES					
UAE	11,263	4,000	7,263	-	7,263
Hong Kong	13,007	5,000	8,007	1,320	6,687
Cameroon	8,598	1,700	6,898	2,621	4,277
Egypt	7,778	2,600	5,178	1,031	4,147
Zambia	6,285	250	6,035	3,108	2,927
Oman	6,809	4,000	2,809	655	2,154
Canada	3,190	300	2,890	1,367	1,523
Nigeria	8,069	1,200	6,869	3,160	3,709
Others	9,512	7,450	1,962	7,787	(5,825)
Total Subsidiaries and Affiliates	74,511	26,500	47,911	21,049	26,862
GROUP TOTAL	149,850	70,000	79,850	57,000	22,850

BOCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

COUNTRY RISK PROVISIONS AT 30 SEPTEMBER 1989

MAJOR EXPOSURES AT RISK IN COUNTRIES THAT HAVE BEEN IDENTIFIED AS REQUIRING PROVISION

(\$ million)		Identified Exposure at risk 31 December 1988	Identified Exposure at risk 30 September 1989	Provision at 31 December 1988 and of provision 30 September 1989	Effective 31 December 1989	2 rate of provision 31 December 1989	Possible Resulting additional effective provision 2 rate of provision in 1989
Note	Reference						
	(1)	230.7	216.8	64.6	28	11	35
Nigeria - Refinancing and Government							
		30.3	29.9	5.8	19		
- Commercial							
	(2)	30.0	30.0*	3.0	17	5.5	35
Philippines - Central Bank							
	(3)	27.8	24.6	5.0	18	2.4	30
Zambia - Central Bank							
		1.3	1.3	0.7	54	0.3	75
- Other							
	(4)	20.0	19.9	10.7	54	1.7	75
Sudan - Central Bank							
		4.9	-	3.2	65	(3.2)	
Iraq - Principal							
	(5)	11.8	11.8	2.4	18	1.2	30
- Interest							
		1.9	0.6	-	-		
Mexico							
	(6)	8.5	7.3	1.6	19	1.0	35
Cuba							
	(7)	2.3	2.3	0.6	26	1.1	75
Sierra Leone							
	(8)	1.5	3.3	0.4	27	1.5	60
Ivory Coast							
	(9)	-	0.8	-	19	0.4	75
Panama							
	(10)	-	0.6	-	-	0.3	50
		<u>\$371.0</u>	<u>\$349.3</u>	<u>\$100.0</u>			<u>\$23.4</u>

* Estimate only: balance not expected to have changed significantly since 31 December 1988.

BCCI HOLDINGS (LUXEMBOURG) SA

COUNTRY RISK PROVISIONS AT 30 SEPTEMBER 1989

NOTES

1 Nigeria

Interest has been received since December 1987 when the refinancing agreement was signed. A new schedule for repayment of capital on the main CBW exposure was signed in March 1989. Capital repayments have followed that schedule with repayments of \$7.8m being received by 30 September 1989. If repayments continue then at current exchange rates the year end balances will be \$210.2m. A further reduction in the dollar equivalent exposure has resulted from exchange rate movements in the period.

The effective rate of provision has increased from 27% to 29.5%. This sum is satisfactory in relation to the current matrix, however, more prudent provision at say 35% for all Nigerian exposure at risk would require an additional provision in 1989 of \$1m (at 40%, an additional provision of \$22 million would be required).

Commercial exposure has had no significant change. If anything a slight reduction due to some improvement in security. Interest continues to be paid on promissory notes held as security. The net exposure is already provided at 35%.

2 Philippines

Repayment of capital is not due for several years. Up to date information on the status of the loan to the Central Bank has not been received, however, no deterioration is anticipated. Level of provision remains satisfactory whilst being at the lower end of range indicated by the matrix. Talks on a more radical plan, like for Mexico, suggests provision may need to be raised to 35% by the end of the year.

3 Zambia

Repayments of \$750,000 per month have continued. At 30 September 1989 ten instalments had been received since October 1988 with a further instalment received on 9 November 1989. Interest rates of 9%-11% have continued to be charged to the account.

The current effective rate of provision, 25% is very low by matrix standards, however, at 31 December 1988 while repayments were being effected it was accepted that BCCI's special relationship merited some recognition but with one repayment now late and the likelihood of increased matrix scores, higher provisions of 30% may be more realistic resulting in additional provision of \$2.4 million. (Provision at the rate of say 40% would require an additional amount of \$4.8 million).

The exposure to the Zambia Oil Project has remained unchanged. Provision at 75% is recommended. A new short term exposure of \$5m has arisen in UK Region and this is expected to be repaid by 31 December 1989.

BCCI HOLDINGS (LUXEMBOURG) SA

COUNTRY RISK PROVISIONS AT 30 SEPTEMBER 1989

NOTES

4 Sudan

The UK exposure which is a current account of the Bank of Sudan fluctuated between \$14 million and \$20 million during the period. Provision is currently held at the rate of 50% of the hard core element. With no signs of improvement in Sudan's general economic state a provision of 75% against the estimated \$16.3 million hard core element should be made.

The \$4.9 million Hajj loan was converted into local capital for the Sudan operations in October 1989. It would be prudent to retain some of the \$3.2 million provision to cover the risk on other exposures.

5 Iraq

The Iraq exposure of \$11.8 million is now part of a correspondent bank line with Rafidian Bank which we are informed is now operational with active letters of credit.

In accordance with the agreement reached between BCCI and Rafidian Bank early in 1989 interest up to 31 March 1989 of \$2.1 million was paid. Capital repayments were not due to commence until 1 October 1989, however, this payment has not been received yet. Management represent that there is no conclusive evidence that the agreement will not be honoured. At 30 September 1989, therefore, the provision made in 1988 is considered low and should be raised to 30% although this is still at the lower end of the Bank of England range.

6 Mexico

The recent international discussions on Mexican debt under the Brady plan indicate that a discount of 35% on outstanding debt is perhaps more appropriate than that determined by the matrix at 31 December 1988. If provision is raised to 35%, the additional provision required in 1989 is \$1.0 million. Further information on BCCI's debt is required before the direct impact of the Brady plan can be identified.

7 Cuba

Interest, at rates of 12%-14%, continue to be rolled up on the Bank of Cuba exposure. Total interest in the nine months is approximately \$230,000. We believe interest should be suspended. Movement in exchange rates have maintained the balance at a similar dollar equivalent to 31 December 1988. Effective rate of provision almost 30%. Evidence from some other banks indicates provisions of 75%.

8 Sierra Leone

Provision at 25% however, additional exposure identified in UK Region. Evidence from other banks scoring of the matrix suggests a 60% provision would be more appropriate.

BCCI HOLDINGS (LUXEMBOURG) SA

COUNTRY RISK PROVISIONS AT 30 SEPTEMBER 1989

NOTES

9 Ivory Coast

Sovereign exposure not identified last year. Scoring of the matrix and indications from other banks suggests provision of 75% is appropriate. However, more information required on this advance at the year end.

10 Panama

Small sovereign exposure. Evidence from other banks suggests a provision of 50% would be recommended.

APPENDIX 5

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

FUNDED FACILITIES OVER \$50 MILLION AT 30 SEPTEMBER 1989

	30 September 1989 \$ million	31 December 1988 \$ million
GNMA's	427	436
Customer A	404	349
Customer C	315	293
Customer E	260	194
Customer AA	217	226
Customer F	187	186
Customer B	179	145
Customer G	150	136
Customer D	139	219
Customer L	117	90
Customer K	117	101
Customer T	109	39
Customer N	106	84
Customer I	102	112
Customer M	98	87
Customer O	91	80
Customer P	65	127
Customer Z	57	-
Customer V	55	55
Customer Y	55	-
Customer X	54	30
Customer H	53	29
	<u>3,357</u>	<u>3,018</u>

APPENDIX 6

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

PROVISIONS BY LOCATION

	\$ millions	
	Estimated charge reported by local auditors	Estimated charge prepared by Management
<u>Major Locations</u>		
UAE - Branches	10.0	7.0
UK	6.3	6.3
Luxembourg	2.1	1.6
New York	0.2	0.4
Japan	-	-
San Francisco	0.3	0.5
India	3.1	1.5
Kenya	(0.1)	-
Pakistan	2.0	2.0
Sri Lanka	1.0	1.0
Turkey	3.7	3.3
Florida	1.8	2.2
Panama	7.8	3.3
Cameroon	1.7	1.7
Hong Kong	9.2	6.5
Spain	2.9	3.2
Egypt	4.7	2.9
Emirates	9.4	3.9
Bangladesh	1.4	0.7
	<u>67.5</u>	<u>48.0</u>
<u>Major Locations yet to report</u>		
Colombia		1.5
France		0.7
Grand Cayman		5.0
NBO		4.8
Nigeria		1.2
International Loans		-
<u>Other locations</u>		<u>7.5</u>
		<u>68.7</u>
Specific provisions not yet allocated		10.0
Country risk		11.0
General and roundings		10.3
		<u>100.0</u>

BCCI HOLDINGS (LUXEMBOURG) SA

INTERIM REPORT ON RESULTS AND OPERATIONS

EXECUTIVE SUMMARY OF SELECTED INTERNATIONAL LOANS

Customer A

\$ million	30 September 1989	31 December 1988
Funded gross exposure	<u>404.0</u>	<u>349.0</u>

(1) Background

BCCI have had a business relationship with this Pakistan Shipping Group and its owners, for some 10 years. The facilities are drawdown to provide working capital and to finance the purchase of ships.

(2) Security

Security, at values attributed by management, comprises:

	30 September 1989 \$'million
Cash deposits/US bonds	32.6
Ships	35.5
Stocks	97.7
Freight receivables	137.4
Documents of title to goods under letters of credit	<u>54.7</u>
	357.9
Shares (in parent company)	382.7

The pledged security of shares in the parent company of the borrower may be difficult to enforce in practice owing to the possible presence of prior charges on the assets of the underlying operating entities and may include some double counting in respect of the other security noted above. We also believe that there may be difficulties in enforcing the stocks and freight receivables security and therefore, we cannot agree on the values attributed by management.

(3) Developments in 1989

During 1989 \$35 million has been received in respect of prior year interest and charges. There have been further drawdowns of \$19 million and payments against documents of \$13 million. Interest and charges for the period to 30 September 1989 have amounted to \$58 million.

An additional \$13 million repayment was received in October and further repayments of \$40 million - \$50 million are expected around the end of the year.

The Bank is proposing to negotiate an agreement with this customer to provide a revolving facility for about 25% of their funding and have the balance included as a term loan with a fixed repayment programme over 7-8 years.

BCCI HOLDINGS (LUXEMBOURG) SA

EXECUTIVE SUMMARY OF SELECTED INTERNATIONAL LOANS

Customer C

\$ million	30 September <u>1989</u>	31 December <u>1988</u>
Non CCAH related	<u>197.4</u>	<u>188.2</u>
CCAH related	<u>117.2</u>	<u>105.0</u>

(1) Background

The borrower is a Middle Eastern businessman. He has several business interests including banking, construction and engineering.

(2) Security (non CCAH)

- * \$57.5 million deposits.
- * \$34.0 million properties in Saudi Arabia (not formally charged).

(3) Developments in 1989

A repayment programme has been agreed and signed. \$18 million was received in October 1989 and it is anticipated that the 31 December 1989 balance will be the same as at 31 December 1988 with a further significant repayment in early 1990. The account should show a net decrease of \$24 million by the end of 1990.

BCCI HOLDINGS (LUXEMBOURG) SA

EXECUTIVE SUMMARY OF SELECTED INTERNATIONAL LOANS

Customer E

\$ million	30 September 1989	31 December 1988
Funded gross exposure	<u>260.1</u>	<u>194.3</u>

(1) Background

Saudi Arabian entrepreneur with Middle Eastern, US bank and Argentinian business connections. During 1987 he sold the National Bank of Georgia to CCAH.

(2) Security

- Shares in Independence Bank/Centrust Savings Bank.
- Deposits.
- Shares in Eurotunnel.

(3) Developments in 1989

Although no formal repayment schedule has been signed management have notified us of the following:

- \$18 million received in October 1989.
- \$5 million expected in November 1989.
- \$35 million expected in December 1989/January 1990.

BCCI HOLDINGS (LUXEMBOURG) SA

EXECUTIVE SUMMARY OF SELECTED INTERNATIONAL LOANS

Customer F

\$'million	30 September <u>1989</u>	31 December <u>1988</u>
Funded exposure	<u>187.5</u>	<u>186.4</u>

(1) Background

Customer F is the Government of a Middle Eastern State. Approximately \$153 million relates to a loan for a steam power plant which was rescheduled in 1987. The balance of the account is an overdraft which is not yet covered by a repayment agreement.

(2) Security

* \$153 million is covered by post-dated cheques.

(3) Developments in 1989

The second and third quarter instalments due in 1989 have not been met and management have advised us that they are to meet with the customer shortly to discuss this.

Senator KERRY. Document No. 2 is a letter or a memorandum referencing the task force as a consequence of a meeting that you had with the partners of Price Waterhouse and summarizing the events of 1990 during which time you set out the goals of your task force, the investigative task force, in order to try to determine what had happened in BCCI.

[The information referred to follows:]

(PER PW)

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BCCI

TERMS OF REFERENCE FOR TASK FORCE

- ✓ ① The task force has been set up to perform an independent review of certain problem accounts and areas identified by Price Waterhouse.
- ✓ ② The objective of the review should be to:
 - ✓ (1) Ensure all facts, files and documents about problem accounts/areas are out in the open, and available to PW.
 - ✓ (2) Address the concerns raised in auditors briefing notes.
 - ✓ (3) Determine extent of problem areas.
 - ✓ (4) Obtain missing documentation.
 - ✓ (5) Obtain independent evidence to support representations made by management.
 - ✓ (6) Conclude on
 - nature of underlying arrangements ✓
 - genuineness of transaction/balances ✓
 - recoverability ✓
 - provision requirements. ✓
 - ✓ (7) Report to SN and auditors. ¶
- ✓ ③ The review will involve, inter alia;
 - ✓ independent review of the nature of the shareholders' arrangements and beneficial ownership of CCAH together with an assessment of the underlying value of the shares and divestment plans.
 - ✓ independent investigation of arrangements and relationships between BCCI and Gulf Group, and offshore accounts, together with an assessment of financial standing.
 - ✓ investigation of suspicious transactions particularly in Bahrain; and other transactions without adequate supporting documentation.
 - ✓ realistic assessment of recoverability and provision requirements of above accounts, and those booked in the names of Sh Khalid Bin Mahfouz and Sh Mohammed Bin Rashid Al Maktoum.
- ✓ ④ The task force in conjunction with PW's representatives will have access to all the bank's customer files and all employees. All employees will be required to give full and frank explanations.
- ✓ ⑤ The task force will have the ability to request the assistance of any senior members of the bank's staff, including the Executive Committee.
- ✓ ⑥ The 'official story' of the task force is to investigate and reconcile apparent wide differences in provision requirements, including Sovereign Risk, between management and the auditors.

✓ ⑦ The task force will be provided with Price Waterhouse executive summaries of the international loans concerned, and will work closely with Price Waterhouse personnel, including periodic progress meetings.

✓ ⑧ The task force will review its brief and background information, and perform preliminary enquiries to establish the following by Monday 19 March:

- ✓ (1) How much progress it can realistically expect to make by Sunday 25 March ?
- ✓ (2) How much time it realistically requires to complete assignment in the knowledge that BCCI's accounts cannot be finalised until it has completed its task to Price Waterhouse's satisfaction.

Senator KERRY. Document No. 3 is a private and confidential report by Price Waterhouse dated 14 March 1990, which was submitted to BCCI, which was an update audit, which began to show some of the problems that were taking place in BCCI.

[The information referred to follows:]

STRICTLY PRIVATE AND CONFIDENTIAL

BCCI HOLDINGS (LUXEMBOURG) SA
INTERNATIONAL LOANS AND ADVANCES
BRIEFING NOTE FOR INDEPENDENT
TASK FORCE
14 MARCH 1990

STRICTLY PRIVATE AND CONFIDENTIAL

|| This document contains briefing material for the independent task force
appointed by the Chief Executive of BCCI Holdings (Luxembourg) SA to
investigate and report on certain international loan facilities.

This document is in two parts:

- APPENDIX 1 - Summary of Selected International Loans
- APPENDIX 2 - Additional Background Information and Correspondence.

Price Waterhouse



SUMMARY OF SELECTED INTERNATIONAL LOANS

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

	No of Clients A/oo	Amt %		Security		Income	
		1989	1988	1989	1988	1989	1988
① CCAH:	8(41)	856	690	700/120?	..	134	91
② S.K.A :	1	208	206	93	..	41 ③	35
③ A. R. K :	1	30	25	-	-	27 ④	21
④ GULF Group:	3 (48)	405 (22?)	353	71 37% (418% + 2416 m (44))	..	74	62
⑤ offshore sps:	[89+9]	[27 185] 202	[26 102]	[65 +]	..	32	32
⑥ Mohfouz :	1	153	69	15% NCB + [dep: 145/85]? see 2/1 NCR	..	3	12
⑦ Sh. Mohd bin Roshdi :	1	121	101	dep: 110 660m, 67300	..	20	7
	15+89?	1985	1602			263 +	204
⑧ Bahrain :	[3+44 2+45]	10 10	-	-	-	-	-
⑨ CFC :	3	10	-	-	-	-	-
⑩ GFC :	4	5	-	-	-	-	-
⑪ N Bco :	2 + 44	5	-	-	-	-	-
	14	40	-			-	-

* & Interlinked

(④ In this case related income)

① CCAH:	50
② S.K.A :	20
③ ARK :	30
④ GULF :	25
⑤ offshore :	50
⑥ Mohfouz	-
⑦ Sh. Mohd R.	-
⑧ others	25
	200

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (1)

① Lending secured on shares in CCAH

	<u>31 December</u> <u>1989</u>	<u>30 September</u> <u>1989</u>	<u>31 December</u> <u>1988</u>	<u>1987</u>	<u>1986</u>
<u>\$ million</u>					
<u>Funded facilities:</u>					
1. Ruler of Fujeirah	186	179	147	124	102
2. Ruler of Ajman	86	84	73	52	41
3. Faisal Al Fulaij	113	106	86	71	61
4. Sh Ali Mohammed Shorafa	123*	116	92	52	48
5. A R Khalil	120*	121	111	89	83
6. Sayed Jawhary	5	5	6	2	-
7. Sh Kamal Adham	105*	117	105	78	44
8. Midgulf Trading	44*	43	38	-	-
9. Rubstone Trading (Ummah?)	15*	14	12	-	-
	<u>797</u>	<u>785</u>	<u>670</u>	<u>468</u>	<u>379</u>
CCA Debtore	20	20	20	-	-
- CCAH Rights Issue	39	52	-	-	-
	<u>856</u>	<u>857</u>	<u>690</u>	<u>468</u>	<u>379</u>
<u>Unfunded facilities:</u>					
Ruler of Fujeirah	175	175	175	175	175
	<u>134</u>		<u>91</u>		

① Background

CCA was established in 1977/78 as an acquisition vehicle. In August 1982 it acquired First American Bank shares which in turn acquired National Bank of Georgia in 1987.

BCCI has provided loan facilities to shareholders of CCAH secured on their shares since 1984.

New loans have been provided to enable the shareholders to take up rights issues and other additional drawdowns have been provided with the backing of the CCAH shares given as security.

BCCI act as advisers to the shareholders of CCAH and are currently providing advice to them on liquidating part or all of their investment.

	<u>June '89</u>	<u>Aug '89</u>	<u>Dec '89</u>
	106400 @ 2868 =	305,155,200	
@ 2	@ 5736 =		
@ 2.15	@ 6166 =		
@ 2.2	@ 6310 =		
@ 2.25	@ 6453 =	686,599,200	
@ 2.3	@ 6596 =	701,814,400	
@ 2.4	@ 674 =	731,393,600	
@ 2.5	@ 7170 =	762,888,000	
@ 2.75	@ 7807 =	839,176,800	
@ 3.0	@ 8604 =	915,465,600	

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (1)

11637

(2) Security

At 31 December 1989 the bank held approximately 106,400 CCAH shares as security for this lending with a net asset value of \$2,868 per share based on the unaudited financial statements at 30 June 1989.

The realisable value of this security at 31 December 1989 cannot be fully determined until the 1989 financial statements of CCAH are available. Nonetheless the security is likely to have a value in the range of \$620 million to \$720 million.

The pledging arrangements for the shares are informal - the bank hold the share certificates and signed blank transfer documents supplied by owners of attorney - and the number of shares pledged by some borrowers have changed from year to year. Certain cross pledges also exist whereby one borrower's shares are pledged against another's loans. Bank officials have represented that as the shares are subject to blank transfer forms and power of attorney they can be applied against exposures of other borrowers at will.

1A 65 // In the past bank officials have represented that they hold all the CCAH shares and not simply those pledged, although this year this has been denied. //

The bank's records of total shareholdings suggest that the shareholders in the main hold more shares in CCAH than they have pledged to the bank but this is inconsistent with the arrangements noted above.

(3) Concerns

(1) Absence of critical information

Promissory notes have only been provided for \$270 million of the total loans outstanding.

Loan agreements have not been drawn up or signed for many of the loans.

The files maintained by the bank are sparse and do not in our view support the level of lending. There is a general lack of third party evidence or customer acknowledgement.

No evidence has been provided to support the beneficial ownership of Midgulf Trading or Rubstone Trading, despite management agreement to do so.

Drawdowns in 1989 (totalling \$42 million) have not been supported by written requests from the customers. Two of these drawdowns were routed to the same account at NCB; and the bank represent that they took verbal instructions from only one customer in this instance.

Sept 32m

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (1)

(2) Control of facility within limits

There has been no real control of these facilities within limits. Limits have generally been increased on an annual basis to allow for the application of interest and new drawdowns.

(3) Irregularities in approval procedures

New drawdowns in 1989 of \$35 million were not approved by the Board before disbursement.

The CCAH debenture of \$20 million was extended through CFC and therefore has not had BCCI Board approval.

The advances in respect of the 1989 rights issue - ie share subscription account - have not been submitted to the Central Credit Committee or the Board because they are not regarded as advances until they are allocated to particular borrowers.

(4) Reliability of management representations //

At the Audit Committee meeting in November 1988 management informed us that:

- each of the CCAH accounts is carefully monitored and that attempts are being made to reduce the outstandings.
- there have been excesses over the CCAH limits but this practice will be discontinued.

These representations have not been met. New drawdowns have been allowed and limits have been exceeded.

In March 1989 management represented that the group's exposure to CCAH would be reduced and that they were discussing ways of effecting this with the customers concerned. They confirmed that each of the borrowers would individually make good any shortfall from their own resources.

In fact the outstanding balance at December 1989 is \$150 million greater than that a year previously; and two borrowers have rejected their loan commitments.

In August 1989 management informed us that the 1988 and 1989 interest would be collected, assuming the loans were not repaid by means of a disposal. This would have required additional cash receipts of almost \$200 million which has not occurred.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (1)

At the Audit Committee meeting in November 1989 we were informed that:

- ✓ \$25 million would be received on CCAH accounts in November or December
- ✓ a substantial amount of interest and the short term advances would be recovered before finalising the 1989 BCCI accounts.

Since that meeting we are only aware of \$5.5 million being received in respect of CCAH facilities.

(5) Evidence of recoverability

The lack of evidence to support the terms of this lending and the recent drawdowns make it difficult to determine recoverability.

Interest has not been serviced and the overall exposure has increased significantly in the last few years. There is no evidence to suggest that any of these accounts will be repaid or reduced, except to the extent that the bank are able to sell the CCAH shares held under power of attorney.

We have requested the borrowers to confirm to us that:

- ✓ (i) The outstanding balance at 30 September 1989 was correctly stated.
- ✓ (ii) They had pledged their shares in CCAH as security for the lending and where appropriate they had cross pledged their shares as security for other borrowers.
- ✓ (iii) They had instructed the bank to act on their behalf in negotiating the sale of the CCAH shares.
- ✓ (iv) They would make up any shortfall between their lending secured on CCAH shares and the value ultimately realised on the sale of these shares.

We have had four positive responses. Two borrowers have refused to accept these terms, two borrowers have yet to reply and one borrower has not yet been circularised, because the bank have ceased contact with him (A R Khalil).

✓ The borrowers who have not accepted the lending or who have not replied to the confirmation request, and the one not yet circularised, cause us significant concern and call into question the ultimate recoverability of their outstandings.

✓ Whilst CCAH is valuable security, as noted above there is likely to be a considerable shortfall, and in any event disposal is unlikely to be achieved easily.

-4-

✓ (6) Other Concerns

✓ Management have represented that Midgulf and Rubstone, whose loans are secured by shares beneficially owned by M M Hammoud, are not owned by M M Hammoud, yet the audit confirmations have been signed by a person at one time represented to be Mr Hammoud's representative.

✓ No audit confirmation was received from the Ruler of Ajman in 1986, 1987 or 1988. A R Khalil has not confirmed since 1985. Confirmations were not received from Midgulf and Rubstone in 1988.

✓ The charges levied by BCCI are substantial and there are no agreements with the borrowers on the basis of charging.

✓ There is no evidence that the CCAH shareholders, individually or collectively, agreed to take up their allocations under the July 1989 Rights issue, yet BCCI granted short-term loans of \$50 million and remitted this to CCAH. The rights issue shares have yet to be allocated between shareholders, although the provisional allocation shows all allocations in accordance with purported ownership, except that the shares of Sh Khalid Bin Mahfouz and A R Khalil have been allocated to Rubstone.

✓ Repayments of \$1.5 million each, received without documentation, for the Ruler of Fujeirah and the Ruler of Ajman in April 1989 were not allocated to the customer accounts until October 1989. Despite follow up action by the account officer and a request to have interest adjusted, there is no evidence of communication with either borrower.

✓ We understand that an annual return of CCAH shareholders has to be made to the Federal Reserve. In the past management have represented that, whilst the original shareholder group was registered with the Fed, subsequent changes have not all been reported as they represent changes of internal arrangements, and BCCI did not wish to cause difficulties in connection with the forthcoming sale.

(A) G.H.	May ①	3	146.5	31/12/83 235.6 6.8449 242.4	Share 187 Stock Value Cash: 17.0 Bonds: 17.0 Ship: 33.8 G.H. (24/8/82.7) 460.2	130.5 Receipts 116.5 Stock 246.0
(B) Other G.H. (unions.)	(21)	9	109.5	162.1		
		11	260.0	404.5		
(C) Dist. Rel. (Dutch Co.)	(3)	3	10.0	10.0		? Ols of Pilot R.

② OFFSHORE Co.

1. Other Family Members (B.H.)	7	25.4	27.08	Ship	11.1	2.4 Receipts
	10					14.0 Stock
	21	291.40	441.58		466.3	16.4
2. Ship/Property During Co. (")	13	52.15	64.4	Ship/Prop	69.6	15.1 Receipts
3. Shipping/Trading Co. (")	27	85.50	106.9			230.7 Ship Receipts
	40					102.8 Freight Receipts
						332.5

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (2)

② Sh Kamal Adham

\$ Million	31 December	30 September	31 December		
	1989	1989	1988	1987	1986
✓ CCAH secured	105.6 ✓	117.3	90.8	78.0	44.0
✓ Other	207.7 ✓	197.3	205.5	121.9	108.2
	<u>313.3</u> ✓	<u>314.6</u>	<u>296.3</u>	<u>200.2</u>	<u>152.2</u>
Income earned from the account	<u>41.4</u>		<u>35.1</u>	<u>24.5</u>	

① BACKGROUND

Sh Kamal Adham has had significant exposure in BCCI for many years. He has major shareholdings in CCAH and Allied Arab Bank and construction and engineering interests in Saudi Arabian companies.

He has been allowed \$18 million of new drawdowns in 1989 of which \$7 million was repaid.

② SECURITY

Sh Kamal Adham's CCAH related lending is secured on 16,142 shares in CCAH. In addition he has pledged 15,050 shares in respect of Sh Sharqi's lending and 5,974 in respect of the borrowings of Faisal Al Fulaij.

The security for Sh Kamal Adham's other lending companies:

✓ Deposits under lien	\$58.9 million ✓
✓ Properties in Saudi Arabia (not mortgaged)	<u>\$34.0 million</u> ✓
	<u>92.9</u>

The balance of his lending (\$114.8 million) is clean.

③ CONCERNS

(1) Absence of Critical Information

There are no loan agreements with the customer or formalised repayment terms. The customer has agreed to repayment terms for 1989 and 1990 but this is not a formalised arrangement and only deals with a fraction of the exposure.

✓ Drawdowns of \$18 million during 1989 have not been supported by written requests from the customer.

✓ No valuation has been provided in respect of the properties in Saudi Arabia, and there is no legal basis for this security.

✓ We have not received an independent net worth statement for Sh Kamal Adham.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (2)

Sh Kamal Adham (continued)

(2) Control of Facility Within Limits

Although the facility is within its Board limits, these have merely been increased in line with the level of exposure.

(3) Irregularities in Approval Procedures

New drawdowns in 1989 of \$18 million were not approved by the Board before drawdown even though limits had been exceeded.

(4) Reliability of Management Representations

At the Audit Committee meeting in November 1988 management represented to us that they would take further action to ensure that the mortgage over Sh Kamal Adham's property in Saudi Arabia was enforceable. This has not happened.

During the course of the 1988 audit we were told that a formal repayment agreement would be finalised between BCCI and the borrower. Agreement has been reached for 1989 and 1990 only but this does not address the total outstandings.

We have been informed both during the course of the 1988 audit and during the 1989 audit, that a net worth statement would be drawn up by a firm of auditors to confirm the worth of Sh Kamal Adham. This has not been forthcoming.

On 6 November 1989 we were informed that the overall balance of Sh Kamal Adham's account would be reduced to the 1988 level by the year end. At 31 December 1989 it exceeded the prior year by \$17 million.

(5) Evidence of Recoverability

The receipt of the audited net worth statement will be helpful to demonstrate Sh Kamal Adham's ability to repay his loans. In addition the receipt of funds in accordance with the agreed repayment terms will demonstrate his willingness to pay but a formal repayment schedule dealing with the balance of the outstandings will be important for the future.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (3)

③ A R Khalil

\$ Million	<u>31 December</u> <u>1989</u>	<u>30 September</u> <u>1989</u>	<u>31 December</u> <u>1988</u>	<u>1987</u>	<u>1986</u>
✓ CCAH secured	120.4	121.3	110.7	89.0	83.0
✓ Unsecured	<u>29.9</u>	<u>28.7</u>	<u>24.9</u>	<u>21.9</u>	<u>20.0</u>
	<u>150.3</u>	<u>150.0</u>	<u>135.6</u>	<u>110.9</u>	<u>103.0</u>
Income earned from the account	<u>26.7</u> ✓		<u>21.4</u>	<u>15.8</u>	

① BACKGROUND

Since the cessation of A R Khalil's treasury trading relationship with BCCI in 1985 there has been little, or no, direct contact with this borrower.

② SECURITY

The secured part of this lending is secured on 13,250 shares in CCAH.

③ CONCERNS

(1) Absence of Critical Information

There are no signed loan agreements with the customer. There is no correspondence with the customer. There are no net worth statements or cash flow information. There is no documentation (other than bank notification) to support receipts of \$5 million from United Overseas Bank, London and \$7 million from SNCB Bahrain credited to A R Khalil's accounts during the year. ||

(2) Control of Facility Within Limits

The accounts have increased since drawdown in 1984/85 from \$79 million to \$150 million mainly through the application of interest. New limits have been regularly approved by the Board in respect of this unpaid interest. The current limits are \$115 million (secured) and \$30 million (clean). Borrowings have typically run ahead of limits.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (3)

A R Khalil (continued)

(3) Irregularity in approval procedures.

The CCC approval in October 1989 included a repayment schedule of:

November 1989	\$10 million
December 1989	\$10 million
February 1990	\$10 million
March 1990	\$10 million
April 1990	Reduce exposure to \$100 million

- there is no evidence that this was agreed with the customer.
- no such repayments have been received

(4) Reliability of management representations

During the course of the 1988 audit we were informed by management that

- 1988 interest of \$21 million would be serviced before 31 March 1989 with a further repayment of \$10 - \$15 million being received.

- the loan balances would be confirmed

- the loans would be restructured so that they became due from corporate entities

Furthermore, at the Audit Committee in April 1989 Mr Naqvi confirmed that \$25 million would be received by 30 June 1989 and a formal repayment schedule agreed.

These have not happened. The only receipts have been \$5 million received in April 1989 and \$7 million received in October 1989.

At the Audit Committee meeting of November 1989 management informed us that \$10 million would be received each month and the unsecured exposure would be eliminated by the year end.

There have been no receipts since October 1989.

Management has also told us that Sh Kamal Adham is planning to purchase A R Khalil's investments.

We have seen no evidence of this.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (3)

A R Khalil (continued)

(5) Evidence of recoverability

- ✓ The loan has not been confirmed in four years, ie since 31 December 1985.
- ✓ Interest and charges of at least \$45 million have not been serviced during the last five years.
- ✓ Lack of documentation to support level of borrowings or any continuing relationship with borrower; and inconsistent representations about the relationship.
- ✓ Interest has not been suspended as suggested by Price Waterhouse in 1988.
- ✓ No replacement of deposits previously held as security.
- ✓ The only rep. yments from 1986 to date have been \$7 million in 1987 and \$12 million in 1989.
- ✓ There is no evidence to support recoverability and the loan should be written down to the underlying value of its security.

(6) Other Concerns

Despite an apparent breakdown in the relationship between the borrower and the bank, A R Khalil apparently subscribed for 57,748 rights issue shares of BCCI in April 1989. There is no acceptance letter or other evidence on file that he did subscribe for these shares. Funds were received from SNCB Bahrain without any supporting documentation.

- ✓ The provisional allocation of the 1989 CCAH rights issue shows that A R Khalil is not included. This may indicate that his relationship with the bank has finished or that he is no longer the beneficial owner of CCAH shares.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (4)

(4) Gulf Group

\$ Million	<u>31 December</u> <u>1989</u>	<u>30 September</u> <u>1989</u>	<u>31 December</u> <u>1988</u>	<u>1987</u>	<u>1986</u>
Funded gross exposure	<u>404.9</u>	<u>404.0</u>	<u>352.8</u>	<u>284.4</u>	<u>261.5</u>
Income earned from the account	<u>74.0</u>		<u>61.8</u>	<u>46.8</u>	

(1) BACKGROUND

BCCI have had a business relationship with this Pakistan Shipping Group and its owners, the Gokal brothers, for over ten years. During this time the trend has shown increasing balances to the current high levels.

(2) SECURITY

The borrowings have been guaranteed by the Gokal brothers and in addition the bank holds 11.5 Million (90%) shares in Gulf International Holdings (GIH). There are first charges over most of the fixed assets of GIH, held presumably by other banks; and thus BCCI's recourse would be to the residual assets after settlement of secured creditors. The net assets at 31 March 1989 of GIH were \$416 million.

In addition BCCI hold charges over the following specific assets:

	<u>31 December 1989</u> <u>\$ Million</u>
Cash deposits/US Bonds	30.9 ✓
Ships	33.5 ✓
LC documents	7.0 ✓
	<u>71.4</u> ✓

CONCLUSION

(1) Absence of Critical Information

On 12 January 1989 we wrote to Mr S M Akbar requesting more information about Gulf International Holdings; a copy of this letter is included as Appendix 2(2). The response to this letter has been poor and in particular the following information has not been provided:

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (4)

✓ Gulf Group (Cont'd)

- ✓ Analysis of guarantees (totalling \$136 million) provided by Gulf International Holdings.
- ✓ Audited financial statements of subsidiary companies.
- ✓ Management accounts of the Gulf Group after 31 March 1989.
- ✓ Cashflows and forecasts for the Gulf group.
- ✓ Financial statements for non-consolidated subsidiaries.
- ✓ Evidence of beneficial ownership of non consolidated subsidiaries.
- ✓ Evidence to support beneficial ownership and security valuations of related lending (totalling \$37.7 million).

✓ The only financial information that we have been provided to assess lending to the Gulf Group is the audited financial statement at 31 March 1989 of Gulf International Holdings. This excludes lending of \$162 million to non-consolidated companies and lending of \$37.7 million to related parties.

✓ (2) Control of Facility within Limits

At 31 December 1989 the outstanding against limits were as follows:

<u>\$ Million</u>	<u>Limit</u>	<u>Outstanding</u>
Funded	257.0	404.9*
Unfunded	25.0	21.8

* This excludes \$15.0 million drawdown in Australia on a bills negotiated account for Capricorn Chartering Pty Ltd - a Gulf Group company.

The funded excess of \$147.9 million is an increase of \$39 million over the excess reported at 31 December 1988.

✓ (3) Irregularities in Approval Procedures

✓ Gulf Group companies have limits set by the Board by individual company and not on a Group basis. Limits of less than \$7.5 million to individual companies are not referred to the board despite their being part of the Gulf Group.

✓ Loans of \$16 million to Pilot Petroleum have been approved by the Board. The Board was informed that Pilot Petroleum was registered in the United States of America. Whilst it is true that there is a Pilot Petroleum company in the United States which may be owned by the Gokal family or Gulf Group, this lending was to another company of the same name, registered in Liberia for which there is no financial information.

SUMMARY OF SELECTED INTERNATIONAL LOANS

Gulf Group (cont'd)

Similarly loans of \$60 million have been approved by the Board to Marcotrade International Ltd. The Board was informed that this company was registered in Switzerland. Again, there is a Gulf Group Company, Marcotrade SA which is registered in Switzerland but this lending was to a Cayman Islands company, for which there is no financial information.

We believe that providing the Board with incorrect information about the residence of these companies has been misleading.

(4) Reliability of Management Representations

During the 1987 audit we were assured by management that the balance on this account would not increase from the 31 December 1987 level.

At the Audit Committee meeting on 4 April 1989 management informed us that the intention was to bring the outstandings on the Gulf Group down and that discussions were in progress.

These events have not happened and the 31 December exposure is significantly greater than in 1987 or 1988.

During the course of our interim audit, management informed us that they expected \$50 - 60 million would be received by the end of March 1990.

We are still awaiting the outcome but to date this has not happened.

(5) Evidence of Recoverability

Management have informed us that they base their assessment of recoverability on their understanding and relationship with this customer. We have been given little concrete data on which to assess recoverability but note the following:

- ✓ 1989 interest has not been serviced.
- ✓ No evidence has been provided to support the security value of loans to non-consolidated companies.
- ✓ Most fixed assets of the Gulf International Holdings group (including its vessels) are mortgaged to other banks in priority to BCCI.
- ✓ BCCI has not registered its debentures over the assets of the Gulf Group at the request of the customer, apparently to enable it to borrow from other banks; and until recently had not informed us of this fact. In previous years we had been led to believe that these debentures represented valid charges over the assets of subsidiary companies.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (4)

Gulf Group (cont'd)

(6) Other Concerns

Loans secured on Pilot Petroleum Corporation (incorporated in the US) are excluded from Gulf Group or Gokal family expenses.

Management have informed us that Pilot Petroleum is not part of the Gulf Group and yet company searches carried out by Price Waterhouse would seem to indicate that it is.

Management have informed us that financial statements for certain companies are not prepared yet for at least one of these companies we have been able to obtain a recent set of financial statements.

There are a number of relationships between the Gulf Group and offshore companies which have yet to be satisfactorily explained (in fact management inform us that they have imparted the sum total of their knowledge on these arrangements to us) such that we cannot be sure of the extent of the Gulf Group lending.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (5)

(5) Offshore Loans

\$ Million	31 December	30 September	31 December		
	1989	1989	1988	1987	1986
Funded gross exposure					
Gokal family	27.2 ✓	27.1	26.0	27.5	26.5
Others	184.7 ✓	183.7	131.9	86.7	12.1
	<u>211.9</u>	<u>210.8</u>	<u>157.9</u>	<u>114.2</u>	<u>38.6</u>
Income earned from the account	<u>31.6</u> ✓		<u>32.1</u>		

(1) BACKGROUND

Although there has been lending to offshore companies beneficially owned by the Gokal family for a number of years, most of this type of lending commenced in late 1986 and has steadily grown since that date. The companies concerned have traditionally been registered in Liberia with the beneficial owners being of Indian or Iranian origin. New advances in 1989 have been to companies registered in the Caribbean.

(HS) (SMA) The loans are parked in a number of locations. To date we have identified such loans in Cayman, Panama, Nassau, Uruguay, Bahrain and Oman. We understand that one of the reasons for parking these loans in so many locations is to allocate the interest and fees generated on these accounts to those locations that need the income.

The lending is usually for ship financing or trade related purposes. Ship financing is always supported by a mortgage and valuations from a London broker. Certain of the ships have been purchased from the Gulf Group.

The destination of drawdowns and the source of repayments for all these accounts are often the same despite different beneficial owners. There appears to be an intermediary function adopted by certain trust companies in respect of these accounts.

(2) SECURITY

Certain of the loans are secured by mortgages over ships. The value of this security at 31 December 1989 was about \$65 million.

The balance of the lending is secured by assignment of receivables and hypothecation of stocks, which management accept may not be enforceable.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

Offshore Loans (Cont'd)

3

CONCERNS

(1) Absence of Critical Information

On 12 January 1989 we wrote to Mr S M Akbar requesting more information about these accounts; a copy of this letter is included as Appendix 2(2). We have not had adequate answers to many of the questions raised and we still do not have the following critical information:

- ✓ Evidence to support the beneficial ownership of these companies.
- ✓ Financial statements.
- ✓ Cashflow forecasts.
- ✓ An understanding of the inter relationship between these companies.
- ✓ An understanding of the source and destination of funds relating to these facilities.
- ✓ An understanding of the relationship of these companies and the Gulf Group.

✓ The standard loan agreements contain requirements that financial statements are provided prior to disbursement of funds, and other financial statements provided as may reasonably be required, yet management do not enforce these requirements.

✓ Management have informed us that financial statements are not prepared for these companies although we have seen evidence to suggest that at least one company has its financial statements audited.

(2) Control of Facilities Within Limits

✓ The majority of the offshore lending has been domiciled in Grand Cayman, the Bahamas and Panama and has been controlled by the General Manager in Grand Cayman.

✓ During 1989 most of these facilities have operated very close to their limits and may have exceeded limits either through the application of interest or by virtue of new drawdowns.

✓ Certain excess over limits have been authorized by the Grand Cayman General Manager contrary to normal procedures. We are not aware whether this was done with CCD's agreement.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (5)

Offshore Loans (Cont'd)

(3) Irregularities in Approval Procedures

We have noted at least five loans where drawdowns have been allowed in 1989, despite the loan already being in excess of limits. These drawdowns have not been approved by Central Credit Committee.

The offshore loans are not approved by Central Credit Committee at the normal committee meetings but tend to be approved by rotation amongst committee members. Furthermore only one page summaries are supplied to Central Credit Committee and not the full ten page proposal document, which do not permit sufficient information for an independent assessment.

There are ten offshore facilities with limits of \$5 million or more - These have not been referred to the Board even though they were approved before the referral limit was increased to \$7.5 million.

The beneficial owners of the offshore loans may be individual family members within a family group. The family loan limits have not been collectively approved by the Board.

As noted in our report to the Audit Committee in November, new offshore loans drawdown in 1989 in Bahrain totalling \$20 million were not approved by Central Credit Committee before drawdown. The Chief Executive's revelations about the real purpose of certain of these accounts, and the fact that the drawdowns on other accounts have been made to similar companies (some connected with the Gulf Group) considerably increase our concerns over the offshore lending generally.

(4) Reliability of Management Representations

During the course of our 1988 audit, management informed us that there would be no further drawdowns on the offshore accounts in excess of limits without Central Credit Committee approval. This has not happened in a number of cases.

(5) Evidence of Recoverability

Many of the offshore loans are in excess of their limits and there is little capacity for further activity through these accounts.

The application of interest has taken most of the loans over their limits and the ability to service interest is in doubt.

The loans have been acknowledged by independent confirmation but not by the beneficial owners. No guarantees have been given by the beneficial owners.

Other than ships under mortgage (totalling \$65 million) there is no tangible security for these accounts.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (5)

Offshore Loans (Cont'd)

We have no evidence of the ability of these borrowers to service or repay their loans. We understand however, that many of these accounts may be in breach of Indian or Pakistani exchange control regulations, and that recoverability will thus be dependent on the extent to which the beneficial owners have offshore assets outside India or Pakistan.

Management have informed us that they rely on their knowledge of and relationship with the beneficial owners, but can provide us with no evidence of beneficial ownership. We are thus unable to take this into account in assessing recoverability and for those accounts not being serviced where there is no enforceable security we are unable to conclude that such amounts are recoverable.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (6)

⑥ - Mahfouz Family

\$ Million	31 December	30 September	31 December	
	1989	1989	1988	1987
✓ Funded gross exposure	<u>152.5</u>	<u>6.7</u>	<u>68.9</u>	<u>141.2</u>
✓ Income earned from the account	<u>2.7</u>		<u>11.5</u>	<u>3.9</u>

① BACKGROUND

During the latter half of 1987 the Mahfouz family (excluding Sh Khalid Bin Mahfouz) obtained a loan from BCCI of \$100 million purportedly to purchase the remaining 15% share of the partnership in National Commercial Bank (NCB). The advance was fully repaid in July 1989.

On 2 October 1989 an advance of \$100M was allowed to Sh Khalid Bin Mahfouz out of BCC Emirates and a temporary facility of \$46 million out of BCCI - SA Bahrain.
ML

② SECURITY

The exposure is supposedly secured on 15% of the partnership in NCB. In addition deposits of \$149 million, including \$95 million in the name of M Barasain, have been placed by Sh Khalid with BCCI but not under lien.

③ CONCERNS

✓ (1) Absence of Critical Information

✓ The drawdowns of \$146 million have not been supported by requests from the customer, nor were payment instructions received from the customer. The purpose of the lending is not known.

✓ There are no loan agreements, promissory notes or security documentation for the advance.

✓ Deposits are not all in the name of Sh Khalid and are not under lien. In fact those in the name of M Barasain, who we understand is an officer at NCB Jeddah, are in accounts which specifically state that they can only be operated by him.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (6)

Mahfouz Family (Cont'd)

(2) Irregularities in Approval Procedures

The bank's internal instructions to remit funds to Sh Khalid Bin Mahfouz in respect of the \$146 million facility allowed in 1989 are dated 28 September 1989 for value 2 October 1989, although the proposal to Central Credit Committee was dated 2 October 1989. Board approval was not given until 27 November 1989.

The Board was advised that the loans advanced in 1989 were secured on a 15% share of the partnership of NCB, which was the security for the previous advance, although there is no evidence to confirm this. The Board was not advised of the related exposure to NCB that BCCI already had, being placements of \$250 million.

(3) Evidence of Recoverability

The bank is heavily exposed to the Mahfouz family bank (NCB) with placements of \$250 million due from it.

We are concerned about this level of placements particularly because the accounts of NCB are heavily qualified.

Deposits of \$46 million were placed by Sh Khalid with BCCI over the year end, being withdrawn on 10 January 1990. We have seen no supporting documentation for this.

(4) Other Concerns

There are no acceptance letters or other evidence from Sh Khalid on file to confirm the subscription by his nominee companies for 375,000 BCCI shares of the April 1989 rights issue.

The provisional allocation of the CCAH rights issue of July 1989 indicates that Sh Khalid is not taking up his rights shares.

Sh Khalid has an option to put his shares in CCAH back to the Ruler of Fujeirah, which may necessitate the latter calling the guarantee of \$175 million issued by BCCI.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (7)

⑦ Sh Mohammed Bin Rashid Al Maktoum

\$ Million	<u>31 December</u>	<u>30 September</u>	<u>31 December</u>		
	<u>1989</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>	<u>1986</u>
Funded gross exposure	<u>120.9</u>	<u>116.8</u>	<u>101.4</u>	-	-
Income earned from the account	<u>19.5</u>		<u>6.9</u>	-	-

① BACKGROUND

Sh Mohammed Bin Rashid Al Maktoum is the effective Ruler of Dubai. In 1988 there were three drawdowns for Sh Mohammed totalling \$145 million of which \$50 million was repaid in the same year. (9x)

✓ The above figures exclude a small account in the UK called the "Dubai Office Account" and overdrafts for Stock and Crescent Holdings in Dubai.

② SECURITY

The facilities are clean. Sh Mohammed does have deposits with BCCI SA in Luxembourg totalling \$109.8 million at 31 December 1989 but these are not held under lien.

③ CONCERNS

(1) Absence of Critical Information

- ✓ No written requests for the original drawdowns have ever been received and no support for the purpose of the loans has been given.
- ✓ There are no loan agreements or promissory notes for the advance.
- ✓ There is no evidence of communication or correspondence with the borrower and no instructions to confirm payees.
- ✓ No audit confirmation was received in 1988 despite management's assurance and our expectation that it would be obtained.

(2) Irregularities in Approval Procedures

- ✓ The drawdowns were approved by the Boards of BCCI SA and BCCI Overseas in April 1988 based on the submission of a standard form request indicating prior approval of CCC, although no such approval had been given.
- ✓ Board approval shows repayment period to be determined at the time of each drawdown, but no repayment arrangements exist.

BCCI HOLDINGS (LUXEMBOURG) SA
SUMMARY OF SELECTED INTERNATIONAL LOANS

APPENDIX 1 (7)

Sh Mohammed Bin Rashid Al Maktoum (Cont'd)

(3) Reliability of Management Representations

During the course of the 1988 Audit, management agreed to provide us with a loan confirmation. This has not been forthcoming.

(4) Evidence of Recoverability

Given the total lack of documentation for this advance and the absence of confirmation of the balance, we are unable to assess the recoverability of the amounts outstanding.

(5) Other Concerns

The initial drawdowns on the accounts of Sh Mohammed of \$94 million from CFC were routed to NCB for the attention of Sh Khalid Bin Mahfouz although we are not aware of any business relationship between them.

Sh Mohammed is a BCCI shareholder through Stock and Crescent Holdings with 2,375,661 shares (3.3%) prior to the 1989 rights issue. Although he took up rights to 61,354 shares in April 1989 there is no acceptance letter; the funds came from new overdraft accounts in Dubai and BCCI still hold the share certificate.

2375661
61354
2437015

· ADDITIONAL BACKGROUND INFORMATION AND CORRESPONDENCE

- 2 (1) Memorandum on Bahrain and NBO offshore lending.
- 2 (2) Letter to S M Akbar - 12 January 1990.
- 2 (3) Memorandum to C I Cowan - 3 January 1990
(Copied to Mr Ashraf Nawabi and Mr Ali Abbas).
- 2 (4) Letter to S N Naqvi - 14 February 1990.

BCCI HOLDINGS (LUXEMBOURG) SA
 LOANS TO OFFSHORE COMPANIES DRAWN DOWN IN BAHRAIN
 AND OMAN WITHOUT PROPER DOCUMENTATION

APPENDIX 2 (1)

Bahrain has made advances totalling \$10 million to three offshore companies incorporated as shown below:

	<u>Place and date of incorporation</u>	<u>Loan Amount</u>
① Brigadier Investment	Nevis August 1988	\$4.0 million
② Audley Mercantile	Grand Turk August 1988	\$2.5 million
③ Metropole Trading	BVI August 1988	\$3.5 million

The unusual features of these loans are that they are:

- ① To nominee companies.
- ② The beneficial owner of the companies is represented to be a member of the Saudi royal family.
- ③ The purpose of the loans are stated to be working capital for trading purposes but there is no further specific information about the purpose, activities of the companies or the beneficiary.
- ④ There is no evidence of instructions from the customer either for the loan or the disbursement of funds.
- ⑤ The amounts were all disbursed on the same date - 18 April 1989 - (before discussions with central credit) to the following parties:

- Brigadier \$4 million 1. Capricorn Chartering ✓
- Audley Mercantile \$2.5 million 2. Granite Financial Trust ✓
- Metropole Trading \$3.5 million 3. Hallet Enterprises Pte Ltd ✓

Our discussions with senior management have indicated that these loans will need further investigation and suggested that they may not be bona fide.

On the same and very similar dates a number of new offshore loans were disbursed in Grand Cayman and CFC, some to the same beneficiaries, and consequently these also require further investigation:

CFC

- | | | | |
|------------|---------------|-------------|----------------------|
| 1. Byword | \$3.5 million | 18 April 89 | 1. Global Trading |
| 2. Elystan | \$2.5 million | 18 April 89 | — Hallet Enterprises |
| 3. Sigale | \$4.3 million | 14 April 89 | 2. Metra Holdings |

BCCI HOLDINGS (LUXEMBOURG) SA
LOANS TO OFFSHORE COMPANIES DRAWN DOWN IN BAHRAIN
AND OMAN WITHOUT PROPER DOCUMENTATION

APPENDIX 2 (1)

Cayman

1. Template	\$1.5 million	18 April	1. Kwantung Prov Bank
2. Grantley	\$1.2 million	17 April	2. Capricorn Chartering
3. Pembrin	\$1.0 million	17 April	3. Conrad Finance Inc
4. Parkray	\$1.4 million	17 April	4. Mr Garlic Pty Ltd

✓ We note that those new loans over \$1.5 million, which is the limit of Mr S M Akbar's authority, were routed through CFC and consequently did not need Central Credit Committee approval.

✓ We are aware that Hallet Enterprises, ✓ Capricorn Chartering and Mr Garlic Pty Ltd are all Gulf companies or have very close links with the Gulf Group.

✓ Loans to offshore companies with repayments from Granite Financial Trust (Luxembourg) have also been drawn down at the National Bank of Oman as follows:

1. Centreplace Trading	22 February	\$1.6 million	1. Interconsult Ltd
	24 February	\$0.9 million	
		<u>\$2.5 million</u>	
2 Forward Marine Trading	27 February	\$1.3 million	2. Tavoy
	27 February	\$1.2 million	
		<u>\$2.5 million</u>	

✓ Both companies are incorporated in St Kitts and as noted in our Audit Committee report of November 1989, both relate to the same customer but have not been reported to the Board. Despite disbursement in February, Central Credit Committee approval was not given until September.

Price Waterhouse



12 January 1990

APPENDIX 2(2)

Mr SM Akbar
Bank of Credit and Commerce
International (Overseas) Ltd.
PO Box 1359
Grand Cayman

Dear Mr Akbar,

Further to our conversation yesterday afternoon I enclose with this letter a memorandum of information that we require in connection with our reviews of lending to the Gulf Group and lending to Offshore companies through Grand Cayman, Panama and Nassau.

The total of these exposures is very significant to the BCCI Group. The information or documentation that I have requested is essential to enable us to have a full understanding of this lending and to be able to conclude on its validity and recoverability.

You will observe that many of the points I have already put to you in our meetings in November. Unfortunately the information that has been supplied in answering these questions is not sufficiently detailed and I have repeated the questions with some further explanation of our requirements.

I look forward to discussing these exposures with you further.

Yours sincerely,

John A. Guy

JAG/sd

encl.

Gulf Group/Pilot Petroleum/Offshore LendingGULF GROUP

Exposure to the Gulf Group has increased from \$336m at 31 March 1989 to \$405m at 31 December. Fees and charges for 1989 amount to approximately \$76m.

The balance at 31 December 1989 represents

	\$'m
Balance at 31 March 1989	336 (inc. fees + charges 20m)
Fees and charges for 9 mth.	56
Other drawdowns (net)	13
	<hr/> 405

At 31 March 1989, 1989 fees and charges had not been paid. In order to show that 1989 fees and charges have been paid the balance at 31 March 1990 should be reduced to 329m - before the application of interest and charges in 1990.

In order to assess the collectibility of such a large exposure it is necessary to fully understand the performance and operations of the Gulf Group. We have been supplied with audited financial statements of the Group at 31 March 1989. This provides us with the basic data but we need more information to fully understand this exposure:

(1) Are the following entities consolidated within the Gulf International Holdings S.A. Group?

1. - Pilot Petroleum (incorporated in Liberia)
2. - Marcotrade International Ltd. (incorporated in Cayman Islands)
3. - Gulf Pancontinental Inc. (incorporated in Liberia)
4. - Gulf Offshore & Coastal Services Limited (incorporated in Liberia)
5. - Harpoon Maritime (incorporated in Liberia)
6. - Hadron Maritime (incorporated in Liberia)
7. - Martel Shipping (incorporated in Liberia)
8. - Mandial Shipping (incorporated in Liberia)
9. - Marine Equipment Inc. (incorporated in Liberia)
10. - Banafin Trading and Transport Inc. (incorporated in Liberia)

They do not appear in the financial statements of Gulf International Holdings. We must therefore assume that they are not consolidated. If any of these are consolidated, this should be confirmed by the auditors to Gulf International Holdings.

- 12) In order to assess the indebtedness of GIH to other banks and to reconcile BCCI's exposure to that shown in the GIH financial statements at 31 March 1989 we require a breakdown of the following balances shown in the GIH financial statements:

\$

- | | |
|--|-------------|
| ✓ Bank overdrafts and loans | 267,507,588 |
| ✓ Long term loans and obligations under finance leases | 186,136,242 |

This should be supplied by GIH management or by their auditors.

- (3) Note 7(a) to the Financial Statements refers to US\$66,261,690 of loans being secured by mortgages against vessels. In order to assess which of the Group's assets are given as security for other parties, we require the following information:

- ✓ List of vessels owned by GIH (or its subsidiaries) with age, book value and current market value.

- ✓ Details of which of these vessels are mortgaged

(i) to BCCI

(ii) to other banks.

- (4) Note 7(a) to the Financial Statements refers to US\$20,745,629 loans being secured by other assets of the company. The exposures to Unimarine Bulk Transport, Tradinaft SA and Gulf International Holdings (totalling \$195m at 31 March 1989) are secured by Debentures. We therefore seek clarification from management of Gulf Group or its auditors as to why these exposures are not disclosed as secured.

- (5) Note 7(a) to the Financial Statements also refers to significant foreign exchange lending to the Gulf Group that is secured on property and other assets. We require clarification as to the status of these charges vis a vis charges registered by BCCI.

- (6) Note 9 to the Financial Statements refers to Guarantees given by the Group of \$136,067,900. We require an analysis of these guarantees from GIH management or their auditors to ascertain whether guarantees given by GIH to the following companies are included?

1. Pilot Petroleum

2. Marcotrade International Limited

- ✓ Also we would like to know the nature of other guarantees given and their standing vis a vis the guarantees given above.

- (7) In order to assess the performance and value of the underlying companies within the Gulf Group and with whom the bank has exposure, we should like to see the audited financial statements of the following companies at 31 March 1989:

- (1) Gulf International Holdings (unconsolidated)
- (2) Unimarine Bulk Transport Inc.
- (3) Tradinaft S.A.
- (4) Marcotrade S.A.

- (8) The financial statements of GIH only give information to 31 March 1989. Given that we must assess the collectibility of the Gulf Group lending at 31 December we require to see more recent information. Furthermore with the increased exposure since 31 March we need a better understanding of the recent financial performance of the Gulf Group.

We would therefore like to see financial statements for each of the major Gulf Group companies at 30 September 1989 together with the consolidated position.

The loan agreements signed with the Gulf Group allow for financial information to be provided within 60 days of the quarter end.

In addition we would like to see cashflows and projections of the Gulf Group that will enable us to assess the ability of the Group to service its overdrafts and repay its loans in the future.

- BCCI have some significant exposures to companies that do not appear to be consolidated within GIH.

	\$'000
1. Gulf Pancontinental	4,070
2. Gulf Offshore and Coastal Services Limited	2,923
3. Pilot Petroleum	20,550
4. Marcotrade International Ltd.	54,840 (overdraft)
5. Marcotrade International Ltd.	32,894 (loan)
6. Harpoon Maritime	3,041
7. Marine Equipment Inc.	3,952
8. HHMM	39,036
9. Banafin Trading	1,055 (est.)
	<hr/> 162,361

- (1) We require to see audited financial statements for these companies or financial statements approved by management, where audited statements are not available.

If such financial statements are not available then we would like BCCI to request that financial statements be prepared at least for the exposure in excess of \$10m. The turnover through Pilot Petroleum and Marcotrade International Ltd. is significant and could only be controlled if financial records were kept. It should therefore be possible to prepare financial statements.

- (2) The security given for the overdrafts to Pilot Petroleum and Marcotrade International Ltd. are as follows (at 31 December)

	\$'000	
-Assignment of receivables (<u>Pilot Petroleum</u>)	30,000	- 30.0
-Hypothecation of Stocks (<u>Marcotrade Int'l Ltd.</u>)	40,000	- 40.0
- and assignment of receivables (<u>Marcotrade Int'l Ltd.</u>)	48,600	- 48.6

We would like to see evidence supporting these assignments and receivables at 31 December in greater detail than that currently provided. We would also like to see evidence of these receivables/stocks being paid and their proceeds reimbursed to the accounts of Pilot Petroleum and Marcotrade International.

- (3) In addition to the lending to Pilot Petroleum the bank has exposure to the shareholders of Pilot Petroleum (\$10.9m at 30 September 1989). This lending was originally booked in CFC and transferred to Panama in 1985. New loan agreements (undated) totalling \$10.1 million have been signed by the representatives of Intergulf Holdings, Ons Genoeegen and BV Food Investors.

To assess the collectibility of these advances we, again require to see the financial statements of Pilot Petroleum. We also require the financial statements of BV Food Investors, Ons Genoeegen BV and Intergulf Holdings with a full understanding of their business and their relationship with Pilot Petroleum.

We require evidence from the beneficial owners of BV Food Investors, Ons Genoeegen BV and Intergulf Holdings BV that they will support and sustain these companies.

We also seek clarification of the connection between this Pilot Petroleum (which is incorporated in the United States) and exposure noted above which is to a Liberian company.

- (4) We do not know the beneficial owners of and have seen no evidence to prove the beneficial owners of:

1. - Gulf Pancontinental
2. - Gulf Offshore and Coastal Services Limited
3. - Pilot Petroleum (except for shares held by BV Food Investors, Ons Genoeegen and Intergulf Holdings)
4. - Marcotrade International Ltd.
5. - Harpoon Maritime (II)
6. - Martel Shipping (M)
7. - Mondial Shipping (I)
8. - Hadron Maritime (II)
9. - Banafin Trading
10. - Marine Equipment Inc.

Mr. Abbas Gokal has signed loan agreements for all these companies except ~~H&H~~ (for which we have seen no loan agreement) and Banafin Trading.

We require confirmation from Mr. Abbas Gokal of the beneficial owners of these companies and their relationship with the Gulf Group.

- (5) Please clarify why the Board approval for lending to Pilot Petroleum says that the company is domiciled in the U.S.A. when it is a Liberian company.
- (6) Please clarify why Central Credit Committee approvals refer to Marcotrade International Ltd. as a Swiss Company when it is registered in Grand Cayman.

OFFSHORE LENDING

The following loans have been provided in Cayman, Nassau and Panama to shore companies:

Company	Location	Balance	
		31 Dec 1989 \$'000	30 Sept 1989 \$'000
1. Serval Trading Inc.	Cayman	5,096	4,835
2. Tallowcraft Shipping Ltd.	Cayman	5,604	6,597
3. Middle East Tankers	Cayman	6,657	6,294
4. Blue Sky Bay Marine	Cayman	3,890	3,146
5. Pirion Shipowners Ltd.	Cayman	2,495	2,355
6. Dolmar Shipping Inc.	Cayman	1,734	1,633
7. Endive Enterprises Inc.	Cayman	6,853	6,502
8.abin Commercial	Cayman	4,634	4,398
9. Tarakot Trading Inc.	Cayman	4,918	4,173
10. Comar Enterprises Ltd.	Cayman	3,297	3,105
11. Maltan Inc.	Cayman	10,012	8,650
12. Tallowcraft Shipping	Cayman	4,573	6,386
13. Gambas Maritime	Cayman	6,062	5,761
14. Tambriola Maritime	Cayman	4,893	4,641
15. Elyon Navigation SA	Cayman	1,747	1,646
16. Madcrest Marine & Transport	Cayman	4,736	4,496
17. Nautique Shipping	Cayman	3,963	4,178
18. Pironi Marine Transportation	Cayman	5,648	5,338
19. Byron Bay Shipping	Cayman	3,058	3,262
20. Misr Gulf Offshore	Cayman	2,741	2,870
21. Intergulf Holdings	Cayman	2,679	2,818
22. Fidelity Holdings	Cayman	3,654	3,818
23. Southwold Maritime	Cayman	11,460	10,689
24. Grantley Trading	Cayman	1,396	1,336
25. Pentrin Transportation	Cayman	1,163	1,113
26. Parkray Commercial	Cayman	1,628	1,559
27. Byword Ltd.	Cayman	3,852	3,679
28. Elystan Trading Ltd.	Cayman	2,753	2,628
29. Sigale Enterprises	Cayman	4,747	4,497
30. Emplate Ltd.	Cayman	1,651	1,577
		<u>127,594</u>	<u>124,660</u>

Company	Location	Balance	
		31 Dec 1989 \$'000	30 Sept 1989 \$'000
Demray Trading	Panama		3,454
2. Frenda International	Panama		1,437
3. Sindega Trading Inc.	Panama		4,418
4. Onida Trading	Panama		6,718
5. Chinnok Trading	Panama		7,753
6. Videro Shipping	Panama		899
7. Videro Shipping	Panama		1,265
8. Melrose Maritime	Panama		2,297
9. Aspac Trust	Panama		1,177
		<u>Not Known</u>	<u>29,418</u>
1. Raja Trading SA	Nassau		5,028
2. Bitola Limited	Nassau		5,038
3. Tomar Shipping Inc.	Nassau		1,224
4. Bell Harbour Shipping	Nassau		1,989
5. Al Inshirah Shipping	Nassau		3,525
6. Al Mazan Maritime	Nassau		1,664
7. Mercantile Marine	Nassau		965
8. Merlin Navigation	Nassau		967
9. Loupmer Shipping	Nassau		1,046
10. Voyager Navigation	Nassau		1,766
11. Tomar Shipping Inc.	Nassau		3,772
12. Bell Harbour Shipping	Nassau		1,203
13. Al Mazan Maritime	Nassau		3,997
14. Loupmer Shipping	Nassau		1,077
		<u>Not Known</u>	<u>37,261</u>

53 Repeat name: Actual no: 47

We have included loans in Panama and Nassau in this list because these locations refer to Mr. S.M. Akbar as being the account officer for these measures.

Security for these loans are normally hypothecations, assignments or ships.

Whilst there are some exceptions, the balances on these accounts have generally increased since the prior year and turnover has decreased. The valuations of ships provided as security have improved.

We have a number of concerns regarding these accounts:

- (1) Proving the beneficial owners of the companies.
- (2) Collectibility.
- (3) Understanding the business of these companies and their interrelationship.
- (4) Assessing the value attributable to security given as hypothecations or general assignments.

(1) Beneficial owners

Whilst you have provided us with details of the beneficial owners, we have seen no evidence to prove such ownership. Because this form of lending involves instructions and representations from nominees it is essential that we obtain evidence of the ultimate beneficial ownership of these companies. Furthermore we are relying upon the wealth of these owners to support the companies. This evidence of ownership should preferably be in the form of a statement from the beneficial owner or alternatively we could consider evidence from the Trust Companies that administer these companies.

(2) Collectibility

Most of the offshore facilities are in excess of limits or have exceeded their limits at some point during the year.

Whilst operating as overdrafts, the accounts generally have not experienced significant turnover and do not fluctuate below a relatively high minimum level.

Turnover is typified by one or two transactions where the drawdown is followed by a repayment a few days later or vice versa.

Interest is generally not being serviced on these accounts.

As a consequence of the above we have difficulty in assessing this lending - particularly in the case of those loans that are not secured on ships.

We require evidence that these offshore companies have sufficient capacity to generate business that will enable these overdrafts to be serviced and to have adequate turnover.

We would like to see financial statements prepared for the above companies to assess their profitability, capital base and viability. We would also like to see additional information either from these companies or their agents outlining their future business plans.

We note that the standard loan agreement requires:

"a notariially certified copy of the most recent financial statements of the Borrower and of the Quarantor" to be supplied prior to disbursement of funds.

In addition the terms of your debentures with these companies require them to furnish the Bank with audited financial statements annually and "other financial statements in respect of its assets and liabilities as the Bank may reasonably require".

We trust that it will therefore be possible to arrange for financial statements to be provided.

(3) Interrrelationship of offshore companies

We have previously discussed the operation of these companies and you have informed us that these companies are not controlled by the Gulf Group although do some business with the Gulf Group. We seek clarification of the following:

- i) An understanding as to why all the ships held by these companies are managed by Gulf East Ship Management Limited. ||
- ii) Why do most drawdowns and repayments flow through the following companies?
 1. Cedar Investments and Finance Corp.
 2. Transgulf Finance Co.
 3. Mira Investments Trust SA
 4. Conrad Finance Inc.
 5. Granite Financial Trust Inc.
 6. Mentesta Finance and Trust SA

What is the business of these companies? What is the relationship between these companies? Who controls these companies?

- iii) - (a) The address of Conrad Finance Inc. is given as c/o E'Estoril, 31 Avenue Princess Grace, Monaco.
- This is also the address of United Shipping Group SAM a subsidiary of Gulf International Holdings.
- (b) The address of Mira Investments Trust SA is given as P.O. Box 604, 2535 Luxembourg.

This is also the address of Intercontinental Shipping and Trading Services S.A. an associate of Gulf International Holdings.

Could you please provide a paper explaining the relationship between the offshore companies, the paying agents and the Gulf Group outlining the nature of their business relationships, the systems for recording and controlling the business and the nature of the cashflows between these entities.

(iv) We understand from your discussions with Nick Freeland that the companies noted in (ii) above are operating as paying agents. Given this, can we not receive better information from these companies concerning the offshore lending. For example, can they not prepare financial statements for these companies and provide details of their shipping and trading activity?

(v) What is the relationship between this lending and similar lending extended to offshore companies in Bahrain and NEO in April 1989. The new loans extended there had paying agents common to the Cayman lending. ||

(4) Security

For many of these companies the only security are hypothecations of stocks and assignments of receivables.

Could you please provide (possibly through the paying agents of these companies) further information to support the valuations of the stocks and receivables at 31 December 1989 that pertain to these companies. Is it possible to break these down by Bill of Lading or customer name and after the year end sight their subsequent recovery through the bank accounts of these offshore companies?



OUR FACSIMILE TELEPHONE NUMBER IS BAHRAIN 271459

FW LONDON (CHRIS COWAN)

PRIVATE AND CONFIDENTIAL

FW BAHRAIN (TERRY HOPCROFT)

TW/gor/M226

3 JANUARY 1990

EARLY WARNING - BOCI BAHRAIN

I am writing to advise that we have been unable to obtain all the information and explanations that we consider necessary in respect of the following amounts which are booked as loans in the accounts of BOCI Bahrain at 31 December 1989:

	Name of customer	Principal amount (\$000s)	Interest recognised in the 1989 profit & loss account (\$000s)	Total
1	(A) Audley Mercantile	2,500	226	2,726
	(B) Brigadier Investment	4,000	367	4,367
	(C) Metropole Trading	3,500	317	3,817
		10,000	910	10,910
2	(A) Fallah Mansouri	5,000	264	5,264
	(B) Saif Ghumran	5,000	284	5,284
		10,000	548	10,548

1 In respect of the Audley Mercantile/Brigadier Investment/Metropole Trading amounts:

- (i) We have seen no evidence as to the beneficial owner of these companies
- (ii) We have been orally advised of the name of an individual beneficial owner. However, this information conflicts with the credit analysis in the credit file. (There are further conflicting comments in the credit analysis of the credit file also).

TOTAL NUMBER OF PAGES:

IF YOU DO NOT RECEIVE ALL PAGES OR HAVE A PROBLEM WITH RECEIPT
PLEASE TELEPHONE BAHRAIN 233266



- (iii) The amounts disbursed were not paid to the abovementioned companies, but to other companies whose identities, and their relationship to the abovementioned companies, is unknown to local management.
- (iv) In respect of these companies, the credit files have no details and local management have no knowledge of (a) the Directors and (b) who are the authorised signatories. Payment was made on the instructions of three individuals (Maseer Mohammed, Raja and Ali respectively) whose relationships to, and authorities in, the abovementioned companies is unclear. Local management have no idea where management reside or where the books and records are kept. The bank statements are addressed "UK" yet management inform us they are posted to various offshore addresses.
- (v) No financial information is available. No references were obtained.
- (vi) We have received no confirmation of balance and the bank has no evidence of net worth.
- (vii) We are unclear whether the credit committee approved the amounts before they were disbursed.

2 In respect of the Fallah Mansouri and Saif Ghumran amounts:

- (i) The credit files state that these amounts were advanced for projects. However;
 - (a) the bank has little or no knowledge of the projects or of the other individuals involved in the projects
 - (b) the funds were advanced immediately whereas the projects are not due to commence for several years.
- (ii) The amounts disbursed were not paid to the abovementioned customers and local management are not aware of the identities of the individuals to whom the funds were disbursed. No written payment instructions were received from the customers.
- (iii) The credit committee approved the loans seven months after the funds were disbursed.
- (iv) The first installment in the Saif Ghumran exposure is in default.
- (v) The bank obtained no bank references, no financials and no verification to support the alleged net worth of the abovementioned individuals.

(vi) No audit confirmation of the balance has been received.

For these reasons we are at present unable to conclude in the validity or recoverability of the abovementioned amounts. Unless we receive the above information it will be necessary to qualify our interoffice opinion and the local statutory accounts to the Bahrain Monetary Agency. We have informed local management in respect of the above. If you have any detailed questions please do not hesitate to contact me.

Regards,

cc: 1. Mr Ali Abbas - BCCI Bahrain
 1. Mr Ashraf Nawab - BCCI Regional Office, Dubai
 1. Mr Simon Chapman - FW Dubai

Price Waterhouse



14 February 1990

APPENDIX 2(4)

STRICTLY PRIVATE & CONFIDENTIAL

BY HAND

Mr S Naqvi
Bank of Credit and Commerce International
100 Leadenhall Street
LONDON EC3A 3AD

Dear Mr Naqvi,

I thought that it might be helpful to summarise in this letter issues arising on the major customer accounts which we have discussed in the last few weeks so that appropriate attention can be given to their resolution.

① CCAH related balances

The Rulers of Fujeirah and Ajman have both returned to us balance confirmation letters rejecting information shown concerning loans totalling \$270 million at 30 September 1989 secured on CCAH shares. In connection with these accounts:

- 1) You are to meet the customers concerned to understand the nature of their disagreements.
- 2) You are to provide us with your files on these customers with details of the recent transactions across their accounts.

We place heavy reliance upon confirmation procedures and where disagreements do arise we need to investigate the reasons why these occur and the implications, if any for other accounts. In these particular cases I expect that we will need direct access to the customers concerned to understand the extent and implications of any disagreement.

Satisfactory balance confirmations have been received from Mid Gulf Rubstone and Shorafa, the remainder are outstanding. I will let you know when the others are received.

As a separate matter we will need to evaluate the security value which can be attributed to the CCAH shares, taking into account the disposal plans.

14 February 1990
Mr S Naqvi
Page 2

(2) Sheikh Khalid bin Mahfouz

New loans totalling \$146 million were drawn down during the year. These amounts appear to be unsecured, although you had thought that shares in NCB had been pledged as security and you are to pursue this. We will need to discuss the loan details with you at some stage but in the meantime would like to ensure that a proper balance confirmation, including details of any security and pledged deposits, is obtained.

2) Our work on share capital shows that 375,000 shares of BCCI Holdings were allotted to and subscribed by Mahfouz nominee companies in April 1989, although acceptance letters or other evidence from the shareholders are not on file.

In the present circumstances, when there is an expectation that Mahfouz is to dispose of his shares and public speculation that he may already have done so, confirmation by him of his shareholding will overcome concerns about his shareholding and the purpose of the loans referred to above.
I will provide you with a draft confirmation request when we next meet.

(3) AR Khalil

1) There has been little contact with the borrower over the past two years or more. The borrower holds shares in both BCCI Holdings and CCAI which you are seeking to transfer to Sheikh Kamal Adham so that the loans outstanding of \$150 million can be repaid either in part or in full.

2) Our work on share capital shows that 57,748 shares of BCCI Holdings were allotted to and subscribed by Mr Khalil in 1989 although there is no acceptance letter or other evidence on file from him and given our understanding of the relationship with him over recent years we find it surprising that he has increased his investment.

There will be some difficulty in assessing recoverability of loans to Mr Khalil if the proposed transaction with Sheikh Kamal Adham does not proceed before finalisation of the accounts.

As you are aware this is an account for which we have not received a confirmation for some time, therefore his acknowledgement of the debt will be important evidence this year.

14 February 1990
Mr S Naqvi
Page 3



④ Sheikh Mohammed bin Rashid Al Maktoum

At 31 December 1989 this customer had loans outstanding of \$124 million and deposits of \$109 million. This was an account for which we did not receive a confirmation last year and where our review of significant transactions reveals absence of customer authorisation for the drawdowns in 1988. As discussed, you are to provide us with your file with details of the transactions concerned. I am unsure about the status of the balance confirmation request but clearly it will be important to receive appropriate confirmation from him as we cannot let another year go by without one.

Our work on share capital shows that 61,354 shares of BCCI Holdings were allotted to and subscribed by Sheikh Mohammed nominee companies in April 1989 although acceptance letters or other evidence from the shareholders are not on file and the share certificates are still held by yourselves. Evidence of customer authorisation for the rights issue or confirmation of his shareholding will be required.

⑤ Gulf Group and Offshore companies

Our offices in Cayman and Bahrain have raised questions which are still unanswered concerning loans to the Gulf Group and to offshore companies totalling \$405 million and \$210 million respectively. The questions are important to our assessment of recoverability and were set out in detailed memoranda dated 12 January 1990 and 3 January 1990, copies of which we have provided to you, Mr Ahmed and Mr Rahman, as well as to the local and regional managers.

⑥ Other major Cayman and International loans

The issues are well known and in response to our enquiries some detailed information has now been supplied. However, information is still being sought about the collectability and authorisation of the loans, the repayment terms, and the financial standing of customers. We will discuss these with you once we have had the opportunity to review all of the information which is currently being provided by Mr Akbar and his team, although we need to be satisfied that their assessment of provision requirements is realistic; it seems to us that substantial increases may be necessary.



14 February 1990
Mr S Naqvi
Page 4

/I am concerned about the number of outstanding issues on major
accounts and the time that it may take to resolve them satisfactorily.
Given this situation I doubt that the normal reporting timetable can
be adhered to and suggest that the likelihood of a delay be brought to
the attention of your senior colleagues and the audit committee. (///)
Indeed, you may even feel it appropriate to copy this letter to the
audit committee.

Yours sincerely,

CI Cowan

CIC/hh

Senator KERRY. Document No. 4 is a supplementary document to document No. 3. It is a supplementary briefing paper from the, for your task force which came from Price Waterhouse regarding the problems in the bank.

[The information referred to follows:]

STRICTLY PRIVATE AND CONFIDENTIAL

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER
FOR THE INDEPENDENT TASK FORCE ON
PROBLEM LOANS AND RELATED ISSUES

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

✓ Kuwait International Finance Company S.A.K. (Kifco)

Shareholders:

BCCI Holdings (Luxembourg) SA	49
ICIC (Overseas) Ltd	12
Others	<u>39</u>
	<u>100</u>

① BACKGROUND

Kifco is effectively BCCI's banking arm in Kuwait, although we understand that certain undertakings have been given to the Kuwaiti regulatory authorities to the effect that BCCI does not control Kifco. At 31 December 1989 Kifco had total assets of \$195.7 million and shareholders' funds of \$16.9 million.

Mr SM Akbar, General Manager in Grand Cayman, was we understand, once General Manager of Kifco. He has close links with the Kifco operations.

② CONCERNS(1) Absence of Critical Information

Kifco is almost entirely funded by BCCI (Overseas) Ltd through placements from Grand Cayman. At 31 December 1989, however, placements recorded by BCCI (Overseas) with Kifco are not consistent with the financial statements of Kifco:

Per Kifco: time deposits with banks	\$6.1m
Per BCCI (Overseas): acceptances from Kifco	\$9.3m
Per Kifco: term deposits taken	\$173.4
Per BCCI (Overseas): placements with Kifco	\$204.0

Price Waterhouse are not the auditors of Kifco. The incumbent auditors (Anwar Al-Qatani & Co) have completed a questionnaire and provided certain financial information to us. This information is, however, not sufficient for us to review the make up of the Kifco lending, and we have consequently raised a number of queries with the auditors in a telecopied letter of 15 February 1990. We have not yet had a response to this letter.

In order for us to ascertain whether any Kifco loans have been extended for the purpose of servicing BCCI lending elsewhere we require evidence of the destination of all significant drawdowns during 1989.

We also require a detailed analysis of the Kifco loans portfolio in order to be satisfied that there is no exposure common to BCCI.

✓ ① RIFco (1) ^{Age} 3/10

9/10/10

Sachin

✓ ② BCT = (3)

✓ ③ SICC (1/1) ^{Age} 14.7

Balti 4.8
19.5

14.7 9.3 27.8

W.P. 25.5

1.0 = the SECIF

29.7 of the Hilly /
1/10 of the Hilly

④ Hammur (1)

BCT - 18.8
14.7 - 60.9

- H. G. H. S.
- H. G. H. S. (1/10 of the Hilly)
- 2.6 in the BCT (H)
- the center

⑤ Sigda (1)

Age - 13.9 20.9
Balti - 6.3 14.5
BCT (E) - 1.6 1.8
21.8 27.5
14.7 12.9

- (1/10 of the Hilly)
- 2.6 in the BCT (H)
- 2.6 in the BCT (H)
- 2.6 in the BCT (H)

✓ ⑥ Numbur Age (1) 13.9
(1/10 of the Hilly)

⑦ G. Hamm / W. Hamm ^{Age} 289.3
(1/10) 14.7 75.4 + 27.8 = 103.2

(1/10 of the Hilly)
- 2.6 in the BCT (H)
- 2.6 in the BCT (H)
- 2.6 in the BCT (H)
- 2.6 in the BCT (H)

✓ ⑧ G. Hamm (1/10) (1/10) 13.9
14.7 75.4 + 27.8 = 103.2

(1/10 of the Hilly)
- 2.6 in the BCT (H)
- 2.6 in the BCT (H)
- 2.6 in the BCT (H)
- 2.6 in the BCT (H)

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Kuwait International Finance Company S.A.K. (Kifco) - continued(2) Other concerns

We need a better understanding of the IZ Company for Exchange based in Kuwait. We do not know whether this company is associated with Kifco. The IZ Company for Exchange has been the source of loan repayments in 1989, where we now have suspicions as to the propriety of the transactions.

We have requested access to the records and management of Kifco in order to pursue our own enquiries but to date this has been denied.

✓ (9) Debt to Kifco : 15 Summary
 (16) 131.7 (Dep: 152-)

(10) Fazal Rami : 112.9
 (17) 100: 35.0

Credit to (26,439,443)
 (11,429,397) (19,800,000 - 8,370,607)
 { from (H) R:
 FIM 90% (11,429,397)
 CCR 10% (1,370,607)
 clean 4,440,000

✓ (11) Prince (Mr) Gaur (12)
 line: 13.7
100 46.5 459.0
1000 300 91.9
150.9

Commitment Hospital

✓ (12) Haji Abdul (13)
 line 91: 12.2
 line: 6.2
18.4

(Who 9.9% + 37% share)
 Share: 1,810,000 of 1000
 (Share on investment / not 900?)

45-722 184

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

✓ Banque de Commerce et de Placements SA (BCP)

Shareholders:	1
BCCI Holdings (Luxembourg) SA	15
ICIC Foundation	35
ICIC Staff Benefit Trust	35
Thesaurus - Continental Effekten Gesellschaft	<u>15</u>
	<u>100</u>

① **BACKGROUND**

BCP is regarded as BCCI's banking representation in Switzerland although it is not a subsidiary of BCCI. The Swiss authorities did not accept Arab ownership due to associated reciprocity problems and hence, shares are held by the ICIC entities. At 31 December 1989, it had total assets of \$311 million and shareholders' funds of \$29 million.

② **CONCERNS**(1) Absence of critical information

Swiss secrecy laws have prevented us from being provided with information relating to customer accounts by the incumbent auditors.

At 31 December 1989, there were 5 loans greater than \$5 million outstanding in BCP (compared to 3 loans at 31 December 1988). We do not know who these, or any other borrowers in BCP actually are.

We require evidence of the identity of these borrowers in order to be satisfied that there is no exposure common to BCCI that should be considered collectively.

We also require evidence of the destination of the drawdowns on the large loans and other new loans advanced during 1989 to ascertain whether any BCP loans have been extended in order to service BCCI lending elsewhere.

We seek to ascertain the utilisation of \$50 million paid to BCP Geneva on 20 October 1988 by BCCI and charged to the account of Sh Mohammed Bin Rashid al Maktoum. This drawdown was not supported by customer instructions.

We may also require more information on the source of funds received from BCP crediting certain loan accounts at ICIC.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

(Interim) (Tunisia News (4))

✓ Saudi Development and Commercial Company (SDCC)

<u>\$ million</u>	<u>31 December</u> <u>1982</u>	<u>31 December</u> <u>1988</u>
Funded exposure - loans		
BCCI (Overseas) - Grand Cayman	19.5 { 14.7 ✓	15.1
BCCI SA - Bahrain	4.8 ✓	4.3
ICIC (Overseas)	8.3 ✓	8.2
Total lending	27.8	27.6
Funded exposure - NBFI		
BCCI (Overseas) - Grand Cayman <i>M. A. F. (M. A. F.)</i>	25.5 ✓	10.2
Total gross exposure	53.3 ✓	37.8

BACKGROUND

✓ We understand that SDCC is owned by five Saudi Arabians. Its business includes investments, real estate and other lending within Saudi Arabia.

✓ An original advance of \$10 million was made through Grand Cayman for the purchase of 1 million shares in the Saudi Egyptian Company for Investment and Finance (S.E.C.I.F.). The current loan balance in Grand Cayman represents this advance plus applied interest less \$3 million in dividend income received between 1982 and 1985.

✓ In addition, Grand Cayman has maintained short term placements with SDCC, the turnover on which has been much higher than the loan balances outstanding.

SECURITY

✓ Security for the BCCI lending is the 1,000,000 shares in S.E.C.I.F. a Cairo-based company for which the 1988 financial statements show an underlying value of approximately \$6.50 per share. ??

✓ The security for the ICIC exposure are shares in CCL Holdings, representing 29%. CCL Holdings owns CCL Financial Group Plc.

CONCERNS(1) Absence of critical information

✓ No information has been made available to clarify the nature of SDCC's operations or its financial position. There are no audited financial statements or other financial information. We do not have adequate information to assess the underlying assets of SDCC.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Saudi Development and Commercial Company (SDCC) - continued

✓ The shareholders of SDCC have not documented any undertaking to service and repay the facility.

✓ No documentation has been provided in support of the repayment of \$2 million during 1989.

✓ (2) Irregularities in Approval Procedures

We have seen no Board approvals for either the loan facility or the NBFI placements.

There is no recent Central Credit Committee approval for the Bahrain facility and we have only seen approval for \$15 million of the NBFI placements through Central Credit Committee.

✓ (3) Reliability of Management Representations

Management undertook to secure the personal documented support of SDCC's shareholders for the purposes of the 1988 audit, including a formal full repayment schedule. This has not been received.

✓ (4) Evidence of recoverability

✓ Permission has not been granted for SECIF dividends to be remitted outside Egypt since 1987, and in any event these are not sufficient to service the lending or generate principal repayment.

✓ There is no evidence to support the ability or willingness of the shareholders to repay the loans to SDCC.

✓ The NBFI balances outstanding at 31 December 1989, matured in January and February 1990 and have been rolled over, with no customer correspondence, since maturity on a monthly basis. There is no evidence to indicate how these placements will ultimately be settled.

✓ (5) Other concerns

✓ A separate advance of \$15.4m was made to SDCC from Kifco in January 1989. Local auditors report that this was approved only by the General Manager and the Chairman, that no security was taken, and that no customer correspondence was available. The balance was adjusted in April 1989. No further detail of this advance has been provided.

✓ We understand that SDCC is essentially the bank's representation in Saudi Arabia although this is by no means clear.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

✓ MM Hammoud\$ million31 December 1989BCCI ICIC

Funded exposure:

Investrade (USA)	5.8	neg.
Middle East Commercial Agencies	*6.2	7.6 --
Invesco S.A.L. — <i>total</i>	*8.5	1.3 —
Pazcentro Investments SA	-	9.4
Rubstone Trading Corp. SA	*15.1	12.1/sta
Daily Holding International SA	-	10.1
Cheyenne International SA	-	1.9
Middle East Development	-	10.4 — ?
United Group for Trading and Projects	-	8.1 — ?
✓ MM Hammoud - UK — <i>R/S</i>	0.8	/
✓ MM Hammoud - Gibraltar — <i>R/S</i>	8.5	/
✓ Hammoud/Kloss - Hamburg — <i>R/S</i>	3.9	/
	<u>48.8</u>	<u>60.9</u>

*Not recognised by BCCI as being exposure to MM Hammoud.① BACKGROUND

MM Hammoud is a Lebanese businessman. We understand that he is principally concerned with property development in the US, UK, Canada and Lebanon.

He is also a significant shareholder in BCCI Holdings with 2,646,184 shares and is a shareholder in CCAH.

② SECURITY

✓ The facilities granted by BCCI to Mr Hammoud in the UK, USA, Hamburg and Gibraltar are secured on property.

✓ The lending to Middle East Commercial Agencies (granted by BCCI - Cyprus) is clean.

✓ The lending to Rubstone Trading Corporation (granted by BCCI - Luxembourg) is secured on MM Hammoud's shares in CCAH.

✓ The lending to Invesco SAL (granted by BCCI - Grand Cayman) is secured on property in Lebanon and Egypt.

✓ The ICIC facilities are secured on 622,000 shares in BCCI Holdings (Luxembourg) SA.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

MM Hammoud - continued

3

CONCERNS

(1) Absence of critical information

✓ We have not been supplied with evidence of beneficial ownership of any of the companies purportedly owned by Mr Hammoud.

✓ Whilst we have seen evidence to support security, there is generally little evidence to support drawdowns and ongoing communication with the customer.

(2) Reliability of management representations

BCCI management have represented to us that Invesco, Rubstone Trading and Middle East Commercial Agencies are not exposures pertaining to MM Hammoud. We are told by BCCI management that Rubstone is owned by K Rahal, and Invesco by IY Younes and K Rahal. PW Cyprus have told us that the lending to MECA is secured by the personal guarantees of the directors - Y Shehaddid, K Rahal and IY Younes.

✓ ICIC management have represented to us that these companies are beneficially owned by Mr Hammoud. Indeed, in ICIC management accounts these facilities are grouped under the heading MM Hammoud.

(3) Evidence of recoverability

BCCI exposures

✓ The exposures to MM Hammoud in the UK, Gibraltar and USA are performing and are adequately secured.

✓ The lending to Middle East Commercial Agencies was extended to BCCI Cyprus in 1988. The ultimate recoverability of this amount is not known. The lending is guaranteed by the directors but we know nothing about their personal wealth.

✓ The ultimate recoverability of the BCCI Rubstone Trading facility has been addressed in our report on lending secured on CCAH shares. However, no interest has ever been paid on this account.

✓ The Invesco facility in BCCI has not been performing. The original advance of \$7 million was allowed in order that a previous delinquent account to Mr M Jabali could be repaid (at a discount of \$2.9 million). Management have established a provision of \$0.8 million at 31 December 1989. We doubt the commercial reality of this lending - there appears to be inadequate security (\$6-\$10 million) to warrant a third party taking over the debts of Mr Jabali at commercial interest rates.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

MM Hammoud - continued

✓ ICIC exposures

✓ Management have been pursuing the borrower for additional security and a repayment schedule. These have not been forthcoming.

✓ There is no evidence available to indicate how the loans at ICIC are likely to be reduced without the sale of BCCI shares.

✓ (4) Other concerns

✓ There remain too many unanswered questions about Mr Hammoud:

- ✓ the conflicting management comments concerning his exposures.
- ✓ The nature of Mr Hammoud's business in Lebanon (he appears to represent BCCI in his own capacity).
- ✓ the rationale for giving his CCAH shares as security for lending by Midgulf and Rubstone for no apparent consideration.
- ✓ his connection with delinquent accounts of BCCI such as the Jabali loans.

✓ We require independent evidence supporting these exposures and evidence that MM Hammoud is the beneficial owner of 2.6 million shares in BCCI.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Saigols

\$ million

31 December 1989

	Gross	Interest in Suspense	Provisions	Repayments received post year-end	Net
✓ Grand Cayman	20.9	(3.5)	(2.0)	(1.5)	13.9
✓ Bahrain	8.5	-	-	(2.2)	6.3
✓ BCC Emirates	1.8	(0.2)	-	-	1.6
Total exposure advised by BCCI	<u>31.2</u>	<u>(3.7)</u>	<u>(2.0)</u>	<u>5.5</u>	<u>21.8</u>
ICIC Exposure	<u>12.2</u>	<u>-</u>	<u>-</u>	<u>↓</u>	<u>12.2</u>
	44.1				

12.760 (50%)

①

BACKGROUND

The principal members of the Saigol family have had facilities with BCCI for many years. Loans were transferred between family members when repayment was not possible, and the current borrowers have rescheduled the facilities many times, failing to keep to repayment arrangements.

All facilities have been rescheduled at least once again during 1989, and of five principal repayments due in the year, only two were met.

②

SECURITY

All Saigol facilities are clean.

BCCI HOLDINGS (LUXEMBOURG) SA
 SUPPLEMENTARY BRIEFING PAPER

Saigols - continued

3 CONCERNS

(1) Evidence of recoverability

Evidence of recoverability of the Saigol loans have been based largely on receipts of funds in 1989 and 1990:

30 March 1989	- \$2.0 million	— Habib Bank, Singapore
4 April 1989	- \$0.2 million	— IZ Company for Exchange, Kuwait
3 January 1990	- \$0.4 million	— IZ Company for Exchange, Kuwait
4 January 1990	- \$3.25 million	— IZ Company for Exchange, Kuwait

✓ We have seen no other evidence of the ability of the Saigols or Saigol businesses to service their lending or repay their outstandings.

✓ We have been informed by management that representations previously given about the beneficial ownership of companies to which new loans were extended in Bahrain in 1989 have been false. The loans have been given, in part, to repay delinquent loans in other locations. We are now informed that these loans are connected to the Saigol family, although we are still awaiting a full explanation.

✓ Although the Saigol loan balances have been regularly confirmed we have significant doubts about their willingness to repay the outstanding amounts, given the extent to which these accounts continue to be rescheduled. The involvement of the Saigols in relation to the improper Bahrain lending adds to our concerns.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Numbered account 11011103\$ million31 December
198931 December
1989

Funded exposure

13.911.8

①

BACKGROUND

An amount of \$11.2 million was drawn down in a Grand Cayman numbered account in November 1988.

②

SECURITY

This is a clean facility.

③

CONCERNS(1) Absence of critical information

There is no documentation to support the advance.

(2) Reliability of management representations

In 1988, BCCI management in Cayman represented that the account was part of the exposure to the Ibrahim family. In 1989, management have represented, after first confirming the exposure as Ibrahim, that the loan should be classified as lending to Mashriq Holdings which is beneficially owned by the Ruler of Fujeirah. Mr Imran Imam responsible for the Ruler of Fujeirah account has not indicated to us that this account should be included within his total exposure. In fact, no analyses prepared by the bank have shown this account to be that of the Ruler of Fujeirah.

(3) Evidence of recoverability

There has been no activity on the account other than interest application in 1989. Given the lack of documentation supporting this exposure and the conflicting reports on beneficial ownership, we require further information in order to assess whether the loan is recoverable.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

The Pharaon Brothers

	Shares in BCCI Holdings (Luxembourg) SA at 31 December 1989	Loans outstanding at 31 December 1989	
		\$ million BCCI	\$ million ICIC
Wabel Pharaon	8,599,631	-	75.4
Dr Ghaith Pharaon	Unknown	288.3	27.8
		<u>288.3</u>	<u>103.2</u>

BACKGROUND

Wabel Pharaon is the brother to Dr Ghaith Pharaon a Saudi Arabian entrepreneur who has diversified business interests. Wabel Pharaon is also a businessman although we understand that his interests are primarily in Saudi Arabia.

Most of Wabel Pharaon's lending from ICIC was extended when Dr Ghaith Pharaon sold his shares in BCCI to Wabel Pharaon.

Mr HM Kazmi at ICIC holds power of attorney for Wabel Pharaon.

SECURITY

The only security for Wabel Pharaon's lending in ICIC is 2,500,000 shares in BCCI Holdings (Luxembourg) SA.

Dr Ghaith Pharaon's lending in ICIC is secured on his interest in the Attock Oil Group. His BCCI exposure is secured on shares and deposits although at least \$130 million is clean.

CONCERNS

(1) Absence of Critical Information

Drawdowns are not supported by requests from the customers.

There are no loan agreements, promissory notes or correspondence with the customers at either BCCI or ICIC.

On 19 December 1989, \$5.4 million was debited to the overdraft account of Dr Ghaith Pharaon in Grand Cayman, representing the purchase consideration for 111,709 shares sold by Suhail Faris Al Magrui. There are no instructions from Dr Pharaon supporting this drawdown, nor any correspondence from the vendor of the shares.

Wabel Pharaon has provided no support for his repayments of \$4 million in August 1989 and \$10 million in 1990.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

The Pharaon Brothers - continued

(2) Reliability of Management Representations

In December 1987 we were assured by BCCI senior management that we would receive confirmation that Wabel Pharaon was the beneficial owner of BCCI shares - this was not forthcoming.

(3) Evidence of recoverability

Dr Ghaith Pharaon's exposure in BCCI is \$100 million in excess of limits and exceeds 10% of the capital base of the bank. It is consequently a cause for concern. Dr Pharaon has provided security of approximately \$150 million and is known to have significant net worth. Nevertheless, the clean exposure has increased to about \$130 million, partly because of a reduction in Dr Pharaon's deposits (\$20 million) and a decline in the value of security given (\$20 million). We require evidence that Dr Pharaon has the ability to service and repay this clean lending.

He has demonstrated his willingness to repay some of his loans by reducing this exposure in ICIC by \$29.2 million following the sale of Tradigrain to British Petroleum.

Wabel Pharaon has provided some evidence of ability to reduce his lending by making repayments of \$14 million since 30 June 1989. However, we have no net worth statement and no understanding of his ability to repay. We do not know the extent to which he might be supported by his brother. It is unclear how his borrowings may continue to be reduced, other than by the sale of BCCI shares.

(4) Other concerns

The sale of Mazrui's shares in December 1989 has not been recorded in the shareholders' register at 31 December 1989, or in January or February 1990. This causes doubt as to the accuracy of the shareholder records. In December 1989 Wabel Pharaon acquired 105,321 BCCI shares from Mohamed Taufiq Jiddau according to the Luxembourg share register. We are unclear as to how this acquisition was financed and why Wabel Pharaon should want to purchase further shares in BCCI when he is trying to reduce his loan exposures in ICIC.

We therefore require independent confirmation by Wabel Pharaon and Dr Ghaith Pharaon at 31 December 1989 of their shareholdings, the shares pledged as security and of their outstanding liabilities at that date.

----- HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Grand Cayman Risk Facilities

		Gross Exposure	Interest in Suspense	Provision	Net Exposure
Accounts where cash has been received: <i>Revised</i>					
1	Haider Bin Khamis ✓	100% 3.6	-	-	3.6
2	Lisa General ✓	100% 5.1	-	(1.0)	3.6
3	AI Gad - BCC(s) ✓	33% 4.3	(1.2)	-	3.1
4	Al Haji Dasuki ✓	100% 0.7	-	-	0.7

Other accounts not subject to litigation

1.	South Gulf Trading ✓	100% 2.0	-	(1.7)	0.3
2.	A de Vega ✓	100% 2.6	-	(1.3)	0.8
3.	Winterwood Associates ✓	30% 3.5	(0.7)	-	2.8
4.	Charles Howard ✓	- 2.2	X (0.5) (Att 2.1)	-	1.7
5.	First Arabian Corp ✓	100% 5.8	(2.1)	(1.0)	2.7
6.	Al Haji Daura (Lj-h) ✓	- 0.4	(0.1)	-	0.3

Accounts subject to litigation

1	Abbas Mosselhy ✓	50% 4.5	-	1.8	2.3
2	Stinnes (BCC(b)) ✓	33% 7.3	-	(1.0) 4.5	6.3
		<u>41.3</u>	<u>(4.2)</u>	<u>(6.0)</u>	<u>29.1</u>

BACKGROUND

It has generally been the case that delinquent accounts at various locations have been transferred to Grand Cayman and these make up the Cayman risk facilities.

CONCERNS

(1) Evidence of recoverability

Accounts where cash has been received during 1989:

No advice was received for the remittances of cash against these accounts. Given the evidence now received regarding cash receipts on other delinquent accounts in the BCC group, these balances (totalling \$11 million) are an area of concern, which in the absence of independent evidence, are likely to require full provision.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Grand Cayman Risk Facilities - continued

✓ Other accounts not subject to litigation:

✓ Management have already decided to provide fully against the facilities of South Gulf Trading, First Arabian, and A De Vega to the extent of the unsecured balance.

✓ The loans to Winterwood and Howard, although partially secured, have shown little performance and BCCI have made no effective effort to regularise the facilities. There is no rationale for their being booked in Grand Cayman, and we believe that the original loans were extended through Treasury connections with AR Khalil. We remain unconvinced that these loans will ever be repaid, nor that the bank will enforce its security.

✓ Accounts subject to litigation:

✓ Although we recognise that there could be recoveries from the litigation, it would be prudent to provide in full against these accounts in 1989. Management have initially determined a further provision of \$1.5m against the Stinnes facility.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Ibrahim family

\$ million	31 December 1989	31 December 1988	31 December 1987
Gross exposure	<u>131.7</u>	<u>210.8</u>	<u>125.2</u>

① BACKGROUND

The Ibrahim family, headed by Sh Abdul Aziz Al Ibrahim, have maintained significant loan and deposit balances with BCCI for a number of years. At 31 December 1989 family deposits total \$152 million.

2 CONCERNS

(1) Absence of critical information

The loans are advanced against deposits pledged to the extent of \$152.4 million, but there is no formal lien over the deposits.

We do not understand the rationale for maintaining both loans and deposits at the levels concerned. (Interest is charged at the same level as deposit interest is paid for loans to the value of 50% of the deposits held).

Deposits are held in the names of the various family members, not all in the name of Sh Abdul Aziz. This detracts from the comfort gained from the deposits maintained because in particular no cross guarantees exist.

Independent direct confirmation from the borrower of all balances is essential given the absence of formal lien.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

✓ Faisal Saud Al Fulaij\$ million

Funded Exposure:	<u>31 December 1989</u>		Security
	<u>BCCI</u>	<u>ICIC</u>	
Faisal Al Fulaij	-	1.5	FIIL Shares
Middle East Investment Company	-	4.9	CCL Shares
Middle East Investment Company	-	1.1	CCL Shares
Faisal Al Fulaij	-	8.8	BCCI (H) Shares
Faisal Al Fulaij	-	8.0	BCCI (H) Shares
Faisal Al Fulaij	-	4.4	Clean
Faisal Al Fulaij	-	0.3	Clean
Middle East Investment Company	-	0.3	CCL Shares
Faisal Al Fulaij	-	5.7	BCCI (H) Shares
Faisal Al Fulaij	7.4	-	CCAH Shares
Faisal Al Fulaij	87.9	-	CCAH Shares
Faisal Al Fulaij	7.3	-	CCAH Shares
Faisal Al Fulaij	10.3	-	CCAH Shares
	<u>112.9</u>	<u>35.0</u>	

①

BACKGROUND

Faisal Saud Al Fulaij is a Kuwait businessman. He is also Chairman of Kuwait International Finance Company SAK (Kifco)

②

SECURITY

FIIL: Faisal Al Fulaij owns 2% of FIIL which in turn owns Attock Oil International.

CCL: Through Middle East Investment Company, Faisal Al Fulaij owns 22% of CCL Holdings (CCL) which in turn owns CCL Financial Group Plc.

BCCI: Faisal Al Fulaij owns 26,439 shares in CCAH (post rights issue). He has pledged 5,976 shares as security to BCCI and a further 10,680 shares have been cross pledged by Sh Kamal Adham and Ali Mohamed Shorafa in respect of his borrowings.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Faisal Saud Al Fulaij - continued

3

CONCERNS

(1) Absence of critical information

There are generally no loan agreements, customer instructions or promissory notes supporting this lending. Balances have been confirmed. Shares are physically held by ICIC or BCCI as security.

(2) Evidence of recoverability

There has been very little performance on any of these accounts in recent years and exposures have been increasing through the application of interest and charges. The underlying investments are not generating cash dividends and Faisal Saud Al Fulaij is not meeting repayments or servicing charges from his own resources.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Prince International Holdings and International Medical Corporation (IMC) Group

\$ million

31 December 1989

	BCCI	ICIC
Funded exposure		
Prince International Holdings	13.7	46.3
IMC Group	<u>91.9</u>	<u>-</u>
	105.6	46.3

1 BACKGROUND

The IMC Group owns and operates the Crowwell Hospital. It is owned by the Abu Dhabi Ruling Family and a Foundation financed by ICIC Holdings - International Health and Welfare Foundation. The IMC Group has required support from BCCI and ICIC - through Prince International Holdings in order to meet its commitments. In 1987 a ten year plan was drawn up which would enable the Group's lending to be reduced to a reasonable level.

2 SECURITY

The BCCI lending is secured on the assets of the IMC Group including the Crowwell Hospital. The Prince International Holdings lending is secured on shares in the IMC Group.

3 CONCERNS

(1) Reliability of Management Representations

In March 1989 we were told by BCCI senior management that they were hopeful that the Abu Dhabi Ruling family would provide \$10 million additional capital by 30 June and that the bank would deliver a request for additional capital in the summer of 1989. No additional capital has yet been provided although we are aware that discussions are taking place.

(2) Evidence of Recoverability

The underlying IMC project is unable to service its lending from BCCI. There is no source of income to repay the loans to Prince International Holdings. Repayment of the BCCI and ICIC exposures can only be assured by significant additional capital injections by the Abu Dhabi Ruling family. There is underlying security to the lending in the Crowwell Hospital project but given its unique nature this can only be realistically assessed by independent valuation.

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Prince International Holdings and International Medical Corporation (IMC) Group - continued

3) Other concerns

Correspondence that has been provided to us indicates that the Abu Dhabi Ruling family does not appear to be receiving up to date information in order to satisfy itself as to the ongoing viability of the IMC project. The project is dependent on the support of the Ruling Family and they should receive accurate and regular financial information.

Our concerns are more fully addressed in a letter dated 26 February 1990 to Mr Naqvi which is included as appendix I to this report, which indicates that financial support of the order of \$100 million from the shareholders is likely to be required. 92

BCCI HOLDINGS (LUXEMBOURG) SA

SUPPLEMENTARY BRIEFING PAPER

Al Haji Sultan Fadel

\$ million

	31 December 1989	31 December 1988
Funded exposure:		
BCCI (Overseas) - Grand Cayman	12.2	11.8
BCCI SA - Bahrain	6.2	5.6
	<u>18.4</u>	<u>17.4</u>

1 BACKGROUND

Al Haji Sultan Fadel is an Omani businessman who controls WJ Towell & Co in Oman. He is Chairman of the National Bank of Oman (NBO) holding 9.9% of the shares in his personal capacity and a further 37% through NBO.

2 SECURITY

The loans are secured on 1,818,000 RO1 shares in NBO (9.9% of the issued capital).

3 CONCERNS

(1) Evidence of recoverability

The original advance in 1985 was for \$15 million. Interest has not been serviced and consequently the increase in the outstandings represents unpaid interest.

Whilst there is value in the security it is unlikely to be enforced by BCCI.

We have not seen evidence of the ability of Al Haji Sultan Fadel to service his personal external lending. Whilst he does have personal wealth and a significant shareholding in WJ Towell & Co we do not know whether he has the cash flows to repay these loans.

(2) Other concerns

These loans were advanced to enable Al Haji Sultan Fadel to purchase shares in NBO. It is more realistic to treat these as an investment of BCCI and write them down to net asset value with no interest recognition. At 31 December 1989 this would require the loans to be written down to \$3 million - \$9 million.

26 February 1990

S Naqvi Esq
Bank of Credit and Commerce International
100 Leadenhall Street
London
EC3A 3AD

Dear Mr Naqvi,

I enclose a paper which we have produced concerning Prince International Holdings and the IMC Group.

It seems to us that the BCCI exposures to these entities have to be considered in the aggregate with those of ICIC, and thus the paper is based on this premise.

Clearly, as we have discussed previously, there is a need for a substantial capital injection into the project in order to achieve the proposed restructuring programme, and in particular to eliminate the Prince borrowings which we understand were always intended to be relatively short-term. Any such restructuring must also ensure that IMC is able to finance the residual borrowings out of its cash flows.

The objective of the paper is to quantify in approximate terms the likely shareholder commitment required to refinancing the project on the above basis, which is substantial; and to consider the possible alternative courses of action to enable us to be satisfied as to the collectibility of the outstandings due to the BCC Group and also to ICIC (Overseas) Ltd.

On the basis that a written commitment is obtained from the following that they are prepared to fund the project then no provision would be required:

HH Sh Zayed bin Sultan al Nahyan
The Abu Dhabi Ruling Family
International Health and Welfare Foundation

\$'m

31.2 ✓

52.3 ✓

22.1 ✓

105.6 ✓

26 February 1990
S Naqvi Esq
Page 2

The amount identified is necessary to eliminate the current loans to Prince (\$60.0m) the syndicated loan to the IMC Group (\$36.8m) and the Grand Cayman loan to IMC Holdings (\$8.8m).

We would also require evidence of how International Health and Welfare could fund such an investment.

If such a commitment cannot be given we suggest that the interest subsidies from ICIC to Prince for its lending from CFC and to IMC for its lending from the BCC Group be reversed and interest which is not being serviced be suspended with effect from December 1987 when the first subsidies were provided. Provisions against principal are also required to reduce the current outstandings to the approximate underlying value of the project. The total charge would be as follows:

	Interest suspended	Provision	Total
Provision in BCC Group for lending to IMC	\$13.1m ✓	-	\$13.1m
Provision in CFC for lending to Prince	\$3.7m ✓	\$5.7m ✓	\$9.4m
Provision in ICIC for lending to Prince	-	\$18.9m ✓	\$18.9m
	\$16.8m ✓	\$24.6m ✓	\$41.4m ✓

These charges are based on reducing the current outstandings to an amount lower than or equal to the underlying value of the project. The hospital is included at its depreciated replacement cost although the underlying value, including goodwill, may well be greater than this. To the extent that this can be demonstrated the provision requirement could be less. We have provisionally discussed the possibility of obtaining such a valuation with Mr Kazmi.

26 February 1990
S Naqvi Esq
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(Naturally alternative (1) is the more preferable but may be difficult to achieve in the short term and I would be pleased to discuss this with you once you have had a chance to review the initial paper.

(I am sending a copy of this letter to Mr Kazmi, also.

Kind regards.

Yours sincerely,

CI Cowan

CIC/JAG/MM

BANK OF CREDIT AND COMMERCE INTERNATIONAL (BCCI)

INTERNATIONAL CREDIT AND INVESTMENT COMPANY (ICIC)

1 Lending to Prince International Holdings (PIH) and the International Medical Corporation group (IMC).

At 31 December 1989 both BCCI and ICIC have significant exposures to PIH and IMC as follows:

<u>Prince International Holdings</u>	\$'m
Loans from ICIC	46.3 ✓
Loans from CFC	13.7 ✓
	<u>60.0</u> ✓

International Medical Corporation Group

Syndicated loan from BCCI Group (including accrued interest)	36.8 ✓
Loans from Grand Caymen (BCCI)	8.8 ✓
Loan from UK Region (MedCorp)	29.9 ✓
Loan from UK Region (MSI)	16.4 ✓
	<u>91.9</u> ✓

2 The summarised balance sheet of PIH at 31 December 1989 estimated on basis of 30 June 1989 figures, is:

	\$'m
Investment in IMC	8.6 ✓
Interest free loans to IMC	35.9 ✓
Other assets	0.1 ✓
	<u>44.6</u> ✓
Loans from ICIC/CFC	60.0 ✓
Other liabilities	2.5 ✓
Share capital (including shareholders' loans)	
- Abu Dhabi Family	9.8 ✓
- International Health & Welfare Foundation	8.9 ✓
Reserves	<36.6> ✓
	<u>44.6</u>

The balance sheet of IMC at 31 December 1989 may be summarised as:

	\$'m
Property (including Cromwell Hospital)	48.1 ✓
Other Fixed Assets	13.4 ✓
Blocked Funds at BCCI	28.6 ✓
Other Assets	<u>15.1</u> ✓
	<u>105.2</u> ✓
Loans from BCCI	91.9 ✓
Loans from PIH	35.9 ✓
Loans from Sh Z	2.3 ✓
Share Capital	
- PIH	3.4 ✓
- Sh Z	2.3 ✓
Revaluation Reserve	18.9 ✓
Profit and Loss Deficit	<56.2> ✓
Other Liabilities	<u>6.7</u> ✓
	<u>105.2</u> ✓

(4) At 31 December 1989 the non-BCCI funding of the IMC Group was out of line with the originally envisaged shareholdings.

	31 December 1989		Original Plan
	\$'m	%	%
PIH	39.3	90 ✓	60 ✓
Sh Z	4.6	10 ✓	40 ✓
	<u>43.9</u>	<u>100%</u>	<u>100%</u>

(5) Our understanding is that Prince was established as part of a restructuring programme designed to reduce the debt burden of the IMC Group by the injection of additional equity capital. It was envisaged that the residual lending from BCCI could then be fully serviced and repaid over a reasonable time.

(6) At 31 December 1989 the funding of PIH was also out of line with the original plan:

	31 December 1989		Original Plan
	\$'m	%	%
ICIC/CFC loans	60.0	76 ✓	-
International H&W	8.9	11 ✓	33 ✓
Abu Dhabi Family	9.8	13 ✓	67 ✓
	<u>78.7</u>	<u>100%</u>	<u>100%</u>

The original plan incorporated a ten year forecast that, if met, would enable IMC to reduce its debt burden. It was planned that IMC would service its lending from its own resources and not be subsidised by the shareholders. This has not happened, as interest on the syndicated loan has been paid by ICIC through Prince International Holdings:

<u>IMC Group</u>	1988 Projected Surplus/(Deficit) S'm	1988 Actual	1988 Adjusted for interest subsidies
Before funding Costs	8.6	7.8	7.8
After funding Costs	(0.3)	(1.4)	(7.2)

	1989 Projected Surplus/Deficit S'm	1989 Actual	1989 Adjusted for interest subsidies
Before funding Costs	9.1	11.1	11.1
After funding Costs	0.2	(1.6)	(5.8)

Interest is not being fully serviced by IMC - rather interest on the syndicated loans is being settled by Prince through additional drawdowns on its loans from ICIC, of \$5.8 million in 1988 and \$4.2 million in 1989 which have been taken up as income in IMC Group.

In addition interest of \$0.7 million and \$0.4 million has been unpaid in 1988 and 1989 respectively on lending from BCCI - Grand Cayman to IMC Holdings.

The problems faced are:

- (1) The IMC Group can still not service its lending. It is being subsidised by PIH. It needs an injection of equity capital at the IMC Group level probably equivalent to the total of the syndicated loan and the loan from BCCI Grand Cayman of \$45.6 million, on the basis that interest on this lending is not being serviced at present. A more precise estimate would require a detailed evaluation of IMC and the Hospitals current cash flow forecasts. We understand that the current performance of the Hospital has been depressed and is below budget.
- (2) Prince, being entirely reliant on IMC, cannot service its lending from CFC and ICIC and a further capital injection is required to repay these facilities totalling \$60m.

We have calculated that the originally planned ratios would be satisfied if the following capital injections were made to refinance the lending identified above:

	\$ million
Sh 2	31.2
Abu Dhabi Ruling Family	52.3
International Health & Welfare	<u>22.1</u>
	105.6

If a commitment to such a capital injection could be given, the value of loans given by BCCI and ICIC would be supportable so long as the funding of IHW could be proven.

10 If the commitments cannot be given, then the problems faced are:

- (1) Non-performing loan in BCCI Grand Cayman to IMC
- (2) Syndicated loan to BCCI being serviced by ICIC
- (3) CFC loan to Prince being serviced by ICIC
- (4) ICIC loan to Prince not being serviced.

11 This situation would be untenable and the accounts need adjustment. Our suggested treatment of these loans would be:

- (1) Reversal of \$0.4 million interest on the BCCI Grand Cayman facility of IMC Holdings in 1989.
- (2) Reversal of syndication and CFC subsidies by ICIC through Prince in 1988 and 1989 (\$12.8 million) thus transferring \$12.8 million out of Prince lending in ICIC and re establishing the interest payable in BCCI with an equivalent interest in suspense creditor. (See Appendix I).

The above would require the amounts paid from ICIC to BCCI of \$12.8m to be reversed from lending to Prince at the expense of the BCCI group, who should additionally suspend interest of \$4.0m accrued (see Appendix II) on the Prince/IMC Holdings lending at 31 December 1989.

- (3) A total of \$16.8 million would therefore be expensed in BCCI in 1989.
- (4) After adjustment the remaining loan balances would be:

ICIC -	\$46.3m	less \$12.8m	\$33.5m
BCCI -	\$105.6m	plus \$12.8m accrued interest	
		less \$16.8m interest in suspense	\$101.6m
	<u>\$151.9m</u>		<u>\$135.1m</u>

This total reduction is accounted for by the expensing in BCCI of \$16.8 million.

- 5) If necessary the remaining loans should be written down to the underlying value of the project.

On the basis of the last formal valuation of the Cromwell Hospital this implies a shortfall of \$36.6 million, although the informal revaluation performed in July 1989 would reduce this to \$24.6 million, as follows:

	<u>Loans</u>	IMC Group <u>Net Assets</u>	IMC Group <u>Revalued Net Assets</u>
	\$'m	\$'m	
ICIC	33.5		
BCCI	<u>101.6</u>		
	<u>135.1</u>	<u>98.5</u>	<u>110.5</u>

On this basis the additional provisions required are:

	\$'m
ICIC	18.9
CFC	<u>5.7</u>
	<u>24.6</u>

- 12 If the \$16.8 million adjustments and interest reversals referred to above were not made, the total shortfall on the loans outstanding of \$151.9 million against the revalued net asset of \$110.5 million would be \$41.4 million. On this basis the provisions required are:

	\$'m
ICIC	31.9
CFC	<u>9.5</u>
	<u>41.4</u>

- 13 The basis of the valuation used above (depreciated replacement cost) however essentially only values the "bricks and mortar" of the Hospital. In reality the total value of the project may be greater given the goodwill interest in the business and clearly the extent to which this can be demonstrated would mitigate the provision requirement referred to above.

We would be pleased to discuss this further.

APPENDIX I

Interest subsidies paid by ICIG

The following amounts have been remitted to CFC by ICIG:

1	On Syndicated lending:		
	February 1988	£2.454m	
	August 1988	£1.1150m	
	January 1989	£1.1183m	
	July 1989	£1.4679m	
		£6.1552m @ 1.6255 -	\$10.005m
			<hr/>
2	On CFC loan to Prince International:		
	December 1987	£0.442m	
	July 1988	£0.468m	
	November 1988	£0.317m	
	May 1989	£0.466m @ 1.6255 -	\$2.752m
	Grand Total US Dollars Equivalent		\$12.757m
			<hr/>

APPENDIX II

Prince/IMC Accrued Interest as at 31 December 1989

Interest accrued on Prince/IMC Holdings lending at 31 December 1989 is as follows:

	\$'m
On syndicated lending (£1.628m @ 1.6255)	2.65
On IMC Holdings loan in Grand Cayman	0.40
On Prince Intl loan in CFC	
(£0.583m @ 1.6255)	0.95
	4.00
	<hr/>

Senator KERRY. Document No. 5 was a letter which was given to the directors of the bank from Price Waterhouse summarizing the problems that had been found as a consequence of their supplementary audit, which I believe prompted you to decide that you were going to resign.

[The information referred to follows:]

② April 1990

Dear Sirs,

(TRANSACTIONS WITH SHAREHOLDERS

We have prepared an analysis of loans to shareholders of BCCI Holdings (Luxembourg) SA outstanding in BCCI Group companies or in ICIC (Overseas) Limited at 31 December 1989 - see Appendix 1. Appendix 2 provides a more detailed analysis of lending to the Abu Dhabi Group. The analyses are prepared on the basis of information available to us and may exclude certain small loans which have not been reported to us. We have also not yet been provided with a full listing of shareholders at 31 December 1989 and accordingly base the table on the percentages at 30 September 1989.

We have a number of concerns in relation to the shareholder lending:

① Abu Dhabi Group

Included within the Abu Dhabi Group are loans of \$109.4 million to HE Sh Hamdan Bin Mohammed Al Nayhan. HE Sh Hamdan died on 12 October 1989. We have seen no evidence that these liabilities will be assumed by the estate of HE Sh Hamdan nor any other evidence as to how they might be repaid. At 31 December there were deposits of \$38.6 million with ICIC (Overseas) Ltd in the name of HE Sh Hamdan and preference shares and placements with ICIC Holdings Ltd of \$55.0 million. There is however, no lien or formal right of offset available for these balances. We require evidence from the estate of HE Sh Hamdan advising how these loans will be repaid and confirming what set off arrangements are applicable.

We have been unable to obtain satisfactory documentation relating to a US\$150 million loan in the name of HH Sh Khalifa drawdown on 11 March 1988 and subsequently repaid in 1988 and 1989.

3 April 1990

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\$10 million was withdrawn in cash in September and October 1989 and charged to an account in the name of HH Sh Zayed. We have seen no customer authority for this withdrawal, nor confirmation of the outstanding balance.

(2)

Mahfouz Companies
Dubai Family

Our concerns regarding these loans have already been addressed in our briefing notes to the independent task force.

Once the outcome of the task force's work is complete and the situation concerning lending to Sh Mohammed bin Rashid Al Maktoum and Sh Khalid Bin Mahfouz is clarified we shall require independent confirmation of their loans outstanding at 31 December 1989 and of their shareholdings in BCCI Holdings (Luxembourg) SA both at 31 December 1989 and at the date of approval of the 1989 financial statements.

(3)

Wabel Pharaon and Dr Ghaith Pharaon

We have a number of concerns in relation to these two borrowers concerning shareholdings:

- (1) We have no evidence that Wabel Pharaon is the beneficial owner of 8,599,631 shares in BCCI Holdings (Luxembourg) SA.
- (2) The only security for Wabel Pharaon's borrowings in ICIC are 2,500,000 of his shares in BCCI Holdings (Luxembourg) SA. We have no evidence to support his capacity to repay these loans without selling these shares.
- (3) In December 1989 Wabel Pharaon acquired 105,321 BCCI shares from Mohamed Taufiq Jiddau according to the Luxembourg share register. We are unclear as to how this acquisition was financed and why Wabel Pharaon should want to purchase further shares in BCCI when he is trying to reduce his loan exposures in ICIC.
- (4) On 19 December 1989, \$5.4 million was debited to the overdraft account of Dr Ghaith Pharaon in Grand Cayman, representing the purchase consideration for 111,709 shares sold by Suhail Faris Al Mazrui. There are no instructions from Dr Pharaon supporting this drawdown, nor any correspondence from the vendor of the shares. The sale of Mazrui's shares in December 1989 has not been recorded in the shareholders' register at 31 December 1989, or in January or February 1990.

3 April 1990

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We require independent confirmation by Wabel Pharaon and Dr Chaith Pharaon at 31 December 1989 of their shareholdings, the shares pledged as security and of their outstanding liabilities at that date.

4 MM Hammoud

MM Hammoud is a significant shareholder in BCCI Holdings with 2,646,184 shares and is also a shareholder in CCAH. (R, 200)

His ICIC facilities are secured on 622,000 shares in BCCI Holdings (Luxembourg) SA. The balance is clean.

Management at ICIC have been pursuing the borrower for additional security and a repayment schedule. These have not been forthcoming. There is no evidence available to indicate how the loans at ICIC are likely to be reduced without the sale of MM Hammoud's BCCI shares.

We again require independent evidence supporting these exposures and evidence that MM Hammoud is the beneficial owner of 2,646,184 shares in BCCI.

- 5
- 1. Sh Kamal Adham
 - 2. Faisal Al Fulei
 - 3. Mr Sayed Jawhary
 - 4. Mr AR Khalil
 - 5. HE Ali M Shorafa

Lending to these individuals is principally secured on shares in CCAH and is discussed separately in our briefing notes to the independent task force. Given the problems we have identified concerning the loans outstanding from AR Khalil, which are detailed in our briefing notes to the independent task force, we would also like to seek independent confirmation from him of his shareholdings at 31 December 1989.

3 April 1990

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⑥

1. HRH Prince Turki
2. Shaf Corporation
3. Abdullah Saeed Badar al Rawas
4. Sh Ali Abdullah Burshan
5. HE Mohammed Habroush Al Sowaidi
6. Mohamed Al Qasbi
7. Sh Salem Ahmed Burshan
8. Mr Nasser Mohamed al Nowais

Whilst these exposures are smaller than most of those noted above, the loans are often non performing and we are concerned about the willingness of the shareholders to repay these loans.

We believe that these loans should all be independently confirmed at 31 December 1989. We also suggest that an independent assessment is made of the ability of these shareholders to repay their loans and of their performance to date. Where necessary the loans should be restructured and provisions should be established.

⑦

Independent Shareholders Circularisation

As we have already referred to, there are a number of instances where we believe it would be appropriate to independently confirm shares held by individuals or companies. This is a consequence of:

- (1) our necessary reliance on management representations in the past as to shareholders and the number of shares held.
 - (2) the instances noted (and referred to in our report to the independent task force) when shares subscribed to under the 1989 rights issue have not been acknowledged by the customer and where there are no acceptance letters or other documentation from the shareholder.
 - (3) the time delay that is encountered in the shareholder register being updated.
- Given the significance of shareholder support at this time we believe that it is essential that all shareholder details should be independently confirmed by Price Waterhouse with the shareholders concerned. This conformation exercise should include
- (1) Confirmation by the shareholder of the shares held in ECCI Holdings (Luxembourg) SA at 31 December 1989 and at the date of circularisation.

3 April 1990

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- ✓(2) Confirmation by the shareholder that they are the beneficial owners of these shares.
- ✓(3) Confirmation of loans outstanding and contingent facilities at 31 December 1989 with BCCI Group companies and ICIC (Overseas) Ltd including any restructuring terms that may now have been agreed.
- ✓(4) Details of any BCCI shares pledged as security for this lending.
- ✓(5) Details of deposits placed with BCCI Group companies or ICIC Group Companies at 31 December 1989 and whether under lien or free of lien.
- ✓(6) Details of any other significant transactions with BCCI or ICIC.

✓In order that the confirmation exercise is truly independent, it should be fully controlled by Price Waterhouse. We would naturally conduct this exercise in a discreet manner and treat all information extremely confidentially.

We look forward to discussing these issues with you further.

Yours faithfully,

APPENDIX 1

Loans to shareholders

Shareholder	BCCI			ICIC		
	Balance at	Shares	Pledged	Balance at	Shares	Pledged
	31 December 1989			31 December 1989		
	\$ million			\$ million		
(at 30.9.89)						
Abu Dhabi Group	35.61	371.8	-	17.5	-	-
Mahfouz Companies	20.00	152.5	-	-	-	-
Mr Wabel Pharaon	11.41	-	-	75.4	2,500,000	✓
ICIC Foundation	8.40	-	-	37.9	6,252,811	✓
Mr MM Hammoud	3.55	24.9	-	60.9	622,000	✓
Dubai Family	-	-	-	-	-	-
Stock/Crescent	3.27	124.6	-	0.1	-	-
Mr AR Khalil	3.08	150.3	-	-	-	-
ICIC Staff	-	-	-	-	-	-
Benefit Fund	2.94	-	-	49.1	2,187,039	✓
Sh Kamal Adham	2.94	313.5	-	10.1	-	-
Faisal al Fulaij	1.53	113.0	-	35.1	380,819	✓
HRH Prince Turki	0.97	9.6	-	12.9	325,671	✓
Mr Sayed Jawhary	0.75	19.7	-	-	-	-
Shaf Corporation	0.70	20.7	-	-	-	-
Abdullah Saeed	-	-	-	-	-	-
Badar al Rawas	0.55	17.7	-	-	-	-
HE Ali M Shorafa	0.55	123.3	-	5.4	-	-
Ali Mohamed Bin	-	-	-	-	-	-
Aqeel Baomar	0.54	0.1	-	-	-	-
Sh Ali Abdullah	-	-	-	-	-	-
Bughsan	0.41	3.9	-	-	-	-
Mohamed al Qasmi	0.15	-	-	0.6	-	-
Sh Salem Ahmed	-	-	-	-	-	-
Bughsan	0.13	9.5	-	-	-	-
HE Mohammed	-	-	-	-	-	-
Habroush al	-	-	-	-	-	-
Sowaidi	0.11	7.5	-	2.6	25,000	✓
Mr Nasser	-	-	-	-	-	-
Mohammed	-	-	-	-	-	-
al Nowais)	0.08	7.3	58,878	0.7	-	-
and Mr Yousef)	-	-	-	-	-	-
M Al Nowais)	-	-	-	-	-	-
Mr Abdullah	-	-	-	-	-	-
Nasser Hawaileel	0.08	1.4	-	-	-	-
Juan Salim	0.06	5.3	-	0.5	-	-
Others	2.19	0.2	-	-	-	-
	<u>100</u>	<u>1,476.8</u>	<u>58,878</u>	<u>308.8</u>	<u>12,293,340</u>	

Loans to shareholders - continued

The Abu Dhabi Group lending may be analysed as follows:

<u>Balance at 31 December 1989</u>		<u>BCCI ICIC</u>		<u>Comments</u>
		\$	\$ million	
III Sh Zayed Bin Sultan Al Nahyan	3.88	127.1		Personal overdraft facility.
		12.8		Other personal overdrafts.
		2.0		
		10.0		Personal loan facility.
		<u>151.9</u>	<u>-</u>	
III Sh Hamdan Bin Mohamed Al Nahyan	0.71	74.5		Grand Cayman loan for investment purposes.
		11.1		Grand Cayman overdraft
		16.2		City Centre Hotel
			7.6	CIC facility
		<u>101.8</u>	<u>7.6</u>	
III Sh Mubarak Bin Mohammed Al Nahyan	0.54	6.9		Personal loan facility
		16.7		Personal overdraft facility
		<u>23.6</u>	<u>-</u>	
III Sh Khalifa Bin Zayed Al Nahyan	19.65	31.9	-	Personal overdrafts
III Sh Tahnoon Bin Mohammed Al Nahyan	0.20	0.2	-	
III Sh Nayhan Bin Mubarak Al Nahyan	0.10	7.4	6.3	
George Town Funding Company Limited	0.11	-	-	
Abu Dhabi Investment Authority	10.42	55.0	-	330 Madison Avenue Company owned 75% by ADIA
Sh Mohammed Bin Zayed Al Nahyan	-	-	3.6	ICIC facility
	<u>35.61</u>	<u>371.8</u>	<u>17.5</u>	

Senator KERRY. And document No. 6 is your task force report, the summary that you yourself put together with your investigative task force, in which you summarized the \$850 million which was at risk on the Credit Commerce American holdings; First American, the \$800 million on the shareholder loans, which was all BCC; the \$700 million on the Gokal shipping problems; the \$100 million on the Grand Cayman miscellaneous; and subsequently, the \$500 million on the ICIC books, which was a separate entity that you are going to describe today.

[The information referred to follows:]



**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**

PREPARED BY

**M Rahman
S Jamil
A Chaudhry
R Velmi**

April 1990

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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 ^{APRIL} ~~MARCH~~ 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.

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.

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.

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.

- (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.

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

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)

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

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.

Senator KERRY. Document No. 6B, again, is the task force follow-up report which set out how you were going to ferret out the problems and correct these things for the bank and try to do some kind of work that would keep the bank whole prior to the Bank of England's takeover.

[The information referred to follows:]

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 OCAH 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 FULAI
11. IMC/PRINCE
12. AL HAJI SULTAN FADEL

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.

**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.

- 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.

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 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.

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 Chehadah 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.

- 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.

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.

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 Fulaij).

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

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 packing 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 network 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 network 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.

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 network 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 network statement of Sh. Kamal Adham will go a long way to demonstrate his ability to service and repay his loans to the bank.

**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 network Saudi Arabian businessman. The Task Force feel that he should be urgently contacted to unwind his position with the BCC Group.

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>

GULF GROUP (CONT'D)

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</u> BCC lendings	<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.

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.

- 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 BCCL.

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>

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 banks 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
c) Offshore companies		<u>263.50</u>
		705.53

Securities

Cash & Bonds		34.00
Ships mortgaged	44.60	
	<u>66.00</u>	
	110.60	110.60
Property		<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 GIH shares under pledge and as reflected in the audited accounts of GIH 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.

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).

**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.

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.

- 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
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.

**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.

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	30%
3. Mr. Abdul Latif Khazandar	- Banker	27%
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 network 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)

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.

TASK FORCE REPORT ON
MR. M.M. HAMMOUD

1.00 Background :

Mr. M.M. Hammoud is a leading Lebanese businessman whose principal business is property development internationally. He also has interest in international trading business. He is a significant shareholder of BCCI Holdings with 2,646,184 shares in BCCI Holdings. This amounts to 3.55% of the total shares of BCCI Holdings at 31.12.1989. These shares are valued at US\$105.84 million based on the price at which the last shares of BCCI Holdings were sold. He also owns 18,200 shares in CCAH which amounts to a holding of 6.30%. His holdings in CCAH are valued at US\$133.46 million.

2.00 Loan against CCAH Shares (BCCI : US\$15.1 Million)
- to Rubstone Trading Corporation SA

Rubstone Trading Corporation SA is a Panamanian company which was incorporated under Public Deed No. 6140 of May 7th, 1986 in Panama. This corporation was found to be beneficially owned by M/s Youssef Shehadeh and Kamel Rahhal, both of whom have a general Power of Attorney to act on behalf of the company. Mr. Shehadeh and Mr. Rahhal are stated to be business associates of Mr. M.M. Hammoud. (We were shown a confirmation in writing from Mr. Hammoud's office that he does not hold any shares in Rubstone Trading Corporation SA). One of the employees of Mr. Hammoud however holds a Power of Attorney for this company which has apparently been given by the beneficial owners Mr. K. Rahhal and Mr. Y. Shehadeh.

The Rubstone Trading Corporation has an outstanding loan of US\$15.1 million at BCCI Luxembourg branch secured by a deposit of 2,803 CCAH shares which have been valued by the management at US\$20.6 million. These shares are owned by Mr. M.M. Hammoud but have been cross-pledged by him to secure the borrowings by Rubstone Trading Corporation SA against the deposit of his shares.

The Task Force has been informed by the Accounts Executive, Mr. Imran Imam that Rubstone Trading Corporation SA had expressed an interest in purchasing the shares of CCAH from Mr. M.M. Hammoud. Pending the availability of the approval of other shareholders and the federal Reserve.

3.00 Notwithstanding the above stated facts and a few supporting documents produced by the Accounts officer, the Task Force is unable to conclude whether the shares belong to anybody other than Mr. Hammoud and if so whether he is beneficial owner in his own right or partly as nominee for any other shareholder. However in view of the total value of the underlying shares (as stated in 1.00 above) the loans by BCCI are considered to be adequately secured.

4.00 Hammoud - Other a/cs4.01 InvescoLoan :

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.

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.

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

	31 December 1989				
	\$ Million				
	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>-</u>	<u>-</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>-</u>	<u>-</u>	<u>-</u>	<u>12.9</u>

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 Muzaffargarh 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 Ghuman.

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.

**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.

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.

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 where 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.

Dr. Gaith 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.

**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.

**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.

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 or 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.

**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>
Total		<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

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 can 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.

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

- 1.00 Faisal Saud Al Fulaij is a Kuwait businessman of high network. 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.



EXECUTIVE SUMMARY OF

FINDINGS OF THE TASK FORCE

- 1.00 Most of the concerns expressed by Price Waterhouse in their Initial Report to the Task Force of 14th March '90 (covering 9 large loans case plus several slow moving advances in Grand Cayman) and the Supplementary Report of 6th April '90 (covering 12 loan cases including some more slow moving advances in G/C) were after detailed case by case review by the Task Force, found to be valid and justified and required significant amount of additional provisioning.
- 2.00 The Task Force review of the global audit arrangements of the BCC Group showed that these arrangements (covering all the Group's 'consolidated' locations (71) incorporating 30 banking units) are both intensive and extensive. In the earlier years they were carried out primarily by Ernst & Whinney (now Ernst & Young) with Price Waterhouse (PW) doing the audit of BCCI (Overseas) Ltd, Grand Cayman since 1975. From 1987 the global audit was consolidated under PW.
- 2.01 The audit is done in two parts - an interim audit covering the Groups' 9 months results up to September (done in October/November) and a final audit in December (extending from January to March of each subsequent year).
- 2.02 The global 'Audit Instruction' and 'Questionnaires' issued by PW to all local offices of PW and in some cases to other audit firms (where PW were not directly present) were comprehensive and extensive).
- 2.03 Senior partners of PW from UK and other key locations travelled to nearly a dozen key locations of BCC including Grand Cayman to directly review the local operation and the quality of audit and their audit findings.

- 2.04 Management's view that PW had full access to all locations' records and documents were found to be correct (with the exception of Grand Cayman where serious difficulties were faced by PW).
- 2.05 The Task Force was informed, that PW also did not have adequate access to 2 non consolidated unit's records - Kuwait and Switzerland. This was said to be due to secrecy laws and minority shareholding of BCCI. Independent Local Board of Directors were responsible for these 2 operations.
- 3.00 The Task Force found that more or less all the loan cases and transactions referred to by PW in their two Reports related wholly to the Grand Cayman branch of BCCI Overseas (or to ICIC) both of which were, audited by Price Waterhouse from their very inception.
- 3.01 The Task Force found that even where the counterpart of the transactions or loans were "parked" in other BCC location they were invariably initiated from Grand Cayman (or ICIC).
- 4.00 The audit findings of 1989, for the rest of the BCC Group were reviewed in depth by the Task Force; These were found to be very normal and indeed the issues raised were minimal as far as significant items were concerned, indicating that Management's view was correct that there has been considerable improvement year on year, in the global quality of operation in the BCC Group. This was also independently reconfirmed to the Task Force by PW.
- 5.00 The entire series of loans/transactions identified by PW as "matters of concern", fall into 3 broad categories.
- A - Loans/Transactions relating to CCAH shareholders and granted to them either by BCCI (or ICIC). (CCA is the vehicle used by some of the BCC shareholders for acquiring the First American Bank Group covering the East Coast of U.S.A.)

- B - Loans/Transactions relating to shareholders of BCCI (Holdings) Lux, SA granted primarily by ICIC.
 - C - Certain very large commercial loans granted primarily in Grand Cayman branch to a number of Business Houses or businessmen, which besides the risk of concentration of such loans to a few companies/individuals, and the corresponding risk of repayment, also had extremely poor documentation and supporting evidence of its use.
- 5.01 The Task Force was able to conclude with reasonable certainty that the 'problems' related entirely to these three categories of loans and transactions and did NOT spill over to the global business and activity of the Group which covered 1.3 million customers in 73 countries with 58 currencies, and a total advances portfolio in excess of US\$11 billion.
- 5.02 The local audits and regulatory controls in all the BCC countries were found to be of a high order, safe-guarding the quality and health of the bank in all these locations.
- 6.00 Regarding items A and B above i.e. Shareholder Loans
- 6.01 The Task Force after many hours of interviews with the concerned Accounts Executives/Accounts Officers and reviewing many files and documents made available to it (most of which were of very poor quality) concluded that:
- these share backed lendings from BCCI and ICIC, either for share acquisition or commercial/personal reasons, extended back to several years.
 - had very inadequate supporting documents including absence of written requests from the shareholders or clients.
 - often no written report of the purpose for the loans/transactions and

- in quite a few cases not even year end confirmation of balances.
- 6.02 The Task Force therefore confirms the 'concern' of PW in many of the referred cases.
 - 6.03 The Task Force simultaneously expresses considerable surprise and disappointment at such obvious flaws in basic banking procedures and documentation .
 - 6.04 The Task Force feels that the regular annual audit thereof should have easily detected and corrected such haphazard transactions several years ago.
 - 6.05 The Task Force concludes that there is little doubt from the sparse records available and inadequate explanations given by the Accounts Executives/Officers that there must be some 'interlocking' arrangements between the shareholders of both BCCI Holdings (Lux) SA and CCAH whereby in several cases 'nominee' routes may have been taken to front each others investment in these two banking groups with corresponding loans being drawn from BCCI (& ICIC) to fund such 'interim' holdings.
 - 6.06 However the Task Force concluded that as the underlying security/asset i.e. shares of CCAH and shares of BCCI (H) both have considerable real and tangible value and market worth; Therefore the real risk to the bank is in any shortfall in their gross exposure viz a viz the valuation of security and the need to provide against it. Management and PW have provided alternative basis for computing these valuations. PW's computations shows a significant shortfall while management's valuation adequately covers the exposure. The Task Force felt that in the case of CCAH some 'general provision' is called for. (This is recommended at US\$30 million.) However no such provision is deemed necessary for BCCI (H) cases.

- 6.07 The Task Force has been informed that negotiations are at an advanced stage in the United Arab Emirates (UAE) with certain major existing shareholders of the BCCI Group - both individuals and Institutional, whereby they would acquire substantial amounts of additional shares of BCCI Group, and shortly thereafter shares of CCAH - at previously transactional price of \$40 per share and at 'carrying cost' respectively. This would unwind the outstanding 'interlocking' arrangements and greatly reduce the exposure of the bank to such shareholder loans.
- 6.08 The Task Force recommends vigorous follow through of this vital Plan of Action.
- 6.09 The Task Force also recommends that in future there should be no interlocking or nominee arrangements for shareholders of BCCI (H) and CCAH, if such exists at the moment.
- 7.00 Regarding item C of para 5.00 i.e. Commercial Loans
- 7.01 The Task Force subdivided these loans into 2 categories:
- A - Normal commercial loans, granted primarily in Grand Cayman branch, that required further review of their year-end exposure and if necessary to enhance their cumulative provision in 1989.
 - B - Loans of the Gulf Group (Gokals) and all related "off shore" companies/loans linked directly or indirectly to this Group.
- 7.02 Regarding 7.01 - A the exercises has been completed with extensive and detail input from PW. As a result additional provision of \$ 79 m over and above the \$21.00 m already agreed with PW for Grand Cayman branch has been recommended to be set up in the 1989 accounts of the Group. This additional provision is now agreed with PW.

- 03 Regarding 7.01 - B Gulf Group and Related Accounts - this area of the bank's activity is perhaps the most depressing part of our findings. The Task Force after very extensive meetings with the concerned Accounts Executive/Officer and very detailed review of the several dozen files and documents made available to it were surprised and dismayed at the very poor quality of supporting documents which was supposed to be covering activities going back to 5 years and more and involving over \$250 million in loans ranging from \$1.5 to over \$10 million in the books of Grand Cayman and also "parked" from Grand Cayman in several less controlled locations of BCC i.e. Panama, Bahamas, Bahrain, Uruguay and Kuwait.

It took the Task Force only a few days to note that nearly each of these cases had common patterns of initiation, activity, fund flow, weak documentation and vague explanations from the concerned account officers which any reasonable audit process should have tracked down, identified and stopped forthwith. That it extended over so many years is a great disappointment to the Task Force - particularly since their initiations was all from the same source in Grand Cayman (and London).

The explanation given by the Accounts Officer that the business was initiated by high networth clients from the Sub Continent who wanted confidentiality and these loans were intended for shipping and/or trading business, on a project to project basis, with input from the Gulf Group, is likely to have been valid in the very early years of initiation of the business when a senior bank officer - one Mr. Hashem Sheikh (who was then the Accounts officer for the Gulf Group, and also had wide personal contacts with the business community from the Sub Continent) set up such one-off deals. The account statements for the early years seen by Task Force showed a fair volume of throughput activity and fund flows. However substantial part of the outflows appeared to land up in the accounts of the Gulf Group directly or indirectly.

For this and other similar obvious reason listed in the Task Force Report it became clear to the Task Force that the entire arrangement was set up by Mr. Hashem Sheikh in conjunction with the Gulf Group.

The Task Force has therefore recommended that all such activities should stop forthwith and all these 'offshore' accounts with outstanding liabilities at the year end should be consolidated in the Gulf Group's global exposure (until such time as any of the Sub Continent client(s) can come forward and take direct responsibility for any of the outstanding loan(s) and show the security they can offer and the basis of the repayment proposed).

The entire Gulf Group should be reviewed as a consolidated exposure, the tangible security assessed and adequate provision set up for potential shortfall.

On this basis the figures arrived at by the Task Force were as under:

<u>Gulf Group</u>		<u>\$m</u>
<u>Gross Exposure:</u>		
- Parent Co. (CIH) related	:	242.46
- Other Subsidiary Companies (not consolidated)	:	199.57
- Other off-shore loans	:	<u>263.50</u>
Total Exposure	:	<u>705.53</u>

Security:

Ships/Properties and Deposits, Government securities and other tangible assets	<u>152.60</u>
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Net 'clean' exposure covered by BCCI's holding of 92% of CIH shares (Parent Holding Company)	<u>552.93</u>
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Value of "networth" of CIH (92%) as per audited Balance Sheet <u>discounted by 50%</u> + BCC loan	<u>433.40</u>
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<u>Net Final Shortfall:</u>	<u>119.53</u>
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Proposed provisions for Gulf Group (Consolidated) for 1989	<u>120.00</u>
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The Task Force have since met the owners of the Gulf Group (Mr. Abbas Gokal) and obtained from him the following:

- (a) **Acceptance of all liabilities of non consolidated/associated Gulf Group companies and**
- (b) **Acceptances of all liabilities of all 'off shore' companies (as listed in Annexure P & Q)**
- (c) **Personal Guarantee of Proprietors/Directors and**
- (d) **Agreement that the security cover of 92% shares of GIH currently held by BCCI can be extended to cover items (a) and (b) above.**

The Gulf Group is a US\$1.0 billion asset company, as per its audited balance sheet, with operations in over 40 countries. Great care is required to handle this account. The Task Force feels that an intensive follow-through is required to restructure the activities of the entire Gulf Group and carefully monitor its operation in order to minimize any further significant loss to the Bank. For this shipping and financial experts will have to join the BCC Special Task Force set up for this purpose and their work should start forthwith.

8.00 Final Conclusion

8.01 Since

- (a) All concerned accounts officers have been removed from their assignment or severely restricted in their operation/authority.
- (b) Huge additional provision of \$265 million over and above the banks already high provision for the year of \$210 m has been set up.
- (c) A major restructuring of the Capital of the bank and the related restructuring of shareholdings of CCAH, is in final stages, bringing additional fresh capital of perhaps \$300m into the bank which will reinstate the Capital of bank to nearly 8% of risk asset.
- (d) The operative machinery in Grand Cayman is being overhauled.
- (e) No other location of BCC Group is involved and indeed have now closed their audited position for 1989.
- (f) Major restructuring of the Group for the purpose of enhancing the management strength including perhaps direct participation by the Abu Dhabi investors group.

- (g) Major re-organisation of the Group for the purpose of drastic cost cutting is already in the pipeline

Therefore

It is in the interest of all concerned who are involved in safe guarding the existence of BCC Group - the shareholders, the directors, the management, the auditors and finally the Regulators to 'close' this matter urgently and allow the Bank's Annual Report to be issued to the public, globally at the earliest.

Without this there is now a grave and real danger of a serious 'run' on the Bank, worldwide, resulting in an uncontrolled situation which would even close the entire Group with serious consequences to the 1.3 million customers, the \$17 billion plus deposits the over \$2 billion in Due to correspondent bank as well as the future of over 14,000 employees all of which will be in serious jeopardy.

Senator KERRY. Document No. 7 was a report to the directors by Price Waterhouse summarizes the problems as they had then been discovered. And this was in 1990, April 18, 1990. A year ago, all this was known within the bank and to the directors.

[The information referred to follows:]

STRICTLY PRIVATE AND CONFIDENTIAL

BCCI HOLDINGS (LUXEMBOURG) SA

REPORT TO THE DIRECTORS

18 APRIL 1990

Southwark Towers
32 London Bridge Street
London SE1 1 9SY

Telephone: 01 440 8000
Telex: 894057-8
Teletype: 01 378 0647

Price Waterhouse

18 April 1990

STRICTLY PRIVATE AND CONFIDENTIAL

The Directors
BCCI Holdings (Luxembourg) SA
39 Boulevard Royal
LUXEMBOURG

Dear Sirs

As previously reported to the Chairman and to the Audit Committee, in conducting our 1989 audit we have discovered a number of problem transactions. Detailed reports which set out our concerns have been provided to a task force set up by the bank and we have worked closely with that task force in seeking to obtain further information about the transactions and their implications for the bank. In the report attached to this letter we summarise the outstanding financial issues together with our recommendations on the courses of action which might be followed; the related control and management issues are not addressed in this report.

The issues are grouped under the following sections:

Section 1 : Uncertainty relating to major loans

Section 2 : Shareholder loans

Section 3 : Outstanding information

Section 4 : Further audit procedures

Section 5 : Estimates of funding and capital adequacy requirements

Section 6 : Proforma financial statements

These issues need to be fully addressed as a matter of the utmost urgency. They can only be resolved through a commitment of substantial financial support, the refinancing of some existing shareholdings, and the introduction of new capital. In section 5 we set out the likely funding requirement on alternative bases which indicate a minimum funded requirement of \$1.8 billion, together with unfunded support for unsecured loans of about \$400 million.

18 April 1990
The Directors
Page 2

The Board and the major shareholders will need to examine and resolve these matters within the next few days in order to safeguard the position of the bank. We cannot sign the accounts as currently drafted.

We remain available to assist you in bringing these matters to a conclusion and, when the future of the bank has been secured, in addressing the control and management implications.

Yours faithfully

 PRICE WATERHOUSE

SECTION 1 : UNCERTAINTY RELATING TO MAJOR LOANS

Audit enquiries to date have given rise to concerns about the ultimate recoverability of a number of major loan accounts which despite the considerable efforts of the task force remain unresolved at this time. These loans fall into five categories, as discussed below:

Gulf Group

Notwithstanding management assurances to the contrary, the recorded Gulf Group exposure increased from \$350 million in 1988 to \$400 million at 31 December 1989. In addition, following the substantial increase in exposure to offshore companies and our concerns about the operation and recoverability of these accounts, the task force have concluded that loans to 71 separate offshore companies totalling \$300 million at 31 December 1989 should be evaluated as part of the total Gulf Group exposure. The Gokals, the principal shareholders of Gulf International Holdings ("GIH") have now accepted responsibility for these accounts so that the total Gulf exposure is now \$700 million. They have indicated their agreement to pledge the shares in GIH against the total exposure, even though much of the lending is to non GIH companies.

The bank holds tangible security, mainly in the form of mortgages over vessels, which is evaluated at \$150 million. The bank also holds bearer shares in GIH, representing 92% of the issued share capital, but it is not known in what capacity these shares are held, or how they could be realised. Even if these matters could be clarified there is considerable uncertainty as to the underlying value of the shares as the bank has inadequate information about the financial position of GIH and related entities and of any prior charges over the assets.

The task force has acknowledged that without considerable further information about the current financial position of the Gulf Group it is impossible to assess the recoverability of the unsecured exposure of \$550 million but are reluctant to seek additional information at this time as it may prejudice the whole recovery process. The draft accounts of BCCI include a provision of \$120 million against the unsecured exposure leaving \$430 million unprovided, although the task force accepts that the further enquiries may well result in additional provisions being required.

In view of the history and conduct of this account, we are unable to judge the recoverability of the unsecured exposure and whether the provision of \$120 million is adequate.

Because of this uncertainty it will not be possible for us to issue an unqualified audit report unless the major shareholders agree to provide financial support so that any additional provision deemed necessary following a detailed assessment of recoverability will be matched by further increases in capital. Appropriate disclosure of such an arrangement would be required in the 1989 financial statements.

CCAH

Loans secured on CCAH shares have increased to \$870 million compared to \$702 million a year ago despite management assurances that the exposure would reduce during 1989. Interest for 1989 has not been serviced and additional unsupported drawdowns were debited to customer accounts during the year.

Goldman Sachs have been retained by CCAH to advise on the realisation of the investment in First American Bank. We have suggested that Goldman Sachs be asked to provide an indication of the likely sales proceeds and this should be used for purposes of valuation of the shares held as security for CCAH loans. In the absence of this valuation we have made our own estimates which indicate that there is likely to be a shortfall of the order of \$200 million which would need to be provided in 1989.

We are informed that the major shareholders are negotiating to take over at book amount the loans to the Rulers of Fujairah and Ajman. If these loans are taken over the potential loss would be reduced to some \$132 million, which will need to be provided in the 1989 financial statements.

In addition, we will require evidence that no loss will fall on the bank in respect of the guarantee of \$175 million provided by the bank to Mashriq Holdings (Ruler of Fujairah) in respect of CCAH shares.

Government of Sharjah

The total exposure amounts to \$192 million of which \$160 million relates to a loan for a steam power plant which was rescheduled in 1987 for repayment over five years. The instalments due in 1989 have not been met and a further rescheduling of the loan is proposed.

Because of the uncertainty over the recoverability of these loans it will not be possible for us to issue an unqualified audit report unless:

① interest for 1989 of \$20 million is reversed and a provision of the order of \$40 million is made; or

2 the major shareholders agree to provide financial support so that any loss on realisation will be matched by a corresponding increase in capital. This will require appropriate disclosure in the 1989 financial statements.

| The audit committee have recommended that the first option be adopted and we have taken account of this in assessing the funding requirements in Section 5.

Country Risk

The College of Banking Supervisors have insisted that the bank provide for cross border exposure to troubled debtor countries in accordance with the Bank of England matrix. During the year the bank increased its country risk provision by \$75 million to \$175 million by application of the Bank of England guidelines in almost all cases, after taking account of special relationships in Zambia, Iraq and Sudan.

The provision against Nigerian risk has been increased to 46% although this is somewhat short of the level as scored by us, other banks, independent agencies and the Bank of England. We believe that a provision of 65% is appropriate although we are aware that some banks have applied up to 75%. A further provision of \$50 million is required to increase the provision to 65%. Failure to do so is unlikely to be acceptable to the College.

Contingency Provisions

Our enquiries as confirmed by the task force have indicated that certain accounting transactions principally booked in Cayman and other offshore centres have been either false or deceitful. Whilst we and the task force have sought to identify all problem transactions it is impossible, without an exhaustive inquiry, to know whether this has been achieved.

For the purpose of the 1989 financial statements we believe that it would be appropriate to set up a contingency provision to cover any such transactions. *uncertain*

As previously reported there are examples of accounting practices being adopted which are not particularly prudent. We do not propose to pursue these further in the context of the overall results for the year. The existence of such matters reinforces the need for a reasonable contingency provision.

Whilst it is difficult to quantify the required level we recommend that a minimum amount of \$50 million should be provided.

SECTION 2: SHAREHOLDER LOANS

There have been a number of transactions in BCCI shares including the 1989 rights issue, which appear to have been financed either directly or indirectly by the bank or ICIC. Although ICIC entities are organised as separate legal bodies they are in substance under the control of BCCI management. We have expressed our concern previously about the dependence of ICIC on loans secured on BCCI shares and the extent to which it can be regarded as independent of the BCCI group. We consider that any refinancing of BCCI shares needs to take into account the ICIC exposures noted in the following paragraphs. A proforma balance sheet of ICIC at 30 June 1989 is included as Appendix 3.

(1) Mahfouz Family

At 31 December 1989 BCCI had exposure to Mahfouz and NCB of \$396 million which we now understand will be repaid out of the proceeds of the acquisition by ADIA of his 20% shareholding in BCCI at \$40 per share. We further understand that a loan of \$124 million in the name of Sheikh Mohammed Bin Rashid Al Maktoum will also be repaid through the same transaction.

Due from NCB
250
146
396

We will need to see evidence of repayments of these loans before we can conclude on the recoverability of these amounts.

(2) Pharaon Brothers

Despite repeated assurances by management to the contrary and confirmations from the borrowers' concerned we now understand that BCCI shares recorded in the names of the Pharaon brothers may have been owned by BCCI and ICIC. We are informed that these shares, representing 11.70% of BCCI, are to be acquired by ADIA at \$40 per share and the proceeds of \$349 million used to repay unsecured loans by BCCI and ICIC totalling \$205 million. We have not yet ascertained how the balance of the proceeds of \$144 million will be utilised.

In the light of this transaction we will need full disclosure from the Board about the relationship of the bank with the Pharaons and the beneficial ownership of companies financed by BCCI/ICIC where Ghaith Pharaon is recorded as being a shareholder.

(3) Hammoud, Khalil and Others

We are informed that ADIA will probably acquire further shares including those held by Hammoud and Khalil at some future date, which would enable outstanding loans to be repaid.

For the following loan amounts there seem to be few alternative sources of repayment except the realisation of BCCI shares and in the absence of a firm commitment from ADIA to acquire these shares we believe that provision or set off against shareholders' funds will be necessary.

	<u>\$ million</u>			
	<u>Percentage held</u>	<u>Shareholding Share @ \$40 per share</u>	<u>Related loan exposure</u>	
			<u>BCCI</u>	<u>ICIC</u>
MM Hammoud	3.55	106	-	61
AR Khalil	3.08	92	30	-
ICIC Staff				
Benefit Fund	2.94	87	-	82
Faisal Fulaij	1.53	46	-	28
Prince Turki	0.97	30	10	13
Shaf Corporation	0.70	21	21	-
Badar Al Rawas	0.55	16	18	-
AA Bugshan	0.41	12	13	-
	<u>13.73</u>	<u>410</u>	<u>92</u>	<u>184</u>

SECTION 3 : OUTSTANDING INFORMATION

Information on the following is required before we can conclude our audit. Much of this information was requested some time ago and is, we understand, in the process of being gathered.

(1) Loan reviews

Loan reviews on the following are incomplete and further provisions may be required once we have evaluated the outstanding information listed below:

- Sheikh Hamdan (Deceased) - We have not yet seen evidence from the estate of HE Sheikh Hamdan that loans totalling \$109 million will be repaid out of the estate.
- Sheikh Kamal Adham - net worth statement awaited; task force estimate of \$30 million provision not reflected in draft accounts or in schedule of proposed adjustments.
- GR Pharaon - 1989 financial statements for Independence Bank to support valuation of security.

(2) Task force reports

Reports from the task force on their reviews. When received we will need to evaluate the extent that their reports address the concerns raised by us in the detailed briefing reports provided to them and the extent to which further investigation is necessary.

(3) Confirmation of customer balances

We have not yet received confirmation of the loans in the names of Mahfouz, Maktoum, Khalil and some of the other shareholders listed in Section 2. These will require confirmation unless they are taken over under the refinancing arrangements. In addition we shall require the following confirmations of balances which are particularly important in the absence of written instructions from the customers concerned:

Sheikh Kamal Adham, Sheikh Abdul Aziz Ibrahim, Sheikh Walid bin Ibrahim, Sheikh Rossais.

(4) BCP

Confirmation from senior BCP management that customer loan balances over \$5 million are unrelated to other borrowers of BCCI.

(5) KIFCO

We require senior management to provide balance sheet analyses, in the absence of PW access to this entity which has been denied. Preliminary information indicates that further provisions may be required against exposures to customers common to the BCCI Group.

We also require reconciliation between placements shown by BCCI with KIFCO and amounts recorded in KIFCO's financial statements provided to us by their auditors.

(6) Capital Notes

Details of subscription and source of funds for December 1989 issue of \$81 million.

(7) US legal and regulatory issues

Evaluation of US regulatory position following receipt of representation letters from US law firms and finalisation of disclosure in financial statements.

SECTION 4 : FURTHER AUDIT PROCEDURES

The following audit procedures need to be completed before we can finalise our report on the 1989 financial statements.

- (1) Evaluation of the report from the task force and other outstanding information referred to in Section 3.
- (2) Subsequent events review
 - Review sources of and accounting for additional capital provided by shareholders and implications for future results and operations.
 - Discussion of current results with management and outlook for 1990.
 - Review of movements on major loan and deposit accounts in BCCI and ICIC and new loan drawdowns.
- (3) Assurances from the major shareholders about continued financial support.
- (4) Assurances from the Board and Senior Management about the financial position of the group and the fair presentation of the accounts. In particular that they have made due and proper enquiry that:
 - they are fully satisfied that the extent of false recording of transactions has now been identified and disclosed in written reports provided to them and us.
 - they are not aware of any other accounts, transactions or material agreements that are not fairly described or properly recorded in the financial and accounting records.
 - all other financial and accounting records and relevant data have been made available to us.
 - all loan exposures and accrued unpaid income thereon will prove fully collectable in the normal course of business and that the provision for loan losses totalling [\$] is sufficient to cover any losses which may arise on realisation of the loan portfolio.
- (5) Confirmation from the College of Banking Supervisors that the banking licences in the principal countries of operation will continue for the foreseeable future.

SECTION 5 : ESTIMATES OF FUNDING AND CAPITAL ADEQUACY REQUIREMENTS

We set out below our estimates of the requirement for:

- (1) the proposed refinancing of shares in BCCI by ADIA, and;
- (2) the assumption of some of the loans secured on CCAH shares, and;
- (3) the additional capital required to restore the capital/risk adjusted assets ratio to 8%, and;
- (4) the contingent liability in respect of loan commitments.

The level of funding required will vary depending upon the level of BCCI shares to be taken up. For illustration purposes we have provided estimates on the following bases:

Alternative 1 : the acquisition of the 20% Mahfouz shareholding.

Alternative 2 : the acquisition of the Mahfouz and other shareholdings totalling 45.4%.

		<u>\$ million</u>		
FUNDING REQUIREMENT		ALTERNATIVE 1	ALTERNATIVE 2	
1	<u>Refinancing of BCCI Shares</u>			
	Percentage shareholding to be acquired			
	Stage 1: Mahfouz	20.0	596	596
	Stage 2: Pharaon brothers	11.7		349
	Stage 3: Hammoud, Khalil and others	<u>13.7</u>		410
		<u>45.4%</u>	<u>596</u>	<u>1,355</u>
2	<u>Assumption of CCAH loans</u>			
	Fujairah and Ajman		294	294
3	<u>New Capital (Appendix 1) →</u>	<u>897</u>	<u>420</u>	<u>400</u>
	FUNDING REQUIRED	<u>1,787</u>	<u>2,069</u>	<u>996</u>
	UNFUNDED REQUIREMENT			
	Contingent liability for commitment to fund shortfall on Gulf Group	<u>430</u>	<u>430</u>	

on this basis
Cap. ratio is 8%!

SECTION 6 : PROFORMA FINANCIAL STATEMENTS

Set out below are the proforma financial statements at 31 December 1989 after giving effect to the adjustments proposed and additional capital required under the alternative funding requirements referred to in Section 5.

PROFORMA BALANCE SHEET

	Smillion		
	PER DRAFT ACCOUNTS	ALTERNATIVE 1	ALTERNATIVE 2
Cash and other liquid assets, including new capital to be paid in	12,376	13,273	12,796
Loans and advances (Appendix 2)	10,375	9,861	10,083
Other assets	<u>908</u>	<u>908</u>	<u>908</u>
	<u>23,659</u>	<u>24,042</u>	<u>23,787</u>
Capital Fund (Appendix 2)	1,215	1,339	1,343
Deposits and other liabilities	22,444	22,444	22,444
Provision against ICIC loans	-	259	-
	<u>23,659</u>	<u>24,042</u>	<u>23,787</u>

PROFORMA PROFIT AND LOSS ACCOUNT

	\$ million			
	PER DRAFT ACCOUNTS	ALTERNATIVE 1	ALTERNATIVE 2	
Profit before loan loss provisions	<u>224</u>	<u>204</u>	<u>204</u>	<u>224</u>
Loan loss provision				
Per draft accounts	(460)	(460)	(460)	(500)
Adjustments set out in Section 1				
CCAH		(132)	(132) - v	
Government of Sharjah		(40)	(40)	
Country Risk		(50)	(50) - v	
Contingency		(50)	(50) - v	
Adjustments set out in Section 2				
Shareholders loans				
- BCCI		(222)		
- ICIC		(259)		
	<u>(460)</u>	<u>(1,213)</u>	<u>(732)</u>	<u>(276)</u>
Tax, extraordinary items and outside shareholders' interests	<u>(122)</u>	<u>(122)</u>	<u>(122)</u>	<u>(122)</u>
Loss attributable to shareholders	<u>(358)</u>	<u>(1,131)</u>	<u>(650)</u>	<u>(398)</u>

CALCULATION OF NEW CAPITAL REQUIREMENTS

	<u>\$ million</u>	
	ALTERNATIVE 1	ALTERNATIVE 2
Risk adjusted assets (Page 2)	13,976	14,020
Capital ratio, at 8%	1,118	1,122
Less: adjusted capital, for capital adequacy purposes (Page 3)	221	702
New capital required	897	420

CALCULATION OF RISK ADJUSTED ASSETS

	<u>\$ million</u>	
	ALTERNATIVE 1	ALTERNATIVE 2
Estimates based on draft accounts	<u>15.000</u>	<u>15.000</u>
<u>Adjustments</u>		
CCAH - Loans taken over	(294)	(294)
- Provision for shortfall	(132)	(132)
Government of Sharjah	(60)	(60)
Country risk	(50)	(50)
Realisation of or provision for shareholder loans		
Mahfouz	(146)	(146)
Maktoum	(124)	(124)
Pharoan brothers	(130)	(130)
Khalil and others	(92)	(92)
Placement of proceeds from realisation of shareholder loans with banks	54	98
Contingency provision	(50)	(50)
	<u>(1024)</u>	<u>(980)</u>
Risk adjusted assets	<u>13,976</u>	<u>14,020</u>

CALCULATION OF ADJUSTED CAPITAL FOR CAPITAL ADEQUACY PURPOSES

	<u>\$ million</u>	
	ALTERNATIVE 1	ALTERNATIVE 2
TOTAL CAPITAL FUND AS SHOWN BY DRAFT ACCOUNTS	1,215	1,215
<u>Adjustments required as set out in Sections 1 and 2</u>		
1 Shortfall on CCAH shares not taken over by ADIA (576 X \$200M) 870	(132)	(132)
2 Government of Sharjah loans	(60)	(60)
3 Country risk - Nigeria	(50)	(50)
4 Contingency provisions	(50)	(50)
5 Shareholder loans Pharaon brothers Hammoud, Khalil and others	(205) (276)	
	—	—
	(773)	(292)
	—	—
ADJUSTED CAPITAL FUND	442	923
	—	—
<u>Adjustments required for capital adequacy purposes</u>		
Amortisation of subordinated capital notes (Page 4)	(256)	(256)
Goodwill	(50)	(50)
General and contingency provision	100	100
Investment in unconsolidated subsidiaries and associates	(15)	(15)
	—	—
ADJUSTED CAPITAL FOR CAPITAL ADEQUACY PURPOSES	221	702
	—	—

VALUATION OF SUBORDINATED CAPITAL NOTES
FOR CAPITAL ADEQUACY PURPOSES

		<u>Smillion</u>
		Valuation
		on basis
		the notes
		are not
Maturity	Amount	
<u>Date</u>	shown in	
	<u>draft</u>	
	<u>accounts</u>	<u>converted</u>
Notes convertible into BCCI		
shares	1991	330
		99
Capital notes series	C	1990
	F	1990
	K	1992
	L	1994
	M	1995
	N	1994
		81
		81
</		

AMORTISATION OF SUBORDINATED CAPITAL NOTES

256

ANALYSES OF CAPITAL FUND AND LOANS AND ADVANCES
INCLUDED IN PROFORMA BALANCE SHEET

	<u>\$ million</u>	
	ALTERNATIVE 1	ALTERNATIVE 2
Capital fund - per draft accounts	1,215	1,215
Adjustments set out in Sections 1 and 2	(773)	(292)
New capital, as set out in Appendix 1	897	420
	<u>1,339</u>	<u>1,343</u>
Loans and advances - per draft accounts	10,375	10,375
CCAH shortfall	(132)	(132)
Government of Sharjah	(60)	(60)
Country risk provision	(50)	(50)
Shareholder exposure	(222)	-
Contingency provision	(50)	(50)
	<u>(514)</u>	<u>(292)</u>
	<u>9,861</u>	<u>10,083</u>

PROFORMA BALANCE SHEET OF ICIC AT 30 JUNE 1989

We set out below the combined proforma balance sheet of ICIC Holdings and ICIC Overseas based on draft accounts at 30 June 1989:

	\$ million
ASSETS	
Loans secured on BCCI shares	
Wabel Pharaon	75
Hammoud and others	184
ICIC Foundation	78
Loan to Prince International Holdings	38
Other loans, net of provisions	107
	<hr/>
	482
Cash with BCCI	140
Other assets	36
	<hr/>
	658
	<hr/>
SHAREHOLDERS' EQUITY AND LIABILITIES	
Deposits and other liabilities	516
Shareholders' equity	82
Preference shares	15
Subordinated loan	45
	<hr/>
	658
	<hr/>



Senator KERRY. And document No. 8 is a letter to the Government of Abu Dhabi to inform the shareholders about the problem. This was a letter that came from Price Waterhouse as a consequence of your joint effort.

[The information referred to follows:]

Southwark Towers
32 London Bridge Street
London SE1 9SY

Telephone: 01 467 8969
Telefax: 884657 8
Telecopier: 01 378 0647

Price Waterhouse



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25 April 1990

As from 6 May 1990
our new Telephone Number
will be:
071-939 3000
Telecopier **071-378 0647**

HE Mohammad Habroush Al Suwaidi
Chairman
Finance Department
Government of Abu Dhabi
PO Box 246
Abu Dhabi
UAE

Dear Sir,

BCCI

We are advised that you are in the process of finalising the acquisition of shares in BCCI Holdings (Luxembourg) SA ("BCCI") such that the Government of Abu Dhabi and related institutions will hold 77% of the share capital of that company. We understand that once the acquisition is completed you will take steps to reorganise and restructure BCCI, and the advances referred to in this letter.

At a meeting of the Directors of BCCI in Luxembourg on 20 April 1990 we reviewed the status of our audit and the uncertainties surrounding the 1989 Financial Statements. (These matters had been set out in our report to directors issued on 18 April.) We advised the directors that there remain uncertainties over the recoverability of a number of major loans, in particular Gulf Group, CCAH and shareholder loans, and that further significant provisions in excess of the amount of \$500 million already provided in 1989 were required in the absence of a commitment from the Government of Abu Dhabi that any losses arising from realisation of these loans would not impair the Group's capital base.

Your representative, HE G Al Mazrui, has confirmed to us that you are fully aware of the nature and magnitude of the uncertainties and are prepared to provide the necessary financial support in the event that losses arise from realisation of these loans.

In this letter, as requested by your representative, we set out our comments on the uncertainties. We do not attempt to provide a balanced picture of the strengths and weaknesses of the group as a whole; to do so would involve the writing of a far more comprehensive document which would take some time to complete.



25 April 1990
HE Mohammad Habroush Al Suwaidi
Page 2

Gulf Group and related companies

The recorded loans to companies controlled by the Gulf Group at 31 December 1989 amounted to approximately \$400 million, in addition to which there was unfunded exposure of about \$20 million. The Gokal family and the Gulf Group have also accepted responsibility for loans to a further 71 offshore companies amounting to \$300 million. We estimate that total loans to Gulf Group and related companies have increased by a further \$50 million since the year end primarily by the application of interest, so that the aggregate exposure to Gulf is now in excess of \$750 million.

The uncertainties surrounding this lending are summarised below.

- Without exhaustive further investigation it cannot be determined that this is the full extent of Gulf-related lending.
- Over the past few years Gulf has had difficulty in servicing loans which is the underlying reason why the reported loan exposure has continued to increase. Recently obtained information about the offshore accounts gives rise to concern that the servicing of debt in prior years may have been achieved by additional borrowing.
- The acceptance of responsibility for further loans of \$300 million, many of which are not performing, gives rise to serious concerns about the purpose and recoverability of those loans as well as the reported Gulf exposure.
- The tangible security for the loans, comprising ship mortgages and bonds and cash has been assessed at \$150 million. However, a critical review of legal documentation will be required to confirm enforceability. Gulf International Holdings ("GIH"), the parent company of the Gulf Group, and the Gokal family have provided guarantees in respect of the borrowings. In the absence of any knowledge as to the personal wealth of the Gokals we have assumed that the only asset of value to support their guarantees are their shares in GIH pledged as security.
- There must be some doubt to the value to be placed on GIH and whether it is realistic to assume that a third party would take over a diverse family run group operating in offshore centres and where the bank has little financial information or knowledge of the group or its constituent companies.



25 April 1990

HE Mohammad Habroush Al Suwaidi

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- . The financial information available to us is limited to the audited accounts of GIH group at 31 March 1989 which show net assets of \$416 million. These accounts show total borrowings of \$454 million but much of this is from other lenders as we believe that only \$200 million of the BCCI exposures is to companies consolidated with GIH and included in these accounts.
- . The principal asset of GIH is shown as accounts receivable including loans to related companies. The uncertain nature of the relationship between the consolidated and unconsolidated companies gives rise to considerable concern.

CCAH

The loans to CCAH and loans secured on CCAH shares have increased to \$870 million at 31 December 1989 compared with \$702 million the previous year. The increase arises from the roll up of interest, which has not been serviced, and additional unsupported drawdowns debited to customer accounts.

Uncertainties surrounding these loans are

- . the implications for the bank of the refusal by two customers (the Rulers of Fujeriah and Ajman) to accept responsibility for loans totalling \$270 million and in the circumstances whether any loss will arise from realisation of these loans and on an associated guarantee liability of \$175 million.
- . the difficulty in ascertaining why shares in CCAH held by the Ruler of Fujeriah and others have not been pledged in full to BCCI.
- . the valuation of the security of shares in First American Bank. Goldman Sachs have been retained by CCAH to advise on realisation and we have suggested that they be asked to provide an indication of the likely sales proceeds which could be used for purposes of valuation. In the absence of this valuation we have made our own estimate based on information provided to CCAH by Goldman Sachs which indicates that there is likely to be a shortfall of the order of \$200 million using a multiple of 2.1 times net tangible assets for valuation of the shares. In order to cover the loans the shares would need to be acquired at 2.5 times net book value.



25 April 1990
 HE Mohammad Habroush Al Suwaidi
 Page 4

Shareholder loans

At 31 December 1989 BCCI had exposure to a number of shareholders, the recoverability of which would seem to be dependent on realisation of their shares in BCCI at \$40 per share. Our concerns about the level of exposures and the manner in which they have been recorded have been reported to the Directors. We understand that you intend to acquire substantial shareholdings from existing shareholders and that unsecured loans recorded in their names will be repaid. We have identified the following loans to shareholders where we have concerns about recoverability in the event that they are not acquired at \$40 per share:

	<u>\$ million</u>	
	<u>Shareholding</u>	<u>Unsecured</u>
	<u>Percentage</u> <u>Shares @ \$40</u>	<u>loan exposure</u>
	<u>held</u>	
	<u>\$</u>	
Mahfouz family	20.00	596
Related loan exposure in		
the name of Sheikh Mohammed		124
Sheikh Kamal Adham	2.94	88
AR Khalil	3.08	92
Prince Turki	0.97	30
Shaf Corporation	0.70	21
Badar Al-Rawas	0.55	16
AA Bugshan	0.41	12
	<u>28.65</u>	<u>855</u>
		<u>477</u>

(* excludes \$250 million placements with NCB, controlled by the Mahfouz family).

There are loans to BCCI shareholders by ICIC of \$269 million where recoverability would also seem to be dependent on realisation of BCCI shares at \$40 per share. As ICIC entities are in substance under the control of BCCI management any refinancing of BCCI shares also needs to take into account ICIC exposures to BCCI.



25 April 1990
HE Mohammad Habroush 'Al Suwaidi
Page 5

Outlook for 1990 and beyond

You have indicated your intention to reorganise and restructure BCCI to ensure its continued development. Although we are not aware of your specific plans we believe that there are likely to be significant costs associated with any such reorganisation which will need to be taken into account in future years. This would include:

- (1) additional provisions for the loans referred to above when the uncertainties about their outcome can be quantified. In our opinion these could be of the order of \$500 million.
- (2) the loss of income from significantly reduced charges to Gulf and CCAH related lending. In 1989 such income exceeded \$240 million.
- (3) one-time costs associated with reorganisation and restructuring including substantial reduction in staff numbers and closure of unprofitable operations.

The accounts to be approved by the board do not include provision to cover these uncertainties on the basis that financial support would be available in the event that losses arising from the realisation of these loans and the necessary costs associated with the reorganisation and restructuring of the group could impair the capital base.

We should be pleased to provide whatever assistance you may require in the resolution of the matters discussed above.

Yours faithfully,

Senator KERRY. And finally, document No. 9 is a letter to the regulators in Luxembourg which was a summation of the same problem that had been summarized to the directors and summarized in the Price Waterhouse report.

[The information referred to follows:]

Southwark Towers
37 London Bridge Street
London SE1 9SY

Telephone 01 407 6389
Telex 88465/ 8
Telecopier 01 378 0647

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Price Waterhouse

27 April 1990

As from 6 May 1990
our new Telephone Number
will be:

071-939 3000

Telecopier **071-378 0647**

Mr A Philippe
Institute Monetaire Luxembourgeois
63 Avenue de la Liberte
2983 Luxembourg

Dear Mr Philippe,

BCCI

As requested I enclose 1989 financial statements for the following BCCI entities which we have initialled for the purposes of identification.

BCCI Holdings Luxembourg SA - consolidated financial statements
BCCI SA - in accordance with IAS together with accounts in compliance with Luxembourg law and a reconciliation between the two
BCCI (Overseas)

These drafts are to be presented to the board on Monday and we are prepared to sign the audit report as drafted subject only to the following:

- ✓ 1) Completion of subsequent events review, including review of share register and sources of additional capital provided by shareholders.
- ✓ 2) Acknowledgement by the shareholders' representative that our letter of 25 April has been received. A copy of this letter is enclosed for your records.
- 3) Confirmation that the shareholders' loans referred to in our letter are to be repaid.
- ✓ 4) Representations by management and the directors about the basis of preparation of the financial statements.
- 5) Board approval of the draft financial statements. There is a proposal to increase the provisions by a further \$100 million to \$600 million; this needs to be confirmed with the shareholders' representative and has not been reflected in the enclosed drafts.



27 April 1990
Mr A Phillippe
Page 2

I expect that these matters should be resolved on Monday. Please let me know if you have any comments on the drafts.

Yours sincerely,

Chris Cowan

CI Cowan

CIC/hh

encs.

cc: Mr J Beverly - Bank of England
Mr Z Iqbal - BCCI

Senator KERRY. Now those are the nine operative documents, some of which we will be referring to in the course of your testimony here this morning.

I would like to come back, if we can, let me just ask you, Mr. Rahman, have I correctly summarized each of those documents?

Mr. RAHMAN. Yes, you have.

Senator KERRY. And those are documents which you have provided this committee?

Mr. RAHMAN. Well, these were provided copies, one to the lawyers and one to Fed and one to the district attorney's office. This appears to be a fourth copy.

Senator KERRY. But that is a copy that you recognize to be a true copy of the documents that you have seen previously?

Mr. RAHMAN. Yes, I have seen these previously.

Senator KERRY. And you recognize those to be the documents as I have described them?

Mr. RAHMAN. Yes.

Senator KERRY. OK. Now if we could go back again, just tracing the history because I think it is very helpful in understanding the development of this bank and how it came to be known as it is today and to be in this problem.

You were telling us that in 1972 you were not yet associated with BCCI. You had been working as a professional, as a technocrat, as you said, in Pakistan, East Pakistan. And you were summoned, I believe, to a meeting with a Mr. Abedi. Is that correct?

Mr. RAHMAN. Well, as I said, I joined United Bank and I was with United Bank from 1966 to 1974. In 1972 United Bank was nationalized along with all of the other banks after the Bhutto government came. And at that time most of the senior executives of the bank were removed by the government and government nominees were sent to run the banks.

I was requested to continue in United Bank by the new government nominated president. And indeed, he gave me a very long lecture that we have seen through your life file and your father was Chief Justice and you should be in government sector. Why are you working in this one-family business, et cetera and so on and so forth. And now is your chance to do something worthwhile.

So he put me on a committee to restructure banking in Pakistan and merge the various banks into a lesser number of banks. And I worked on that committee for nearly 1 year. During that time Mr. Abedi had been put under house arrest, detention in his house.

Senator KERRY. What was he under house arrest for?

Mr. RAHMAN. Well, the government felt that some of the executives of the banking industry needed to be investigated.

It would make, of course, a particular case for the government to have taken over the bank without compensation.

Senator KERRY. So the banks were nationalized?

Mr. RAHMAN. Yes.

Senator KERRY. They took over the banks?

Mr. RAHMAN. Yes.

Senator KERRY. Mr. Abedi, who had been the head of one of these banks, was put under house arrest?

Mr. RAHMAN. Right.

So he was making efforts to meet me. And I was a bit hesitant because I am from East Pakistan and I know that the Pakistan, East Pakistan situation was also very raw because of the Bangladesh matter. So I didn't want to breach any law of the country. But having avoided meeting him for several months, I finally felt that out of old loyalty and knowing him for so many years, I should go and see him. So that's why I went to his house. That's why I went to his house on a Sunday.

And during this meeting——

Senator KERRY. This was while he was under house arrest?

Mr. RAHMAN. Yes, I had to go to his house.

Senator KERRY. You registered with the police and the government authorities?

Mr. RAHMAN. Yes, the police were around the house and I had to register the car, the purpose of the visit. I had no documents, so that was all right.

And he explained to me at that meeting for the first time that he very much wanted to get together with some people like me and start a world bank, a global bank for the Third World.

Obviously, he had been sitting and thinking about it on his own for some time. He explained that up to that stage in the early 1970's there were mostly national banks and savings banks. The few banks which are international are indeed the colonial banks from Britain, France, Germany, and lately from America. So they were normally not international, they were really national banks, big national banks of countries which were international in network only.

So he felt that if a genuinely global bank would be started bridging all the Third World countries and also bridging the first world, then there could be a unique banking structure which could be very, very useful socially and also very profitable.

So I was a bit taken aback that at this stage he should think such big dreams. But he did. He is that sort of person. And I told him that, of course, if it ever materializes I would certainly like to be a part of it. And he said, well, it's very close to materializing because Sheikh Zayed of Abu Dhabi has assured him that he will back such an organization.

So it was in this way that in November 1972 BCCI was born. It was born in a very small size, \$2.5 million capital.

Senator KERRY. \$2.5 million capital?

Mr. RAHMAN. Yes, that's all.

And hardly \$100 million in assets all together.

So it started with a four-country presence.

Senator KERRY. What countries were those?

Mr. RAHMAN. The head office of that bank was put in Luxembourg. It had branches in London and Abu Dhabi and Lebanon. So it started in a very humble way.

And in this \$2.5 million, Bank of America took 30 percent share. So quite rightly, Sheikh Zayed had wanted an international bank to assist in this process. And that is how Bank America came to be a partner in this project with 30 percent shares.

I joined in early 1974 when I finished with the assignment, government assignment of restructuring banks in Pakistan. And I went straight to Abu Dhabi. And I found that in fact considering

the very big bank I was running and the very good lifestyle I had in Pakistan, this bank had nothing. They had a very tiny office, no accommodation, so we all had to share, mess-type flats, and we literally had to, in those days there were not even footpaths in Abu Dhabi. There was just sand and little tarmac roads and a few buildings.

So with very, very little pay I plunged into the bank and I became, again, general manager for finance from day 1.

In this bank, Mr. Abedi explained that the founder group of executives and members should also be shareholders of this bank. And one day we may hold up to 30 percent or 40 percent of the bank. Now, considering at that time it had no value or it was too small, it didn't mean much to us. But at least it gave us something to work for ourselves.

He said that after this abrupt nationalization when we had lost everything, I don't want to face this and you shouldn't face this ever again.

Senator KERRY. Were you given a contract?

Mr. RAHMAN. No.

Senator KERRY. Were you given actual shares?

Mr. RAHMAN. No, only verbal assurance.

Senator KERRY. And you were satisfied with that?

Mr. RAHMAN. Yes, because we just sort of worked, as he said, we were like a family who was starting a family business. And we had a share in that bank.

And so we all got into the job literally without contracts or without assurances.

Senator KERRY. You say, we all. How many people were involved then?

Mr. RAHMAN. I think at maximum at the senior level of about five people.

Senator KERRY. And who were the five people?

Mr. RAHMAN. Mr. Abedi himself, Mr. Naqvi, myself, Mr. Imtiaz Ahmed, I-m-t-i-a-z, A-h-m-e-d, and Mr. Anis, who has since died. That's about the senior level. And Mr. Shafi, S-h-a-f-i, he was a senior member.

The others were medium-level executives, including those who are now in charge like Mr. Zafar Chaudry and Mr. Azizulla Chaudhry and these people. So a maximum of about 50 to 100 people were involved in the whole bank from the highest to the lowest level. So we did believe that we would have a share in the bank also.

Of course, we had no real dream how big this bank would be and where it would go because it was all theoretical.

At that time, soon after formation of the bank, it started as BCCI S.A. which was the Luxembourg Bank, but within a couple of years, Mr. Abedi decided to restructure it, and the holding company was produced. It was called BCCI Holdings. And the bank underneath it, BCC S.A. was split into two parts, one bank was left with its head office in Luxembourg called BCCI S.A., and another bank was created with its head office in Grand Cayman. The BCC S.A. bank was mostly with European and Middle East locations, and BCC Overseas Bank was mostly Third World countries.

Senator KERRY. OK, so let us just understand this as we go along. In 1974 or 1975?

Mr. RAHMAN. In 1975.

Senator KERRY. In 1975, you decided, Mr. Abedi decided to re-structure the bank.

Mr. RAHMAN. Yes.

Senator KERRY. A holding company was created.

Mr. RAHMAN. Yes, sir.

Senator KERRY. The holding company was BCCI Holdings.

Mr. RAHMAN. Right.

Senator KERRY. Underneath the holding company, which was based in Luxembourg?

Mr. RAHMAN. Yes.

Senator KERRY. Underneath the holding company based in Luxembourg were created two banking entities. One of them, the overseas banking entity based in Grand Cayman.

Mr. RAHMAN. Yes.

Senator KERRY. For a Third World, so to speak.

Mr. RAHMAN. Yes.

Senator KERRY. And the other was the BCCI S.A.

Mr. RAHMAN. Yes.

Senator KERRY. Based in Luxembourg.

Mr. RAHMAN. Yes.

Senator KERRY. And those were the only entities.

Mr. RAHMAN. Those were the only entities.

Senator KERRY. But quickly another entity was created called ICIC, was it not?

Mr. RAHMAN. Yes. Around about the same time, 1975-76, in order to hold the shares of the founder group and other senior executives, an entity was set up called ICIC Holdings.

Senator KERRY. What did that stand for?

Mr. RAHMAN. Investment Credit and Commerce, something like that. I didn't know the full details. ICIC, everybody refers to it as ICIC.

That was set up in Grand Cayman with the apparent purpose of holding the shares for the founder group.

Senator KERRY. Now, the apparent purpose, you were told by Mr. Abedi was that ICIC would be the pot of gold, so to speak, for all of you.

Mr. RAHMAN. All the founder members, and later on for the general staff, also.

Senator KERRY. Did you actually receive shares with respect to ICIC?

Mr. RAHMAN. No, sir.

Senator KERRY. You were one of the five founding members of BCC, correct?

Mr. RAHMAN. Yes.

Senator KERRY. Were you made a trustee of ICIC?

Mr. RAHMAN. No, indeed, this, in retrospective, is very surprising, but Mr. Abedi decides who will be in what position. I mean he had that sort of a personality and that sort of authority. So he, rightly or wrongly, selected all my other colleagues, except myself, as a trustee and as directors of the ICIC group of companies.

Senator KERRY. Which colleagues were those at that point in time?

Mr. RAHMAN. There were about seven all together who were there. Mr. Naqvi was there. Mr. Imtiaz Ahmed was there. Mr. Anis and Mr. Sodiq Ali, who has also died since then, and Mr. Saleem Siddiqui who came after me. And Mr. Ameer Siddiki, also, who came after me. Mr. Iqbal Rizvi who came after me. So they were the senior-most executives of the bank who were holding divisional head positions. The organization of the bank was very unique in the sense that we had Mr. Abedi as the President who had supreme authorities and rights. For all external matters, he handled affairs which was nonbanking.

Senator KERRY. Now, when you say external matters?

Mr. RAHMAN. In the sense of going to countries, meeting government people, which is not related to the bank's operation, as such. So he was the PR and the creator of relationships.

Senator KERRY. Did he also manage the relationship with respect to the secret purchase of banks in the United States?

Mr. RAHMAN. Yes, sir.

Senator KERRY. He did?

Mr. RAHMAN. Yes, sir.

Senator KERRY. And who else was involved with him in the management of that U.S. relationship?

Mr. RAHMAN. I think the maximum, two or three other executives, Mr. Naqvi would be involved, and for a small period, Mr. Kemal Shoaib, S-h-o-a-i-b, Mr. Shoaib, and Mr. Rizvi, Mr. Dildar Rizvi, R-i-z-v-i.

Senator KERRY. Is anybody else involved to your knowledge?

Mr. RAHMAN. Not to my knowledge. I mean it was kept as a very isolated activity, not in the mainstream of the bank at all. So we were not—

Senator KERRY. You were not privy to it.

Mr. RAHMAN. Not privy to this.

Senator KERRY. But you knew, did you not, just to jump ahead for a moment, but you knew that there was a relationship in the United States.

Mr. RAHMAN. In the sense that when we had conferences of BCC in various countries, delegates from National Bank of Georgia and delegates from First America used to come to those conferences.

Senator KERRY. What do you mean by delegates?

Mr. RAHMAN. Banking officials from those organizations.

Senator KERRY. Can you be more specific?

Mr. RAHMAN. Well, from First America, both Mr. Clifford, Clark Clifford, and Mr. Altman, along with Mr. K.K. Elley, and one or two—

Senator KERRY. Along with what? I am sorry.

Mr. RAHMAN [continuing]. Elley, E-l-l-e-y. And one or two other executives came from Bank America—the Bank of First America.

Senator KERRY. Now when you say a conference, can you—well, I do not want to jump that far ahead. I am going to wait. We'll come back to that. Let us come back, if we can stay consecutive here. So Mr. Abedi was handling the American side, and he was principally the front person for the bank?

Mr. RAHMAN. In the sense that any high level contacts, he would make those contacts himself. And Mr. Naqvi—

Senator KERRY. Now as the bank grew, that changed, did it not?

Mr. RAHMAN. Yes. In the sense that—in an operational sense, in the banking operation sense, various executives had two roles. One was that they had a functional role as head of inspection or head of credit, or head of finance, like myself, head of automation, head of personnel. But they also had a side role that one or two countries were allocated for them to oversee, just to keep them in touch with the functions of the bank at the field.

So in that capacity, I also had the role as head of finance plus three countries I was associated with. That was Egypt, Ghana, and Spain. Like that, different executives had different countries allocated to them to oversee.

Senator KERRY. As time went on and the bank grew considerably, I mean, give us a sense. You started out as a \$2.5 million capitalization and \$100 million in assets.

Mr. RAHMAN. Yes.

Senator KERRY. Approximately in 1974. By 1980, how big was the bank?

Mr. RAHMAN. By 1980, it was nearly \$10 billion—oh, about \$8 billion.

Senator KERRY. \$8 billion.

Mr. RAHMAN. Yes.

Senator KERRY. So it went from \$2.5 million to \$8 billion in the span of 8 years.

Mr. RAHMAN. Yes. And capital about \$600 billion.

So the growth of the bank during that time—

Senator KERRY. And during that growth, if I could just interrupt you, during that time, I gather you hired a lot of people, many of whom were not experienced in banking. Is that correct?

Mr. RAHMAN. Yes, sir.

Senator KERRY. And they were given a certain free lead, were they not?

Mr. RAHMAN. Yes.

Senator KERRY. So for instance, a relationship with a General Noriega was entered into by Mr. Abedi or by someone with some enterprising energy at the local level?

Mr. RAHMAN. I think it was at the lower level. The basic technique of the operation evolved was that Mr. Abedi wanted the senior people, the more experienced people to be in the head office to look after credit or treasury or risk areas. But where it came to external development or marketing, he preferred much younger officers. He felt that they had much more vibrant abilities and they could work longer hours. They could move about, they were not tied to family situations, et cetera, et cetera.

Senator KERRY. They also were less accountable, were they not?

Mr. RAHMAN. Well, because they never got an all round banking training in the sense that the senior bankers got. They were taken very raw and relatively ripe with few years banking, and put into country positions.

Senator KERRY. Well, is it not unusual to take people without banking experience and put them in charge of a bank in a country or a branch?

Mr. RAHMAN. Well, the No. 1 man would normally be about 8 to 10 years experience. But the immediate other officials in the bank, in the branch or in the country bank, would be quite new with 3 years to 4 years experience.

Senator KERRY. Would you describe for us, Mr. Rahman, the structure of the bank as it grew, sort of toward 1980?

Mr. RAHMAN. Well, as I said that first in the personnel structure, I started to explain that there was Mr. Abedi at the very top, there was Mr. Naqvi who was like a chief operating officer, who converted Mr. Naqvi—Abedi's ideas and things into practical shapes. And then there was a big gap between these two and the other executives who were all called general managers. All of us were called general managers.

And each of us were sort of indicated that we should all work in our own respective areas. And if you tried to encroach into another one's area, it was deemed that you were being aggressive, you want to promote yourself, and so every executive just tried to keep to his functional division and if from my accounts department, if I tried to send some of my staff across to credit division or to the inspection division, immediately I would get feedback that that was not liked and why was my staff over there in the other division.

So this is something that Mr. Abedi and Mr. Naqvi propagated also, which allowed them to deal with heads of division one to one. And therefore, you had a flat surface with lots of direct lines to Mr. Naqvi, and everybody else kept to a Chinese wall isolation in their own respective area.

When this type of structure was growing, I was very uncomfortable because in PIDC days, in the government, I could go across the board and go to any division and see any of the operation. But here I could see these Chinese walls were getting very, very water tight and we were always taught about humility and ego and anything that was slightly out of context was considered just an ego trip trying to propagate yourself or project, or become senior to everybody else. You shouldn't be senior to anybody else, you're all the same pay, same benefits, same type of—

Senator KERRY. What was your pay at this point in time?

Mr. RAHMAN. My pay had started very low at about \$18,000 and went up to about \$120,000 over the period. In pounds, sorry.

Senator KERRY. In pounds. So you were earning about \$300,000?

Mr. RAHMAN. \$120,000 pounds is about \$220,000.

Senator KERRY. \$220,000.

Mr. RAHMAN. At the end of my career, yes. And now the other situation was that realizing this, the way it was structured at the head office, and then they created many regions, about 13-14 regions, and there was a regional structure with a very senior banker in the region. They also became like in charge of the empire, and your trying to go too much into their area was also not liked. You literally had to have—

Senator KERRY. What was the impact—you have described this a sort of a free-floating management style. Is that accurate?

Mr. RAHMAN. Right.

Senator KERRY. What was the impact of that kind of management structure?

Mr. RAHMAN. Well, the impact was that the level of control required from head office was obviously missing and Mr. Abedi and Mr. Naqvi and others would say that well, all the results and all the growth of the bank is in the field. It is they who produce the results, it is they who produce the profits. What can you do sitting in London, so leave them alone. So that was propagated in the bank in order to give more power and more authority to each regional head, who, again, preferred to relay to Mr. Naqvi and to Mr. Abedi, both for their own career and to show that they are superior to head office executives.

Senator KERRY. What was the effect of having the bank split into two entities, one based in Grand Cayman and one based in Luxembourg?

Mr. RAHMAN. Well, the more number of entities there are in any organization, obviously the more isolation you can put each section to. And if you do an intercompany position, then unless you know both companies' position, you could get half a picture. So there was that situation also.

Senator KERRY. And who had the whole picture?

Mr. RAHMAN. The whole picture, Mr. Naqvi would put together in terms of the underlying activity and underlying clientele names and relationships. He had the best global picture.

In a pure accounting sense, when the figures are put together, I had a picture because all the audited cassettes used to come to me and I used to put them on computer for consolidation.

Senator KERRY. But what you would do, I understand, is take the audited cassettes—

Mr. RAHMAN. Yes.

Senator KERRY. The auditing done separately.

Mr. RAHMAN. Yes.

Senator KERRY. It wasn't your audit, it was someone else auditing. And you would draw your picture of the financial structure, would you not, from the audits that you were provided. Is that correct?

Mr. RAHMAN. Right, sir. In fact, I was going to say that because I realized the danger of this evolving structure and the management style, I insisted that we had the best and biggest auditors. And so we from the early days had two of the biggest audit firms, Ernst & Whinney which became Ernst & Young, and Price Waterhouse.

Senator KERRY. Now one of them—who was the auditor for BCCI Luxembourg?

Mr. RAHMAN. In the early days, both the holding company and the other banks, other than BCC Overseas, was done by Ernst & Whinney. And from the very beginning, BCC Overseas was done by Price Waterhouse. So one of the flag bank was done by Price Waterhouse, and the other flag bank and other subsidiary banks were done by Ernst & Whinney.

Senator KERRY. What was the effect of having two auditors auditing separate entities of the bank?

Mr. RAHMAN. Well, as far as the individual banks are concerned, they are an entity in itself. The 52 other small, small banks, they were all audited independently, and they were audited and certified by the local auditors and overseen by Ernst & Whinney. Price Waterhouse did the audit of Grand Cayman and all the branches of

the Grand Cayman Bank. At the end of this period, which took a long period from—it was more or less continuous from September all the way to February, we had two audits each year, one based on the September position for 9 months, and one based on the December position, which was done in January and February.

So we gave full authority and access to these audit firms and we indeed, toward the end were paying \$4 million a year in audit fees.

Senator KERRY. Now, at some point did Price Waterhouse become auditor for the entire bank?

Mr. RAHMAN. Yes.

Senator KERRY. What year was that?

Mr. RAHMAN. This happened in 1985. We had a tremendous disaster in treasury. And I was going to come to that. But soon after that, and all this disaster happened right under the nose of Price Waterhouse, who were auditing both the Grand Cayman Bank and the treasury division of the Grand Cayman Bank, which was a division of the bank.

Senator KERRY. Let me just step back for 1 minute.

Mr. RAHMAN. Yes.

Senator KERRY. What was attractive—why locate in Grand Cayman? What was the attractive feature about that?

Mr. RAHMAN. Well, the rationale given at that time was that in taxation terms the tax laws were such that besides paying tax in each country from the profits of the countries results, any profit remitted to head office in Luxembourg got taxed again. So we were suffering two-tier taxes, one at the locations which was quite high, and then, when the profits were brought to Luxembourg, it got taxed again.

So while having one of the bank's head office in Grand Cayman, this two-level tax was avoided, and only the tax of the country concerned was there. And Grand Cayman did not put any supplementary tax on it.

But in reality what happened is that the tax of each of the Third World country was so high that it didn't make any real sense of what was left of the profit at Grand Cayman. And Grand Cayman itself, which is supposed to be a profit center, became a major loss center. So it did not have any tax-free profit at all.

Senator KERRY. There were also benefits, were there not, with respect to regulation, regulations are not very stiff, correct?

Mr. RAHMAN. Regulations also, because of the evolving Basle conference and others, it was seen that the regulation requirements were very stiff in the European context. Grand Cayman had a small regulatory agency, though controlled by Bank of England. And there was obviously more flexibility in recordkeeping in Grand Cayman.

Senator KERRY. Now, Mr. Rahman, here is the bank steaming along doing very well, going from \$2.5 million up to \$8 billion. Get into the 1980's, got this freewheeling regulatory structure, free-wheeling management structure, a lot of money coming across the transom, and all of a sudden 1985, big losses. Correct?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Trouble on the horizon.

Mr. RAHMAN. Yes, sir.

Senator KERRY. Is that right?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Would you describe the 1985 trouble?

Mr. RAHMAN. As I was explaining that because of this freewheeling structure, I had particularly instructed the partners of both Price Waterhouse and Ernst & Whinney that if ever anything out of context was found in the course of their audit, they must inform me and not wait for the normal audit process or end-of-the-year audit. And in a few cases, they would bring such incidents and I would take immediate retroactive action on that.

On that basis, we had also a very powerful internal audit division which was set up by Bank of America, indeed, in the early 1970's. And this division was the most feared division of the bank, because they had over 200 inspectors going around the world spontaneously without notice, very short notices, doing intensive investigative audit of our own operation, their reports were very, very comprehensive. They were in three parts.

There was a part dealing with the credit, which is the risk area of the bank, all of the loans and documentation, there was an area about the operational deficiencies in terms of any defects in the operation, and then there was a confidential third part which talked about individuals in that location and their lifestyle.

The purpose of such a part, the third part, was to see whether the officers and executives in the field were apparently living within their means and having lifestyle which could be explained by the nature of their job and the seniority of their job.

So every executive round the world, every officer, dreaded the inspection division, and it was headed by a very, very powerful gentleman called Mr. Saleem Siddiqui.

Senator KERRY. Called Mr. what?

Mr. RAHMAN. Saleem Siddiqui, S-a-l-e-e-m S-i-d-d-i-q-u-i, and it was said quite knowingly in the bank that he used to also keep a black book for himself, where he noted special things for use in due course.

So I tried many times to have access to that, but the instruction of Mr. Siddiqui was, they are only meant for the board, those reports, and to the general manager in control of that area, not meant for any central figure like myself. So I used to tell the Price Waterhouse and Ernst & Whinney to please review these reports and also please keep me informed, because you are more my eyes and ears than my own inspection division.

Senator KERRY. Did they in fact review those reports?

Mr. RAHMAN. I think that that was a part of their audit process. I don't know how much.

Senator KERRY. But you don't know how much?

Mr. RAHMAN. I don't know how much was shown to them and whether the edited version or the real full version, what was shown to them. But between these two levels of inspection I was expecting that every year what would come to me would be the certified, audited accounts from which are built up the balance sheet.

Coming to 1985, 1986, what happened in the early 1980's, Mr. Naqvi and Mr. Abedi persuaded the board that there are substantial dollar surpluses from the Arab world coming into the bank, and we needed now to pool it in a central place rather than leave it in 5, 6, 8, 10 countries, and so these surplus dollars should be

pooled under one control situation for better liquidity management and for better management control.

Senator KERRY. These dollars were coming from where?

Mr. RAHMAN. Mostly from the Arab world. Most of them from the Arab world. Some from Africa, Asia.

Senator KERRY. So they wanted to put these dollars into one central location?

Mr. RAHMAN. Yes, and monitor it through a central treasury division which they established in Grand Cayman.

Now, this division was manned by four or five people only under Mr. Ziauddin Akbar, Z-i-a-u-d-d-i-n A-k-b-a-r.

Senator KERRY. Say that again?

Mr. RAHMAN. Ziauddin Akbar, A-k-b-a-r.

Senator KERRY. Did this group have anything to do with ICIC?

Mr. RAHMAN. No; ICIC was run completely independently and separately. I'll come back to that.

Senator KERRY. Did these dollars somehow come to be played in the commodities market?

Mr. RAHMAN. Yes. The board, after reviewing this proposal they laid down very strict regulation regarding how it was to be used, and they laid down that the bulk of it would be used for liquidity management by placing it with other prime banks or buying U.S. Government stocks or Treasury notes and U.K. Government stocks, gilts, et cetera, and a small amount—less than 10 percent—was to be used for trading.

Senator KERRY. For trading in commodities?

Mr. RAHMAN. In commodities, foreign exchange, even bonds.

Senator KERRY. With an agreement that the exposure of the bank would go up to \$100 million, is that correct?

Mr. RAHMAN. Yes. The guidelines were that the maximum loss that Treasury should ever, ever have is \$100 million. That was what the bank felt it could ever sustain. Not that they wanted to lose \$100 million, but that's the maximum cutoff point.

Senator KERRY. In point of fact, how much did the bank wind up losing?

Mr. RAHMAN. Now, just to give you an idea, in order to lose \$100 million on a 10-percent margin it means that the bank could expose itself, gross exposure, of about \$1 billion, so these were the guidelines on which it was working.

Indeed, what happened is that in the mid-1985's the chief treasurer and his assistant, along with Mr. Naqvi's guidance, started taking very, very large exposures, and this was going on simultaneous to the interim audit which Price Waterhouse people were doing at the time.

Price Waterhouse used to come in immediately after September 9-month closing and literally live to mid-December and then with a brief break over Christmas and New Year's would come back again for the final. So it was a constant process of audit. I met God-knows how many dozen partners and managers all over the building, and they had free access to go including to the treasury division.

The treasury division was physically located in London, though the booking was going on in Grand Cayman books. So it was easy enough to meet the officers concerned and the Price Waterhouse team used to go and talk to them and see their records and books.

Senator KERRY. What are you saying? What is the bottomline there with respect to the loss on commodities?

Mr. RAHMAN. What I'm saying is that if the guidelines had been maintained and Price Waterhouse had been doing anywhere near their job, there's no way that this \$1 billion exposure which was taken to \$11 billion exposure in the course of 3 or 4 months could have happened—\$11 billion exposure.

Senator KERRY. So 11 times the exposure level?

Mr. RAHMAN. Eleven times, and this was done by not more than two or three of the executives in the treasury division directly under Mr. Naqvi, and the reason why this is being done is that they were in total breach of a basic policy in trading, treasury trading, and that is that when you receive a premium for an open position for a forward contract that premium is a reserve for settlement when the contract matures, but they were using this premium as if it was income, and booking it as income.

Senator KERRY. So this was sort of the beginning of a Ponzi scheme, is that correct?

Mr. RAHMAN. Yes, exactly, and every time it became a loss they would have to take a larger position, and we also found in retrospect, or when I did my inquiry subsequent to the disaster, that they had also set up an intermediary company called Capcom.

Senator KERRY. Capcom?

Mr. RAHMAN. Capcom, C-a-p-c-o-m, in which Mr. A.R. Khalil, who was a shareholder of the bank, was also a shareholder of that company, and it is said that Ziauddin Akbar himself had interest. I don't know who else had interest. So many of the trades were being put through that company. So considering that the—

Senator KERRY. This was what year?

Mr. RAHMAN. This was still going on through 1984, 1985.

Senator KERRY. 1984, 1985?

Mr. RAHMAN. Yes, and considering that Price Waterhouse had not only their—

Senator KERRY. Mr. Khalil, as you describe him, is he a shareholder in BCCI?

Mr. RAHMAN. He is deemed to be a shareholder in BCCI.

Senator KERRY. What does "deemed" mean?

Mr. RAHMAN. Because subsequently in Price Waterhouse's report, which I have referred to, they have said that for several years they have not been in touch with him and we don't know what his status is, and whether he left, or whether he was ever there.

Senator KERRY. What's his relationship to the bank?

Mr. RAHMAN. Well, he has been very close to the bank. At least, his name has been very close to the bank in terms of being a shareholder of the bank and also a shareholder of CCAH First America.

Senator KERRY. A shareholder of CCAH First America?

Mr. RAHMAN. Yes.

Senator KERRY. Was he somebody who you came to understand was a convenient purchaser of stock and somebody in whose name shares moved back and forth?

Mr. RAHMAN. Well, in the investigation I carried out in March-April 1990, which I will refer to later, we concluded that we could

not be certain about the status of A.R. Khalil, but efforts should be made to find A.R. Khalil and get his documentation done.

Senator KERRY. Have you ever met him?

Mr. RAHMAN. I have never met him.

Senator KERRY. Has anybody ever met him?

Mr. RAHMAN. I don't know.

Senator KERRY. Is he a real person?

Mr. RAHMAN. I don't know.

Senator KERRY. Could he not be a real person?

Mr. RAHMAN. Could be.

Senator KERRY. Have you heard that?

Mr. RAHMAN. I read that in some papers and things afterward.

Senator KERRY. But you don't know the answer?

Mr. RAHMAN. I don't know the answer.

Senator KERRY. Excuse me?

Mr. RAHMAN. I don't know the answer.

Senator KERRY. But that same Khalil to whom you're referring was made a substantial shareholder in the First American Bank, is that correct?

Mr. RAHMAN. Yes.

Senator KERRY. But you don't know who he is?

Mr. RAHMAN. No, I don't.

Senator KERRY. No background?

Mr. RAHMAN. He is supposed to be a high net worth man from Saudi Arabia, and that's about all that was ever referred to.

Senator KERRY. Returning now to the 1984-85 transactions, prior to these losses, had the bank been incurring losses through any other schemes that you knew of?

Mr. RAHMAN. No. Indeed, till this year, every year had been financially a good year, and this is why I am very depressed to read allegations that the bank was never in profit. I mean, the business of the bank grew.

The deposits of the bank grew, and indeed, because of the network of the bank, its trading business, it became known as the trading bank of the world, one of the trading banks of the world, and in banking terms there is substantially more banking income for doing trading business because of the commission and foreign exchange earnings that you get from international trade compared to just personal loans, which has a fixed return, et cetera.

So everybody who knows banking would say that it would be far better to spread your activity not in fixed term loans with differentials but to add on by actually associating in the business in terms of commission and exchange income.

Senator KERRY. So the bank was going for bucks, bigger bucks, faster profit?

Mr. RAHMAN. Yes, but I mean, trading is not something nasty and wrong in the first instance.

Senator KERRY. No, but it is a question of who is doing it, is it not?

Mr. RAHMAN. Well, by the last year that I was there, the bank was doing about \$18 billion worth of global trade. Considering that global trade is over \$3 trillion, that is not a big sum, but it was a very big sum for an 18-year-old bank, and that was a very big source of its international income.

Senator KERRY. Now, prior—so is your testimony that in 1984 and 1985 this is the first loss that you became aware of?

Mr. RAHMAN. Yes. Well, 1985, 1986. In 1984 they started activity in this manner.

Senator KERRY. In 1985 and 1986 it was loss?

Mr. RAHMAN. Yes, the loss. Now, that loss, Price Waterhouse—again what happened is that they did not find this loss in the September audit, and again December audit was complete for the rest of the world when they informed me suddenly, the partners, that they have come across these irregular transactions in treasury which will lose between \$300 and \$500 million, which was equivalent to the whole capital of the bank, so I was stunned that they should tell me later in January that something of this nature has happened. I said, these must be going on for months together, if not years. What happened?

They fudged and they foundered and they said, well——

Senator KERRY. You said they fudged?

Mr. RAHMAN. They never gave me a good explanation as to why they didn't find them before. I said, look, the department has hardly 10 people. It has, maybe 100 files, and they were all sitting in one small section of one floor, and all this is happening over there.

We are supposed to get confirmatory certificates from the counterparties, and the counterparties were all top names like Goldman Sachs, Salomon Brothers, and all these big names. I said, how can you have been auditing this and not knowing that such positions are being taken? The technique of auditing treasuries is well-established. It's not new. I mean, it's new to those who don't know how to do it, but it's very well established, and they had special treasury-related audit experts who were doing the treasury audit.

Senator KERRY. Now, just to be clear here, at this point in time these losses were incurred under which company, the overseas—under the overseas entity?

Mr. RAHMAN. The head office Grand Cayman, yes.

Senator KERRY. At this point ICIC didn't figure into this?

Mr. RAHMAN. Not as yet. ICIC's a parallel situation, and I'll come back to that.

Senator KERRY. It's a parallel situation?

Mr. RAHMAN. Completely parallel to the bank.

Senator KERRY. ICIC is what we would call the bank within the bank, is that correct?

Mr. RAHMAN. Yes, sir, and we'll come back to that just now, OK.

Senator KERRY. Now let me just understand for the record, here. The impact of these losses of some—was it \$400 million?

Mr. RAHMAN. \$430 million.

Senator KERRY. \$430 million—the impact of the loss was to wipe out BCCI's capital, was it not?

Mr. RAHMAN. Effectively, yes.

Senator KERRY. Effectively. So here is a bank, sitting here suddenly stripped of its capital.

Mr. RAHMAN. Right.

Senator KERRY. And deeply entwined with a number of people who had big loans but weren't paying them and possibly weren't capable of paying them, correct?

Mr. RAHMAN. Yes, sir.

Senator KERRY. So what was the next step?

Mr. RAHMAN. Well, they insisted that they could only certify the accounts after we close out the positions, and we were very upset that if we closed these positions very abruptly you lose even more, but they were not willing to wait to close on due dates, so we lost over \$430 million in this.

Senator KERRY. Well now, in fairness, it was a good call by Price Waterhouse?

Mr. RAHMAN. It was. It had to be done, but there are mechanics. If anybody understands treasury of doing proper closing, you can buy, rebuy, resell, forward contract, instead of just saying cut. The moment you cut, the market responds and they take a harder position on you, and I think the whole of Chicago and New York must have been horrified that this little bank had taken this sort of position and was closing up.

So anyway, so at that time we were literally stripped of capital. Mr. Abedi went to Abu Dhabi, apparently to try to salvage something from Sheikh Zayed, and the next I knew was that \$150 million was being raised to compensate for this, and this arrived quite abruptly, \$150 million.

I was thinking—the general news was that it was coming from Sheikh Zayed or somebody from Abu Dhabi, but I pressed Price Waterhouse if they were aware how this was happening, because they were on an ongoing basis watching the situation, and indeed, Ernst & Whinney partners had got in the act. Their experts had come, because effectively the whole group was finished, so Ernst Whinney got very, very upset that one bank in the group have caused the whole group to go down.

Early, also, they wanted to be auditors of all the banks, but somehow overseas remained with Price Waterhouse.

Senator KERRY. Let me ask you at this point, Mr. Rahman, we are into 1986. Previously, in the early years of the 1980's, were there not some accusations about the bank having been involved in some irregularities in some of the markets in Europe?

Mr. RAHMAN. Whenever these irregularities that used to come, whether in Sudan or Egypt or India, used to be separately investigated by the inspection division and sometimes I would get involved to understand the financial implication.

But these were 90 percent of the time related to foreign exchange-related transactions because in most Third World countries the foreign exchange regulations are very tight, and the moment the regulations become tight the secondary market operates and different values begin to quote itself in currencies, so sometimes the manager would get involved in some irregularities in relation to foreign exchange transactions, and we in most cases would want to either sack the man straight away or suspend him, or bring him to head office in a nonfield job so that he cannot be in the field doing any transactions of his own.

Senator KERRY. There was a memo written in this country by the CIA in 1986 which already had a reference to BCCI as the bank of crooks of criminals. You have heard of that memo, have you not?

Mr. RAHMAN. I have heard subsequently even more. But when you have 1.3 million customers in 73 countries and the customers

use any name or any company name, it would be—unless you are directly involved in creating that account, nobody would ever get to know what that account was and what was the nature of the transaction in the account. If at all, the local general manager or the local country manager may know. And somebody in the head office also may get to know. But it would be not normal for a global bank with 1.3 million customers to relate to this account. I mean, as recently—

Senator KERRY. Is it not fair to say, and believe me, I am not trying and I do not want to and I am sure I cannot put words in your mouth, but you have described a structure that is pretty loose, management structure. You have a lot of young people out there who do not have banking experience. We have all seen, and in recent years we are learning a lot more about the problems of banks. We have had very well known, known bank of high reputation and standing, that have had problems with money laundering in this country, knowingly.

Mr. RAHMAN. Yes.

Senator KERRY. So it is clear that the notion in the banking industry, know your customer—you are familiar with it. Correct.

Mr. RAHMAN. Yes.

Senator KERRY. That is the Basle Convention adopted principle of banking, is it not?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Know your customer.

Mr. RAHMAN. Yes, sir.

Senator KERRY. And in point of fact, it is fair to say that that is not a principle that has been really applied very strictly by many banks in the world, is it? Is that accurate?

Mr. RAHMAN. Well, I believe that—

Senator KERRY. Or did they know General Noriega and like it?

Mr. RAHMAN. When we come to these sort of names, it is very difficult for a bank which has entered a country for commercial business, and the hundreds of banks entering countries for commercial business, to know what the President of the country, how important or how bad or how good he is. I do not think that banks go into countries with moral issues in mind, to safeguard the country from immoral leaders. And if every bank is following a leader, then knowing that leader perhaps is deemed credible.

As I will come to Panama and Noriega again later on, I will expound on this a little bit more.

Senator KERRY. OK. Good enough.

Mr. RAHMAN. But coming back to the treasury because it is such an important event in the life of the bank that I think it has sinned the bank and the bank has really never fully recovered from such a heavy loss.

But coming to the \$150 million, I pressed Price Waterhouse to try and explain, you know, and they explained that the trustees of the staff benefit fund—and here is where ICIC is coming in—has contributed this from the staff benefit fund.

This was shocking news in the sense that in a normal situation, if a bank faces a crisis of this type, there is a standard process to be followed. And that is that the directors would be informed. The directors would then inform the shareholders full facts, and give

the choice to the shareholders of either you close this bank or you recapitalize the bank. And the choice is very easy that they have to issue new capital.

Senator KERRY. Did that take place here? Was anybody notified?

Mr. RAHMAN. Nothing like this happened.

Senator KERRY. Nothing took place?

Mr. RAHMAN. Nothing was done.

Senator KERRY. Now the exposure you are talking about, am I correct that at this point in time in 1985 or 1986, you had \$275 million to the Gokal Shipping Group?

Mr. RAHMAN. There were large loans. I would not recall, but these clients were all there. The ones which you see in 1989, 1990, were already there in 1985, 1986, but figures may have been substantially smaller. But the names were similar.

Senator KERRY. Were you concerned about the possibility of a run on the bank at this particular moment in time?

Mr. RAHMAN. It was kept an incredible secret. Not more than four, five people knew what had happened because it had happened in a very specialist area, not affecting the commercial banking around the world.

Senator KERRY. Because it was this unique——

Mr. RAHMAN. It was a unit——

Senator KERRY [continuing]. Set-aside?

Mr. RAHMAN. Exactly. It was a small unit, under 10, 12 people directly under the chief executive. And so there was hush-hush talk that there had been some loss, we heard that there some loss. But nobody guessed how big and nobody knew why. And it was isolated from the rest of the bank totally. The rest of the bank was audited, closed, certified; everything. So it was not anything to do with the bank.

So, anyway in retrospective, I felt that the reason why the board and others had agreed, and the rationale given was the bank was collapsing anyway and the staff could had lost their job anyway and savings would have gone anyway, so you might as well use some of this to try and salvage the bank, which I suppose in a very broad commercial sense, moral sense, made meaning, but it did not follow the technical steps.

Senator KERRY. So who bailed out the bank? There was no technical process implemented to do deal with this, but the bank got bailed out.

Mr. RAHMAN. \$150 million of it got bailed out.

Senator KERRY. Only \$150 million.

Mr. RAHMAN. \$150 million.

Senator KERRY. And that was bailed out partly from ICIC?

Mr. RAHMAN. Only from ICIC.

Senator KERRY. Only ICIC.

Mr. RAHMAN. Only ICIC. The—from the staff benefits part of ICIC. There are different part of ICIC. I will explain that.

Senator KERRY. From the staff benefits side.

Mr. RAHMAN. Staff benefit side.

Senator KERRY. Now at this point in time, you still understood ICIC to be the golden nest egg for you people who had been in the bank early and for employees. Is that correct?

Mr. RAHMAN. Exactly.

Senator KERRY. Now what happened after the \$150 million came forward?

Mr. RAHMAN. Well, that—I was then informed. I pressed Mr. Abedi for and he said yes, we have done it but do not worry, more is coming from other shareholders and you will soon see a complete revival and we will have more capital and more shareholders, very heavyweight.

And indeed, soon after that, the very powerful Saudi group, Khaleed Bin Mahfuz, who were one of the richest group in Saudi Arabia, who owned National Commercial Bank, which was the biggest bank of Saudi Arabia, took out a very big chunk of the bank.

Senator KERRY. How much?

Mr. RAHMAN. They had a right to go up to 30 percent of the bank. And they also gave capital notes of about \$300 or \$400 million which was redeemable into capital after so many years.

So that genuinely gave the bank a new lease on life and a new strength. Because up to then, most of the capital was from Abu Dhabi, which meant you are loading yourself on a single country rather than spreading it out. And this brought a very major shareholder from Saudi Arabia, which is much, much bigger than UAE.

So we managed to live out 1985, 1986, and we continued to have a fairly good growth till 1988. And then we had the situation with the drug.

Senator KERRY. The situation with the drugs?

Mr. RAHMAN. With the drugs.

Senator KERRY. You are referring to Florida now?

Mr. RAHMAN. Florida case. Now, here again, I must again explain the structure of the bank that each area was allocated to some general manager and he was like a regular mother hen to that and would not like interference from other executives. And if anything had to be discussed by him, he would not think it worthy to discuss with another general manager but only with the president. So he would only take it to the president or deal with it himself.

So the general manager for U.S.A., who was originally Mr. Shoaib, was at that time Mr. Ameer Siddiki, A-m-e-e-r S-i-d-d-i-k-i.

Senator KERRY. He was based where?

Mr. RAHMAN. He was based in London but overseeing the whole of the Americas. He was assisted during that time by Mr. Dildar Rizvi, D-i-l-d-a-r R-i-z-v-i.

So they alone oversaw the operation. We had also a very senior banker, Mr. Shafi, who was based in Miami. And we had a very senior assistant, Mr. Sakhia, S-a-k-h-i-a, also assisting him in Miami.

So there were enough executives overseeing what was then not a very big operation at all. It was a fairly small operation by the total global size.

Senator KERRY. What did you understand the BCCI operation in the United States to be then?

Mr. RAHMAN. Just that we had started four or five operation, three of them—four of them as OBU's, meaning you can do foreign business and you can bring foreign deposits; you could lend locally but you couldn't raise money locally. And all the money had to come from Middle East, Latin America, or somewhere else. But

could be lent, either abroad or it could be lent locally. So this limited the risk for the U.S. citizens.

And we had such an operation in New York, in Florida, in Los Angeles, and San Francisco. We also had a few rep offices in Houston and Chicago and Washington.

Senator KERRY. Is that your full understanding—

Mr. RAHMAN. That was our full—that was all that we consolidated, that's all that we audited. That's all that—

Senator KERRY. What about the National Bank of Georgia, First American and—

Mr. RAHMAN. No, it never came into our balance sheet. We did not even—sometimes I never saw their balance sheet.

Senator KERRY. What was your understanding then of the so-called delegates who would meet at your conferences?

Mr. RAHMAN. Yes. When they used to come, because there were some deputed officers from BCC who were seconded to these banks, they would come, plus some of the American senior executives would come. And they would talk about their operation and their success and how they are faring.

Senator KERRY. Why would they do that? What was the relevance of an American bank that had nothing to do with BCCI?

Mr. RAHMAN. I think the brotherhood feeling remained. That they were all sort of brothers in the same process and—be it through common shareholding or—

Senator KERRY. Why was there not somebody there from Citibank or First Bank of Boston or something? Why National Bank of Georgia and—

Mr. RAHMAN. Well, at least it was known that they were common shareholders owning both banks. At least that is the official version very strongly propagated.

Senator KERRY. OK. Now, I have had a BCCI annual conference in Vienna, February 26-27, 1984. List of participants, at the Hilton Continental: Board of directors were there, including Mr. Abedi, a number of other people and then various guests, a fairly significant group of guests from the National Bank of Georgia. This is in 1984. And special invitees including a Mr. Altman and a Mr. Elley, K.K. Were you at that meeting in Vienna?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Do you recall that?

Mr. RAHMAN. Yes, sir.

Senator KERRY. What went on at that meeting?

Mr. RAHMAN. These conferences—

Senator KERRY. Let me put this in the record as document No. 10 at this moment.

[The information referred to follows:]



BCC ANNUAL CONFERENCE VIENNA 1984

(26TH - 27TH FEBRUARY)

LIST OF PARTICIPANTS

HILTON/
INTERCO

BOARD OF DIRECTORS

ABEDI, Agha Hasan	-	President	-
AL-MAZRUI, Ananım Faris	-	Director	I
AL-MAZRUI, P.C.	-	Director	I
VAN QENEN, J.D.	-	Director	I

GUESTS

Attock Oil

AMINUDDIN, Usman	I
BAQI, M.A.	I
CHAUDHRI, Amjad	I
KHAN, Afzal	I
LODHI, T.A.T.	I
SALIM, M.	I

Auditors

FEAR, Richard	-	Price Waterhouse	I
HARRIS, R.	-	Price Waterhouse	I
HAY, K.	-	Ernst & Whinney	I
HEATH, R.	-	Ernst & Whinney	I
STONE, T.	-	Ernst & Whinney	I

BCC Foundation

ALI, Abid	I
SAEED, Afzal	I

Credit & Commerce Insurance

BHIMJEE, R.	I
HASAN, Nawab	I
KHAN, Aziz	I
WALAJAHI, S.A.	I

Cromwell Hospital

KHAN, Amanullah (Dr)	I
NIZAMI, Asghar (Dr)	I

Health

HAMEED, K. (Dr) I

International Travel Corporation

ANWER, Saghir I

Khalij Commercial Bank

RAZA, Ahmed I

National Bank of Georgia

BATASTINI, W.W. I

CARLSON, R.P.M. I

CATER, Vince I

FREEMAN, Guy I

HARREL, Richard I

JAMIL, Tariq I

KENEMAN, Richard C. I

MUJTABA, Asif I

PLOMGREN, Theodor I

RAZA, Mehdi I

WALKER, James I

Special Invitees

AFRIDI, Aijaz I

- AHMED, M.M. I

AL TAYER, Obaid Humaid I

ALI, Majid I

ALTMANN, R. I

ELLEY, K.K. I

FREEMANTLE, Anthony I

- KHAN, Ikramullah I

PROF A MONEIM EL-MELIGI I

RICHTER, Bruno I

STEVENS, R. I

Third World Foundation

GAUHAR, Altaf I

GAUHAR, Humayun I

AFFILIATES

Ahmed Bin Oboud - Jeddah

HASAN, Asrar I

BCC Emirates - Abu Dhabi

ALLARAKHIA, Mahmood S. I

ASIF, Kh. Mohammed I

GHANI, S. Saeedul I

BCC Emirates - Abu Dhabi (cont'd)

GILANI, S. Jawaid	I
HANNANI, Ghulam	I
HASAN, Raza	I
IQBAL, Zafar	I
JAVED, Mansoor Ahmed	I
KHAN, Javed Ali	I
KHAN, Naeem	I
KHAN, Rashidul Hasan	I
KHAN, Shamsuz Zaman	I
KHURSHID, Mohsin	I
KIRMANI, S. Saeeduddin Ahmed	I
MINHAS, Jamshaid Akhtar	I
QURESHI, Ziaullah	I
RASHEED, Kh. Toseef	I
SHEIKH, Ajmal	I
SHER, Anwar Qayum	I
SIDDIQI, Aqeel	I
TAHIR, Bashir A.	I

BCCI - Lebanon

FAYYAZ, S.M.	I
RAJI, Assaad Abi	I

BCCI (Nigeria) Ltd.

AHMED, Alhaji A.	I
ANKA, S.S.	I
BHATHENA, M.D.	I
KARKERA, D.S.	I
KRISHNAMURTHY, T.N.	I
MADOJEMU, J.O.	I
MALIK, Ghazanfar Ali	I
OGUNDA, B.O.	I
OGUNMOKUN, W.O.	I
RAZA, S. Qaiser	I
SACHEDINA, S.M.	I
SATUR, R.J.	I

BCP - Switzerland

CHAUWDHRY, Aziz Ullah	I
HASSAN, N.	I
SPOERRI, W.	I

Ital Finance - Italy

HAQ, Shaukat	H
LUIZ, Kevin	H

LATIN AMERICA

Regional Office

AKBAR, S.M.	I
HASAN, Bande	I
RIZVI, S.M.H.	I
SHAFI, S.M.	I

Brazil

PRUD'HOMME, Eric	I
------------------	---

Colombia

BILGRAMI, Akbar	I
ZARATE, Eduardo	I

Grand Cayman

HASSAN, S. Rafiqul	I
--------------------	---

Uruguay

SHABBIR, S.A.	I
---------------	---

Venezuela

ANEZ, Luis E. (Dr)	I
--------------------	---

NEW YORK

ALAM, Khurshid	I
HELMY, Abol	I
JHALA, K.G.S.	I
KHAN, Shafiqur Rehman	I
LODHI, Amer	I
SHARIH, Khalid	I

WASHINGTON

AHMED, Sani	I
→ CALVO, A. (Dr)	I

WESTERN AMERICA & PACIFIC

Regional Office

O'BRIEN, Patrick	I
SAUBOLLE, Louis E.	I

San Francisco BCC (HK) Ltd

MOHIUDDIN, Sultan	I
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Mr. RAHMAN. These conferences were really not at all banking in nature in the sense that we never discussed concrete banking proposals or banking strategies or plans. They were really a get-together of colleagues of the world hearing about some success stories in different parts of the world, and just little matters. And Mr. Abedi held the stage for the bulk of the time. And he talked about abstract subjects, about totality and the role of a growing organization and change and the process of change.

So while it was a good break from our work, and a good way to say hello to many of our friends whom we otherwise didn't meet from the field, it had no commercial purpose at all.

Senator KERRY. At any of the conferences that you attended, did Mr. Altman ever make a presentation at any of those?

Mr. RAHMAN. I can't recall. I don't think so.

Senator KERRY. Did any banking officials from the National Bank of Georgia make presentations?

Mr. RAHMAN. Yes; they made several presentations.

Senator KERRY. Would those have been presentations by Mr. Roy Carlson?

Mr. RAHMAN. Yes.

Senator KERRY. And by Mr. Tariq Jamil?

Mr. RAHMAN. Yes.

Senator KERRY. And he was president; is that correct?

Mr. RAHMAN. Yes.

Senator KERRY. Now, coming back, you were describing the beginning of the drug problem and the structure as we were going down to Miami in 1988. Correct?

Mr. RAHMAN. Yes, sir. We were having one of our smaller conferences where about 100 delegates come from different parts, which is somewhat more concrete in terms of programs for the next so many months, et cetera. And we had delegates from all over the world, including from America.

And during the Sunday conference or Saturday conference—one of the weekend conference dates—we heard that some of our staff had been arrested in Tampa in relation to drugs.

I assure you that 90 percent if not 95 percent of us were shocked because, first: we didn't know about drugs and drugs was never in our banking term, we didn't know or understand what this money laundering was. These are all events that we have learned very intimately within the last 4 or 5 years. Prior to that it was not even a subject which ever was discussed at any conference or any discussion or any small meeting that I have been there.

The rationale that was given to us of the episode was that a very young officer who had never in banking but was related to Mr. Akbar in Grand Cayman had been holding a green card here doing odd jobs, had tried to enter BCC in Miami, had not succeeded, and he was taken by Mr. Akbar and put in Panama directly.

Now here you have a totally raw man entering banking directly under an overview of one of his relatives who is—happens to be in Grand Cayman. And in Panama—

Senator KERRY. This is the same Mr. Akbar who had invested money in the commodities loss?

Mr. RAHMAN. No, that is—that's a different Akbar. Mr. S.M. Akbar. He is a completely different man.

Senator KERRY. Completely different.

Mr. RAHMAN. A different man. He is in charge of Grand Cayman operations. He was based in Grand Cayman.

Senator KERRY. All right. Fine. And the Mr. Akbar that you refer to who invested the money in the commodities—

Mr. RAHMAN. Yes, sir.

Senator KERRY. Did that Mr. Akbar personally profit from BCCI's \$400 million loss?

Mr. RAHMAN. Well, the more I looked into it, the more incredible it appeared that the transactions that were being booked had no commercial sense and they were literally going way out of the market direction and expectations. And the further out of the market you go, the bigger is the premium that you receive.

And he was taking positions on silver and on 20-year bonds, suggesting that 20-year bonds would be 7 percent or 6.8 percent, and things like that, which anybody who understands treasury knows how deeply discounted it would be if you project that sort of thing for 20 years. And yet he was taking those sort of positions for a premium.

Senator KERRY. Did Mr. Naqvi profit from the loss?

Mr. RAHMAN. Somebody has profited a lot. Somebody has profited, and since only two, three people are involved, I—I can only allude.

Senator KERRY. Was Mr. Akbar fired after he lost the \$400 million?

Mr. RAHMAN. He was released. Fired suggests a very serious term, but he was released gently. And as far as I know, he even took his company car and other benefits. Later on his company was even given a credit line. Capcom was given an official credit line.

Senator KERRY. So he went to Capcom. But Capcom was a piece of the bank, was it not?

Mr. RAHMAN. Capcom was a separate trading—brokerage company set up by—

Senator KERRY. Set up by the bank.

Mr. RAHMAN. By Mr. Khalil and Mr. Akbar—by Mr. Ziauddin Akbar and others. So he was a shareholder. He then declared himself to be an official shareholder of Capcom.

Senator KERRY. And he continued with Capcom after formally leaving his association with the bank?

Mr. RAHMAN. Yes, he went straight there.

Senator KERRY. And what did you learn later about Capcom?

Mr. RAHMAN. Well, to start with, it was quite clear that many of the transactions which the bank was apparently doing was being routed through Capcom, who obviously was scaling out the differentials, or much of the differentials themselves and passing on the heavy losses and things to the bank.

Senator KERRY. So they could pass on the loss and wind up taking off profit?

Mr. RAHMAN. Yes.

Senator KERRY. How many people were involved in this sort of side angle of the bank?

Mr. RAHMAN. Not more than three or four.

Senator KERRY. And who were the three or four?

Mr. RAHMAN. I can't recall the names. They were so junior. Only Mr. Akbar himself is the senior man.

Senator KERRY. So this is separate from the other major loss transactions in which some principals in the bank played a role?

Mr. RAHMAN. Yes. This is a treasury-related loss only.

Senator KERRY. Treasury only. Well, treasury-related in that that was the business it was involved in. But clearly if people were taking insider positions, and taking profit on the bank's—on the positions they were putting the banks in, that's not just a treasury loss. That is a different kind of loss, is it not?

Mr. RAHMAN. Well, all that Ziauddin Akbar created was in terms of losses related to trading or fund placement, fund movement, which was made available to him, totalled about \$4 or \$5 billion.

Senator KERRY. \$4 or \$5 billion?

Mr. RAHMAN. \$4 or \$5 billion was in it. But the bulk of it as I said was in Government bonds and cash.

Senator KERRY. Now, did Capcom wind up involved in money laundering?

Mr. RAHMAN. Yes, sir.

Senator KERRY. It did.

Mr. RAHMAN. Yes, sir. Coming to this 1988 episode, the explanation which was circulated to us and around the world to BCC was that this young officer with no banking experience thinking that banking is deposit-taking only was approached for a few million in deposits and—by some drug dealers.

And he didn't mind at all, and he did sort of started taking it. And then when the figure became slightly bigger, then he went to his counterpart in Miami and said, look, you know, I have a client who can put some more money in. And that's where Mr. Amjad Awan came in, and Mr. Bilgrami.

Until the end, I have never been able to find out whether Mr. Shafi ever got to know about it because, according to Mr. Shafi, when the client was first referred to him, he got a proper reference from a Miami bank about the client and the reference that he received was very, very good, from one of the Miami banks. And it was only after that that he officially started any dealing with this gentleman who himself was a Customs agent, who was pretending to be a drug money launderer.

Senator KERRY. So the bottomline is that the bank wound up with this money-laundering case.

Mr. RAHMAN. Yes, sir.

Senator KERRY. You say you personally were surprised by it.

Mr. RAHMAN. A lot of us. Not me only but a lot of other executives from other parts of the world. They were a bit—

Senator KERRY. As a result of that, you anticipated that the bank was going to have some problems, correct, because you saw a case coming down the road?

Mr. Rahman. Yes. What we did is we appointed Price Waterhouse and others to have a quick look at the operations procedures to see the weakness. And we appointed very big law firms to try and unwind this case.

Senator KERRY. What law firms were appointed to unwind the case?

Mr. RAHMAN. Originally it was a Miami-based law firm. But subsequently, soon afterward, it was Mr. Clark Clifford's firm.

Senator KERRY. Now, Price Waterhouse in November submitted an interim report, did it not?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Was that interim report a standard report that Price Waterhouse was—

Mr. RAHMAN. Every year—as I explained, they have two audits, one September-based and one December-based. And at the end of the September-based audit, they prepare an interim report for the directors, which they present to a committee of the directors called the Audit Committee. This is made up of two of the directors.

Senator KERRY. Now this is document No. 1 to which we have referred?

Mr. RAHMAN. Yes.

Senator KERRY. Which is a November 17, 1989, document.

Mr. RAHMAN. Yes.

Senator KERRY. And in this document, Price Waterhouse did a review of operations of the bank in 1989.

Mr. RAHMAN. Yes.

Senator KERRY. And in 1989, Price Waterhouse submitted that interim report to you, in which it basically found no major problems. Is that accurate?

Mr. RAHMAN. No major problem. For years on end they used to report on the growing concentration of some of the advances to some parties. There were about 15 parties who were having a very large concentration of credit. And they used to raise these points.

Senator KERRY. On credit, they did say, we remain concerned about the adequacy of provisions held against accounts which are not meeting principal and interest repayment schedules. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. But that was one small paragraph.

Mr. RAHMAN. Yes.

Senator KERRY. Not a major red flag.

Mr. RAHMAN. And that even in relation to these bigger accounts because the normal provision exercise was very extensive throughout the world.

Senator KERRY. Now, with respect to this report, in paragraph 73, Price Waterhouse referred to regulatory compliance and control issues, section 7. And paragraph 73 says:

U.S. litigation. The bank's defense lawyers have informed us that the Florida trial is expected to begin on January 15, 1990, and last for 3 to 6 months. The lawyers will attempt to come to a pretrial settlement with the prosecution but the lawyers do not expect the prosecution to be amendable. As such there is now a real prospect of a trial.

This is November 17, 1989. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. So you were all anticipating a trial based on what Price Waterhouse had said and the lawyers had said to them. Correct?

Mr. RAHMAN. That was the belief in the bank that we were arguing for the case. It was never expected to be otherwise.

Senator KERRY. Do you have any idea what changed between November and January or even earlier, in December, when the agreement was reached to have a plea?

Mr. RAHMAN. No.

Senator KERRY. You have no idea?

Mr. RAHMAN. In fact, it surprised all of us because we just thought it to be fought because we were told by the lawyers that this is a unique situation, that a few staff doing something like this could involve the whole company and this law is not applicable anywhere except the United States. And we thought we would contest this. So the settlement was a big surprise.

Senator KERRY. Now, I want to try to get through. I think we are going to break for lunch before we get into First American because it gets complicated and I think it is hard for people to follow. But I would like to finish with respect to the—couple of areas.

No. 1, once the plea took place, what then happened in terms of the bank activities?

Mr. RAHMAN. As far as the U.S. end was concerned, we had asked Price Waterhouse and a special team of the inspection department, internal inspection, to try and improve the operating standards in U.S.A. And indeed we had an agreement with the authorities here to meet certain minimum standards and there were special teams set up for that.

Senator KERRY. Now at this point in time, people were beginning to take note of General Noriega? There was a lot of talk about money laundering. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. BCCI was under some fire, was it not?

Mr. RAHMAN. Yes.

Senator KERRY. Articles were appearing in the newspaper. Accurate?

Mr. RAHMAN. Yes.

Senator KERRY. And attention had been called to the way in which BCCI was operating?

Mr. RAHMAN. Yes.

Senator KERRY. So is it not true that at that point in time within the bank, Price Waterhouse came back a few months later with a subsequent report. Is that correct?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Now, early in 1990, around March 1991 in a strictly private, confidential report, that is 5 months after the report that said nothing was wrong, they came back with another report in which every red flag in the world was flying. Is that correct?

Mr. RAHMAN. Right.

Senator KERRY. What prompted that report to be made?

Mr. RAHMAN. As I explained that the annual process of audit is well laid down for the last 17, 18 years. Each year the interim audit takes place and then the final audit takes place. The final audit for the whole world finishes latest by mid-February or late-February. And then within 1 week of that, the audit of Grand Cayman.

The Grand Cayman audit was a very, very special audit because we knew that many of the problem situations were in Grand Cayman.

Senator KERRY. How did you know that? You knew at this time Grand Cayman was a problem?

Mr. RAHMAN. Yes.

Senator KERRY. You personally had come to know that?

Mr. RAHMAN. Yes, because it was known that all the large credits had been concentrated there. A large part of the CCAH loan was concentrated there.

Senator KERRY. CCAH was the American——

Mr. RAHMAN. The First American loans—related loans. And also some doubtful debts from other parts of the world which were quite large were sent to Grand Cayman for sort of hospitable treatment and for carefully looking after.

Senator KERRY. So Grand Cayman became the repository of bad debt and bad loans. Was ICIC that depository?

Mr. RAHMAN. No. ICIC was the parallel organization, as I mentioned. That ICIC Holding was only meant to hold shares of the bank for the founder group. But along the way somewhere, they decided to start a bank of their own. ICIC Bank.

Senator KERRY. ICIC bank became a bank within the bank?

Mr. RAHMAN. And they started diverting deposits of the main bank into its own books until it grew to about \$600 million in deposits. And this ICIC group was in fact audited again by Price Waterhouse. So it was not an unaudited set of figures or accounts. Every year Price Waterhouse was auditing.

Senator KERRY. Well, what did this audit mean? If the deposits were siphoned off from the deposits of BCCI into a separate banking entity, how was that reflected on BCCI's accounts?

Mr. RAHMAN. Well, in BCCI's account, it never came on the books at all.

Senator KERRY. Never got to the books?

Mr. RAHMAN. Never got to the books. The client may or may not even know where in BCCI it is. He thinks it is in BCC. But it was booked in the books of ICIC, which was a small private bank.

And apparent rationale given to the auditors, which I later found out from Price Waterhouse, was that these are very confidential accounts of very high net worth people who preferred total secrecy and they did not rely on the level of secrecy of BCC because quite young officers were in many branches, et cetera. So on that plea, the deposits continued to be put into this bank.

Senator KERRY. But is it not accurate that a lot of these high net worth people that you are talking about were in effect fronts?

Mr. RAHMAN. Well, some of the names of the depositors appeared to be genuine. I got to know about ICIC bank only as a result of my investigation.

Senator KERRY. As a result of your investigation.

Mr. RAHMAN. Prior to that, I had no idea of ICIC operations at all.

Senator KERRY. Now, your investigation came about after the Price Waterhouse second audit report——

Mr. RAHMAN. Yes, sir.

Senator KERRY [continuing]. Or the first one of 1990?

Mr. RAHMAN. Yes, sir. What happened is that in the usual process, the whole-world audit was completed in the month of February 1990. And I had closed the whole position of the BCC group in the usual manner, in an audited certified manner, except Grand Cayman. I was waiting for Grand Cayman to come in with their audit, which as I said had a two-tier audit, one from Price Waterhouse-Grand Cayman, and one from Price Waterhouse-London. So they had a two-tier audit for Grand Cayman. And that delayed the process in any case.

And so I was waiting for that and we had closed the position, and indeed my wife and family were planning to go on holiday the later part of March, April. And when I received a call on a weekend from Price Waterhouse saying that they wanted to meet me, the partners, and—I was a bit hesitant because I had been seeing all the partners throughout the last few months and I did not know what it was that they wanted to bring up.

Anyway, I went to their office and they produced for me a whole list of what they thought was irregularities, illegalities, and misuse of funds.

Senator KERRY. Now, the irregularities and problems that they put forward to you had been in existence for several prior years, had they not?

Mr. RAHMAN. Yes. All the names that they listed were names which had appeared in prior years.

Senator KERRY. Now, is it true that some of the names of these high roller people that you talked about, some were real names. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. Some were fronts?

Mr. RAHMAN. Some were fronts, obviously.

Senator KERRY. And the fronts included Adham? Mr. Adham. Is that correct?

Mr. RAHMAN. Kamal Adham has fairly high standing in the Middle East and he may have some resources, but the amount of lendings to him, which is about \$350 odd million, was very, very high.

Senator KERRY. Very high. Never serviced, was it?

Mr. RAHMAN. I do not know how much of that would be recovered because quite a bit of it was for the First American Bank and some were for commercial business.

Senator KERRY. What about Mr. Faisal Fulaj?

Mr. RAHMAN. Faisal Fulaj was also a very simple man. He was chairman of the Kuwait Airways. And in that capacity, he had good standing, social standing, in Kuwait. But certainly he did not warrant \$150 million worth of loan.

Senator KERRY. \$150 million loan there. And Mr. Ghaith Pharaon?

Mr. RAHMAN. Again, Ghaith Pharaon had been in operation in the Middle East and America before we started having any association. And I am told that he got to know Mr. Abedi and Mr. Naqvi and somehow got associated in all that happened in the Americas.

Senator KERRY. And the loans outstanding were what?

Mr. RAHMAN. About the same. About \$325 million, \$350 million.

Senator KERRY. The capacity to service it?

Mr. RAHMAN. No.

Senator KERRY. Mr. Khalil?

Mr. RAHMAN. Khalil had over \$150 million out. But he had stopped any relationship with the bank for 2 or 3 years.

Senator KERRY. To whatever degree he may or may not have been real. Right? We do not know.

Mr. RAHMAN. Yes. We do not know.

Senator KERRY. And Mohammad Hammoud?

Mr. RAHMAN. Hammoud was a businessman from Lebanon who a few of our executives knew from the days of United Bank being in Lebanon. Mr. Imtiaz Ahmed knew him and Mr. Vilayet Abedi, who was another executive. He is another Abedi. Vilayet Abedi. They knew him and introduced him to the bank and he became very close associate with the bank. He became a shareholder. He became a shareholder of—

Senator KERRY. How much money outstanding in loans?

Mr. RAHMAN. Hammoud would be again the same, about \$120 to \$125 million.

Senator KERRY. \$125 million.

Mr. RAHMAN. Or maybe about \$100 million. I don't know. Maybe.

Senator KERRY. Now is it not accurate that Mr. Hammoud was a fairly flexible front for BCCI?

Mr. RAHMAN. Well, since he seemed to know the most number of executives amongst the shareholders, he often used to meet these people privately and obviously agreed to various propositions put to him.

Senator KERRY. Was he or was he not fairly flexible with respect to his capacity to assume so-called share ownership of this entity or that entity?

Mr. RAHMAN. I would say—I would say yes.

Senator KERRY. Yes. All right.

Mr. RAHMAN. May I just say that in this area of credit, because credit is the risk area of the bank, again Bank America had established very, very stringent procedures. And the bank is full of manuals of credit laying down very detailed procedures for receiving, processing, approving credit.

Senator KERRY. And for many people, that happened. Correct?

Mr. RAHMAN. And in vast majority because the total number of credit cases were about 250, 1,000 cases. So we are talking of 10 cases here.

Senator KERRY. We are talking of 10 cases and of a pattern that grew because of this abuse on one side that bled the bank. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. It effectively destroyed the bank.

Mr. RAHMAN. Yes. And that's what we said in our findings, that had the credit process been anywhere near properly established, and if Price Waterhouse year after year had insisted that these procedures were established and processed, and the signing and the approval process, both at—there was the levels of process was at the branch you had a certain limit. At the region you had a certain limit. At the head office you had the lower credit committee limit and the high credit committee limit. And then you had the board limit. There were various levels of process which were established in the bank.

Senator KERRY. I understand these processes. No doubt if Price Waterhouse were here today, right now, and maybe they would want to be and will be at some time in the future, but I think that they would say, well, this was structured in a way that it kept it from us. I mean, this was the whole purpose of this secret structure. You had 10 people doing some secret stuff off to the side; we did not know what they were doing. What is your response to that?

Mr. RAHMAN. I think I'd like to be there when you ask them this because I am an expert finance man myself and I've been in auditing myself.

Senator KERRY. Well, how did you miss it? You were the chief financial officer since—

Mr. RAHMAN. I explain to you—

Senator KERRY. They would say that to you.

Mr. RAHMAN. No. Because the process which they know very well also was that I was receiving certified accounts when names never appeared—names were of no concern to me. If the total advance is \$42 million, I don't want to know if it is 480 accounts or 4,000 accounts. We got total figures for the balance sheet and profit and loss statements.

Senator KERRY. And it was not until you began your investigation—

Mr. RAHMAN. Yes.

Senator KERRY [continuing]. That you began to see what was really happening.

Mr. RAHMAN. Yes. When I saw the underlying—some of the underlying files and all, I began to see.

Senator KERRY. Now that began in 1990?

Mr. RAHMAN. 1990. That's when—

Senator KERRY. In the spring of 1990.

Mr. RAHMAN. In the spring. They presented this list of huge problems whose potential loss could be \$1 billion, plus. So I said I would not receive a casual presentation like this from the partners. You make the same presentation to the chief executive and to the board.

So this was arranged and some of the board members were approached and a meeting took place jointly. And the board wanted to know—they were also very upset—but the board wanted to know what to do with this, so late in the day. It was entering the middle of March practically.

They said they only thing before we go to the regulator—that's Bank of England in Luxembourg—is that we can allow you to have an inquiry of your own from all our findings, and come up with your interpretation and facts.

Senator KERRY. So they went to you because they trusted you.

Mr. RAHMAN. They said the only man we will trust to do that is Mr. Masihur Rahman. So they made me chairman of the committee. And three other executives from the field who had recently come to London, they were made committee members.

Senator KERRY. So it was no secret that at this point in time things were beginning to crumble a bit around BCCI, is that not fair to say?

Mr. RAHMAN. Yes.

Senator KERRY. And at this point in time, suddenly Price Waterhouse discovers that there is all kinds of absence of critical information, that the reliability of management representations are in question, that evidence of recoverability is significant. They do not think they can get most of these loans back. That there is absence of critical information in a whole series of other loans. No loan agreements with a customer. Drawdowns of \$18 million have not been supported by written request. No valuation provided in respect to the properties. No legal basis for the security. No independent net worth statements.

Suddenly they discover that they cannot confirm the net worth of Mr. Adham. They cannot confirm—these were things that were all sitting all out there, were they not?

Mr. RAHMAN. Yes, sir.

Senator KERRY. What is your reaction to this kind of stunning document to suddenly appear 5 months after they certified that everything is going along pretty hunky-dory?

Mr. RAHMAN. As I said, I had not even recovered from the mishaps and casualness in 1985, 1986 when we were confronted with yet another disaster of this size. I was very, very upset, and I said you have used the word management 38 times in this book. I want you to define management to me. Who is this management and whose word you went casually through so many dangerous, disastrous accounts without going through the process and you been certifying.

So they would not answer that. I said the maximum it would be with Mr. Abedi, Mr. Naqvi, and the head of credit and the head of the credit committee.

Senator KERRY. Four people.

Mr. RAHMAN. Four or five people.

Senator KERRY. That was what you say was management at that point?

Mr. RAHMAN. And I said there are 100 executives in the bank. There are 14,000 employees in the bank, and they are all going to sink around this. And you are so casually saying, management, management, management.

Senator KERRY. I think this is a good place for us to take a break. I think we would have to come back to discuss ICIC, the inside bank, the First American link and ties. And I think we will be able to wrap that up. So we will stand in recess until the hour of 2 p.m.

[Whereupon, at 12:25 p.m., the subcommittee adjourned, to reconvene at 2 p.m., the same day.]

AFTERNOON SESSION

The subcommittee met, pursuant to notice, at 2:01 p.m., in room SD-419, Dirksen Office Building, Hon. John Kerry (chairman of the subcommittee) presiding.

Present: Senator Kerry.

Senator KERRY. The hearing of the Subcommittee on Foreign Relations will come to order.

Mr. Rahman, I just remind you that you remain sworn as you were this morning. Let me just say a word, if I may, about that.

We talked about it previously before you testified, so you are certainly aware of it, but I just want to make it on the record that I explained to you, as a British citizen, that the purpose of the taking of the oath is to guarantee, No. 1, that you are on notice to tell the truth and the whole truth, and No. 2, because it subjects any witness that testifies here to the pains and penalties of perjury if they are not in fact truthful, or if at a subsequent time they are proven to be less than truthful.

I just wanted to make sure you understand that for the record, do you not?

Mr. RAHMAN. Yes, I do.

Senator KERRY. It is very important, needless to say, because these are on-going proceedings and other people will testify down the road, some of whom may have a different version of what you've testified to, and so forth.

Now, one of the questions that arises, which is the normal question, I think, for somebody to ask, and I pose it to you, is how it is that you could be the "chief financial officer" from the very beginning of this bank—you start in 1974 formally with the bank, and up through the 1980's and tremendous growth you are the chief financial officer, year after year of audits and so forth.

Suddenly you get to 1985, and there are very significant losses which wipe out the capital of the bank—wipe it out. That is effectively hidden, and you, as chief financial officer, are not aware of this until you conduct an investigation once you've been flagged by Price, Waterhouse, as late as 1990—5 years later, correct?

Mr. RAHMAN. No. The Treasury losses were flagged in 1986.

Senator KERRY. The Treasury losses were flagged in 1986; 4 years later you have your investigation in 1990?

Mr. RAHMAN. Yes.

Senator KERRY. Can you help us to understand that? How could you, as chief financial officer, not be aware of this kind of loss and of what the bank was engaged in?

Mr. RAHMAN. The Treasury losses were the first major loss of the bank, and that was investigated and identified by Price, Waterhouse and reported to me in January 1986.

Senator KERRY. So you knew about it right then?

Mr. RAHMAN. Yes, of course, and indeed, I sent two or three of my departmental people to have a joint review of what had happened in Treasury. As I explained to you, the board had approved the formation of a Treasury Department and here again, the board nominated certain people to the Treasury Committee but did not nominate me on the Treasury Committee.

Senator KERRY. Who was on the Treasury Committee?

Mr. RAHMAN. Relatively very junior people. Mr. Hafeez, who was from Secretary of the Board, and Mr. Naqvi himself, and Mr. Alauddin Sheik who was from marketing.

Senator KERRY. Well, what did this board do?

Mr. RAHMAN. The Treasury Committee was required to overview the working of the Treasury Department and the results of the Treasury Department every month. That was what they were supposed to be doing, and it was because through 1982, 1983, 1984 and half of 1985 no problems had been reported in Treasury, and it was presumed that the bulk of the moneys were in good assets either

with other banks or with U.S. bonds, so nobody visualized any problems with that. It was the first time.

Senator KERRY. But you knew you had lost the money.

Mr. RAHMAN. Yes, but the first time it came was in January when they said that we'd lost such a large amount of money.

Senator KERRY. OK, when you lost such a large amount of money and you knew that Mr. Akbar was responsible, correct—partly responsible?

Mr. RAHMAN. Yes.

Senator KERRY. Why was Mr. Akbar not reported to authorities. Why was there no measure taken then?

Mr. RAHMAN. He was sacked. He was released.

Senator KERRY. Well, as you said earlier, he was gently released.

Mr. RAHMAN. Well, I don't know whether criminal action should have been taken on him, but he was at least—

Senator KERRY. Did anybody recommend it?

Mr. RAHMAN. No. Neither Price, Waterhouse nor the board nor anybody recommended it.

Senator KERRY. Was that because it was easier to keep him quiet?

Mr. RAHMAN. Yes, possible.

Senator KERRY. Let's be more precise about that. At a later date in 1988 our investigator from this committee, Mr. Jack Blum, tried to sit down with Mr. Akbar and they had an original meeting. Subsequent to that, Mr. Akbar was paid some \$30 million, was he not, by the bank?

Mr. RAHMAN. I didn't know about it at all. I read about it in the paper only recently. I had no idea.

Senator KERRY. But you have since then learned that he was paid a significant sum of money?

Mr. RAHMAN. Yes, I have since learned.

Senator KERRY. For what?

Mr. RAHMAN. Obviously, as I said when I saw the nature of the transactions, I mean they were obviously out-of-the-market transactions, obviously premium-driven transactions, and we wanted to know who were benefiting. I mean, whether Capcom would benefit.

Senator KERRY. Well, how did you as chief financial officer not know that he was paid \$30 million?

Mr. RAHMAN. It was never paid through any source that I know.

Senator KERRY. No source through the bank that you're aware of?

Mr. RAHMAN. None. I don't know from where. It could have been paid from the ICIC bank, or ICIC other sources.

Senator KERRY. You were specifically not a trustee of ICIC, correct?

Mr. RAHMAN. I was not a trustee of ICIC.

Senator KERRY. So you were kept apart from ICIC?

Mr. RAHMAN. Yes.

Senator KERRY. Now, you talked earlier about the compartmentalization of the bank.

Mr. RAHMAN. Yes.

Senator KERRY. Was that compartmentalization a way to keep—did it have the effect of keeping you in the dark with respect to things that were happening?

Mr. RAHMAN. Yes. The fact that I was not made a trustee of the ICIC, nor I was brought on the Treasury Committee, whereas I was trustee in the provident fund of the bank, showed that there may have been motives of Mr. Abedi, Mr. Naqvi and others to keep me outside, because they knew me to be a professional and I would be objecting to these things, and they kept me as the good face of BCCI to present the operation clearly.

Senator KERRY. You personally never undertook audits yourself, or field visits yourself?

Mr. RAHMAN. No.

Senator KERRY. None.

Mr. RAHMAN. None. I had responsibility for three locations. I was to visit those three locations.

Senator KERRY. What three locations?

Mr. RAHMAN. That was Ghana, Egypt, and Spain. I was one of the directors. There were other directors, but I was one of the directors of those three banks.

Senator KERRY. What were your responsibilities in Ghana, Egypt, and Spain?

Mr. RAHMAN. To become a director of each of these three banks, then of course you have an overriding responsibility for its operation, so these were to meet monthly to get updated reports of what was going on in the bank to get to know the operation much more than what I was getting as chief financial officer, getting financial statements only.

Senator KERRY. Now, is it your knowledge today that based on your investigation, that this bank was involved in illegal activities that you were not aware of at the time you were there?

Mr. RAHMAN. Yes.

Senator KERRY. Did you learn that as a cause of your investigation, as a result of it?

Mr. RAHMAN. Yes.

Senator KERRY. That investigation you initiated in 1990?

Mr. RAHMAN. Yes.

Senator KERRY. Did you read the story this morning in the Washington Post about a Columbian bank being bought by BCCI?

Mr. RAHMAN. BCCI's purchase of a Columbian bank was from a French bank and it was deemed like, from our point of view, as a normal acquisition. It was not deemed anything—

Senator KERRY. Well, it was a normal acquisition, but let's face it, when you take deposits in places like Medellin, people know what those deposits are coming from, don't they, when they are in U.S. dollars?

Mr. RAHMAN. As I said that, till 1988 drug matter—no drug-related subject was ever discussed, nor we understood any consequences of it.

Senator KERRY. I understand it wasn't discussed, Mr. Rahman, but I'm saying to you that when a bank is bought in 1985 or 1986 in Columbia and that bank shows huge amounts of American dollars coming through it, correct?

Mr. RAHMAN. Yes.

Senator KERRY. It is fair to assume the people who bought it or who were there understood where those dollars were coming from,

would they not? What other trade comes out of Medellin? How many dollars pass through Medellin?

Mr. RAHMAN. I only learn Medellin subsequent to all of these drug cases. I don't know Columbia well. I don't know my geography to that extent or even the economy of Columbia that well to know—it's only in consequence of drug-related matters that we found out that Columbia is deemed to be such a big country for drugs. Honestly speaking, till then, we didn't—

Senator KERRY. Till when?

Mr. RAHMAN. Well, the 1988 drug case.

Senator KERRY. In the drug case?

Mr. RAHMAN. Yes. That's the first time that we even understood that Columbia had any consequence in terms of this.

Senator KERRY. When you say "we" who do you mean?

Mr. RAHMAN. Many senior executives.

Senator KERRY. Many senior executives in London?

Mr. RAHMAN. In London and abroad, in Far East and Middle East.

Senator KERRY. But it is fair—I mean, you don't know, I realize, maybe personally, but the people who were in Columbia managing this would know where that money was coming from, would they not?

Mr. RAHMAN. Yes, they would know.

Senator KERRY. I would assume that a man of Mr. Abedi's world traveling and knowledge—and obviously this is an assumption, and I only state it as such but I think it ought to be on the record, nevertheless—ought to have a pretty good idea of what dollars are moving through places like Cali, Medellin, and so forth. Is that not fair?

Mr. RAHMAN. Yes, I think it's fair.

Senator KERRY. Now, let's get to the sort of heart of this matter and to some of the large issues on the table right now. In 1990, you did an investigation. You discovered massive fraud, is that correct?

Mr. RAHMAN. Yes.

Senator KERRY. Would you describe to the committee what the fraud was that you discovered, who was involved, and what were the amounts of fraud that you came across personally?

Mr. RAHMAN. Basically, there are three types.

Senator KERRY. Do you want to refer to your report here? That's now a matter of the public record.

Mr. RAHMAN. Basically, what Price, Waterhouse did is they identified three types of irregularities that they have found.

Senator KERRY. Now your report is document 6, correct, Findings of the Task Force?

Mr. RAHMAN. Yes.

Senator KERRY. Now, in your task force report you laid out only those areas of fraud which had been raised by Price, Waterhouse, is that correct?

Mr. RAHMAN. Yes, sir.

Senator KERRY. You did not inquire behind or beyond the Price, Waterhouse accusations, correct?

Mr. RAHMAN. Yes.

Senator KERRY. The Price, Waterhouse accusations and the issues you investigated were what, specifically?

Mr. RAHMAN. As I mentioned, they covered three broad areas. One was the very large loans given to shareholders in relation to CCAH and First American, and that had reached about \$860 million.

Primarily, the concern expressed by Price, Waterhouse was that the underlying security, which is the First American Bank, wouldn't cover for all these loans and the interest and service charges made had built up the loan to this very large figure and they think the bank faced up to \$200 million loss if those shares were to be sold or encashed.

So even at this late stage the direction which Price, Waterhouse is leading us to was not so much illegality as much as loss, commercial loss from bad advances.

Senator KERRY. Were you concerned about a question of illegality?

Mr. RAHMAN. Well, when we looked at some of the papers we divided the work amongst the four of us, and one of the executives who was required to look at the CCAH matter, he is to report back daily—we were to meet after we spread out because there's so many items to look at and we had only 3, 4, 5 weeks before we closed.

So he reported back that all the files he saw had very, very scanty papers.

Senator KERRY. Very, very what?

Mr. RAHMAN. Scanty—very few papers, and very few letters, authorities, but there were signed shares lying in custody at the bank, and most importantly—

Senator KERRY. Whose shares? Who were the shareholders?

Mr. RAHMAN. There were about seven, eight shareholders who are listed.

Senator KERRY. Are they stated in the report?

Mr. RAHMAN. Yes, they are stated in the report.

Senator KERRY. Do you want to read them?

Mr. RAHMAN. They included the ruler of Fujairah, which is in U.E., the ruler of Ajman, Faisal Fulaj Shorofa is from Saudi Arabia, A. R. Khalil from Saudi Arabia, Kemal Adham who is from Saudi Arabia, and two companies belonging to Hammoud, who's from Lebanon, and A. R. Khalil who's Saudi Arabia. So about six, seven, eight names.

Senator KERRY. These were the shareholders of CCAH?

Mr. RAHMAN. Yes.

Senator KERRY. Found by you to be the true owners of First American?

Mr. RAHMAN. Well, the documents were so scanty, the authorizations and request letters were so scanty, and the fact that there were blank transfer shares lying in custody of the bank and that during the previous year a very large amount had been sent by BCCI to First American, being subscription toward new rights issues—

Senator KERRY. How much money was sent?

Mr. RAHMAN. I think the total amount that was lying at the time when we looked at it unadjusted was about \$40 million, but I think more money went than that, and normally in a rights issue the shareholders first subscribe and then it is given to the bank, the

bank receives it, but in this case BCCI had sent block amount of money to First America toward this rights subscription.

Senator KERRY. With no allocation to shareholders?

Mr. RAHMAN. No allocation.

Senator KERRY. That was unusual.

Mr. RAHMAN. It's very, very unusual in terms of a rights issue, so looking at all of these underlying documents and lack of underlying documents and papers, we concluded that there is every possibility that the banks—that these were nominee shareholders and we therefore recommended that immediately this bank should be sold to some group or some foreign entity or even to an American bank or to an investment authority, somebody who would buy over the whole bank and pay off these loans.

Senator KERRY. The idea was that you felt as a result of your findings that BCCI, an apparent holding company, needed to divest of the CCAH shares?

Mr. RAHMAN. Yes.

Senator KERRY. Because there was in effect an ownership holding, or at least according to you?

Mr. RAHMAN. I think that it was very obvious that these people were not servicing the loans and the amounts were building up.

Senator KERRY. How much were the amounts of the loans?

Mr. RAHMAN. The total amount had built up to \$856 million by end December.

Senator KERRY. \$856 million was not being serviced?

Mr. RAHMAN. Not being serviced.

Senator KERRY. Not being serviced by whom?

Mr. RAHMAN. By the named borrowers.

Senator KERRY. The named borrowers to CCAH?

Mr. RAHMAN. For the CCAH investment.

Senator KERRY. Those were the ones you listed earlier?

Mr. RAHMAN. Yes, just listed, and indeed, two of them—the ruler of Fujairah and the ruler of Ajman, had even returned letters from Price, Waterhouse saying that they don't own these—

Senator KERRY. They said they don't own the shares.

Mr. RAHMAN. They don't have these loans.

Senator KERRY. What else did you find with respect to First American?

Mr. RAHMAN. Well, it was one of the easier things to conclude in view of the lack of paper, and once we had made that recommendation that we unwind that forthwith, and we were informed that indeed Goldman, Sachs had been appointed to try and find a valuation and a buyer.

Senator KERRY. When was that appointment made?

Mr. RAHMAN. I think late in 1989.

Senator KERRY. Now, with respect to the First American shares, was there some talk of a reverse divestiture in that First American might somehow think of buying out BCCI?

Mr. RAHMAN. I don't think it was seriously discussed as a strategy, but in passing people—you know, Mr. Naqvi mentioned, well, that perhaps it will be better if they buy us.

Senator KERRY. What was the purpose of that, to clear up the ownership issue?

Mr. RAHMAN. Yes, to clear up the ownership issue. It would mean that the whole of the BCCI group would then have a home in America, effectively, instead of Luxembourg.

Senator KERRY. Now, what was the second area of inquiry?

Mr. RAHMAN. The second one was in relation to this bank within a bank. That was a very, very serious case in the sense that first it shocked me that an ICIC foundation which was supposed to be our savings and our shareholding in the bank had now gone into this type of diversionary activity, including banking—private banking.

Senator KERRY. What do you mean by “diversionary activity”?

Mr. RAHMAN. This was not supposed to be the purpose of ICIC holding, to run a bank or to start business of this type, or to take moneys, so it was done no doubt with the help of the trustees who I’ve listed separately, and they started a bank in which they are genuine directors—

Senator KERRY. Well, what did this bank do? Did it do normal banking?

Mr. RAHMAN. It did no normal banking at all.

Senator KERRY. No normal banking?

Mr. RAHMAN. None at all.

Senator KERRY. What did it do?

Mr. RAHMAN. It just absorbed and received moneys.

Senator KERRY. Where did the money come from?

Mr. RAHMAN. From what would have been BCCI depositors.

Senator KERRY. Any other location?

Mr. RAHMAN. Well, quite a lot from the Middle East, some from London, some from Cameroon.

Senator KERRY. In the form of deposits or capital investment?

Mr. RAHMAN. No, in the form of deposits.

Senator KERRY. Deposits?

Mr. RAHMAN. In the form of deposits, yes.

Senator KERRY. Was this money laundering?

Mr. RAHMAN. No. They were genuine deposits of high net worth people, or institutions—Islamic banks.

Senator KERRY. Coming under what guise?

Mr. RAHMAN. I presume the clients would have felt that they had put the money with the BCCI group, and so not really—

Senator KERRY. So you were surprised to find that ICIC was in fact engaged in banking on a competitive and parallel track to BCCI itself. Is that accurate?

Mr. RAHMAN. Yes, sir, but not only that, but the purpose and the use of the money was so irregular that it wasn’t even commercial banking.

Senator KERRY. What was it?

Mr. RAHMAN. Out of the \$550 or \$600 million, maybe about \$320 million had been given to the same shareholders, BCCI shareholders, nominee shareholders, to buy BCCI shares. So effectively it was insider trading and funding in the purchase of one’s own shares.

Senator KERRY. Now, give us a sense of the outstanding shares—of the outstanding loans that you came cross in that investigation of ICIC. What was the exposure?

Mr. RAHMAN. The total balance sheet was about \$520 million. The total advances was about \$480 million.

Senator KERRY. Who were the advances to?

Mr. RAHMAN. As I said, about \$300-odd million, \$320 million was for buying shares of BCCI. Over and above that, there were some other loan including to Ghaith Pharaon, about \$28 million, and there were some loans to the hospital, to the IMC hospital project, and so on and so forth.

Senator KERRY. So let's understand this. Now, you first find, issue one, First American, and the loans outstanding that aren't paid and the front people?

Mr. RAHMAN. Yes.

Senator KERRY. The second thing you find is a second front operation scam with a parallel bank?

Mr. RAHMAN. Yes.

Senator KERRY. \$527 million outstanding?

Mr. RAHMAN. Yes, sir.

Senator KERRY. Then there's a third amount of money from BCCI itself, correct, in problem loans?

Mr. RAHMAN. That will come as the third item. Coming to the second one, I had never seen the balance sheet of this bank.

Senator KERRY. Ever?

Mr. RAHMAN. Ever. This is the first time I saw the balance sheet, and I was horrified to find that Price, Waterhouse had been auditing this bank like a regular audit, outside of BCCI audit, and they had been certifying this bank year after year.

Senator KERRY. But never certifying it to you as the chief financial officer of BCCI?

Mr. RAHMAN. Never certifying it to me because it's supposed to be outside the BCCI group, so it never came to me. I had to force them to give me this.

Senator KERRY. But you thought you were a shareholder of this group?

Mr. RAHMAN. I believed that.

Senator KERRY. Without shares?

Mr. RAHMAN. Without shares.

Senator KERRY. Without any paper?

Mr. RAHMAN. Without any paper.

Senator KERRY. Why would that be? I mean, the obvious question, somebody is going to sit here and scratch their head and say, hey, wait a minute. Here is a guy who is intelligent, a CPA, financial officer of a big bank working in a worldwide operation, major dealings, and he is sitting there supposedly an owner of something but he does not know anything about it.

And somebody is going to scratch their head and say it does not fit. Now, I know you have an answer for that, but help us make it fit, if it fits.

Mr. RAHMAN. If you first understand how we came as a group from Pakistan. Effectively we were leaving our country. We were going into a new domain.

Senator KERRY. Pull the microphone just a little closer to you. Thank you.

Mr. RAHMAN. And none of us had international expertise at that time. Abu Dhabi was the first sort of foreign country we were coming to. The office, I have pictures of it, was tiny little offices. And we are talking of a global bank and we are talking of share-

holding in this 2.5 million company, which did not have any operation.

So I do not think anybody was excited about documenting it. And we were believing in what Mr. Abedi was talking about as to the future of the bank and us being shareholders of this bank. And we left it. He would say that within 10 years, Mr. Rahman, we will be millionaires and then you will see. But of course such figures never came to my mind in those days.

So I don't think any of us went out—I mean, the fact that trustees were quietly set up and I was not a member, and I did not even get to know until later that I am not a trustee even, showed that we weren't even thinking in those lines. We were genuinely out to build a good bank—international bank.

Senator KERRY. And you trusted Mr. Abedi?

Mr. RAHMAN. And we trusted Mr. Naqvi and Mr. Abedi.

Senator KERRY. Now, you were about to describe the—

Mr. RAHMAN. Yes. So, when I saw this for the first time, and I have a copy of one sample accounts, and the auditors have certified and signed this year after year—Price Waterhouse. And in the certification, report of the audit, they've only mentioned customer deposits consist of confidential accounts which are not conducted as open accounts requiring periodic dispatch of statements. Furthermore, because of company policy we have not been able to confirm any deposit balances directly with the customers, and it was therefore not possible for our examination of such accounts to extend beyond the amounts recorded. In our opinion, except for the adjustment as above—so-so—the financial statements on page so and so give a true and fair view of the state of affairs of International Credit and Investment Co. overseas as of June 30, 1985.

I have never seen a certificate like this in my life. The first time in 1990 I saw such a certificate like this. And this has been going on for 5, 6, 8 years, with Price Waterhouse signature.

The assets side is made up of false loans, share purchased loans. So even the asset side is not logical.

So to me this was one of the biggest disaster that I came across, and it really made up my mind that I should leave the bank because it involved all my senior colleagues who were trustees of the company; involved the president, whom I respected; and Mr. Naqvi, whom I respected.

Senator KERRY. Did you in fact leave the bank then?

Mr. RAHMAN. I went and met the directors and I told the directors that I am duty bound to finish my job as chairman of this committee and immediately after that I would leave.

Senator KERRY. You did leave?

Mr. RAHMAN. I left immediately after that.

Senator KERRY. How soon after that was it?

Mr. RAHMAN. Well, I finished the report and the accounts, of the group came out in the third week of May into the market, and I immediately wanted release and they wanted me to hand over—on June 20, they asked me to hand over. And they put notice period on me, and I left on August 1.

This was the second stream.

Senator KERRY. This is the second issue, I realize. We are going to come to the third issue.

Now, you raised this question about the accounting practice. You had had a prior accountant involved with BCCI, Ernst & Young?

Mr. RAHMAN. Ernst & Young, yes.

Senator KERRY. Now, Ernst & Young quit at some point, did they not?

Mr. RAHMAN. Ernst & Young quit after the Treasury disaster which nearly closed the bank. And they insisted after that that either they be given the whole group or they'll resign.

Senator KERRY. Did that not send you a message? Here is a respected accounting firm that quits, that says we need to have the whole bank?

Mr. RAHMAN. I think that the single audit company concept was good.

Senator KERRY. But you chose the other company to do it.

Mr. RAHMAN. Yes. Mr. Abedi—I mean, my choice would certainly have been Ernst & Whinny. I was very, very disappointed with Price Waterhouse and the level of their work in the treasury and the casual manner that they lost over \$400 million and walked away from this problem. And I personally favored Ernst & Young to be—become group auditors, including for Grand Cayman.

But Mr. Abedi insisted that it should be Price Waterhouse who should take over all the whole world.

Senator KERRY. Now, with respect to the second issue that you have just described, the ICIC bank-within-a-bank issue, which you found very serious, of major consequence.

Mr. RAHMAN. Yes.

Senator KERRY. Is there any other fact which you think the committee should know with respect to that?

Mr. RAHMAN. Well, the important thing was how does one salvage the situation. And our recommendation was that all the share loans and all should be unwound by selling the shares to Sheik Zayed or Sheik Kalifa, his family, and they should take over all of these loans. And once they take over all these loans, then the depositors should be paid back, whose ever it is, and the bank should be closed.

Senator KERRY. Your theory was it was a way to try to save the bank?

Mr. RAHMAN. Yes, sir.

Senator KERRY. But before that could be implemented, in point of fact, the Bank of England moved and shut down. Correct?

Mr. RAHMAN. Not, sir. This was—I am talking of 1990. The Bank of England shut down just now.

Senator KERRY. I am sorry. This is in 1990 you thought there was a way out.

Mr. RAHMAN. Yes. I recommended—this is in April 1990 that I was recommending this.

Senator KERRY. Let me just interrupt here for one point I meant to make at the beginning of the hearing. And that is that Mr. Rahman appears today with the full assent and understanding of and cooperation of the Lord Chancellor. And I think there was a little misunderstanding at the beginning of the hearing that somehow that Lord Chancellor had not desired or assented to that, and I just wanted to correct that and make sure the record shows that

he in fact assisted in permitting the order to be changed and that is why he is here.

Now, 1990, you are aware of this major, massive catastrophe. You have had one catastrophe in 1986 with \$430 million down, all the capital of the bank wiped out. Now you are back, and then in 1988 you have the drug problem. And in 1990 now you have the second fraud that is facing you with another \$500 million or so exposure. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. And it was your feeling that the bank could still be saved.

Mr. RAHMAN. The two—these two issues, the CCAH issue and this ICIC second bank, while illegal, irregular in many respect, but it's not commercially unsavable in the sense that if you sell off those shares and cash it in, then those cash could retrieve the position and you could pay back the depositors, retrieve the loan. So in a way, commercially it could be saved.

Senator KERRY. But commercially we are simply not restricted to the \$500 million and to the question of \$200 million under value in the shares of loans that are nonperforming with respect to CCAH. There is also a third issue here, correct, with millions of dollars outstanding on those? In fact, more than \$1 billion.

Mr. RAHMAN. The third issue is one that which did maximum commercial damage to the bank. And it was equally illegal and irregular. And that was that that—there was a major client of the bank who had been with the bank from the early days of the bank, and that was a shipping group called the Gokal family, G-o-k-a-l. Gokal family. They had been steadily increasing their international business and shipping business. And there was a time when there was an article on them in the Time magazine that they had become one of the biggest shipowners, shipping trading people, in the world. So they were deemed very commercially good client, and the bank earned a lot of money from them in the early days.

But their limit, which was hardly about \$300 million had been breached again and again until it was just over \$400 million to a single group.

But more importantly, what we found in this investigation is that for the last 3, 4 years, no doubt under the guidance of Mr. Naqvi and with the knowledge of the credit people and the chief of credit, a whole series of companies were taken—shell companies were taken, and loans of \$2, \$3, \$4 million—

Senator KERRY. A whole series of shell companies. These are fake companies.

Mr. RAHMAN. Well, you can buy—shell companies were registered company, but you can start operating under them.

Grand Cayman—

Senator KERRY. But it is all accounting games, correct?

Mr. RAHMAN. Yes. They are just namesake company, name companies.

Senator KERRY. A way to move money or hide it.

Mr. RAHMAN. Yes, you can use the name to move money, yes.

Senator KERRY. So large amounts, over 71 such companies had been established or acquired—shell companies—and they had been given loan after loan after loan. \$3, \$4, \$2.5 million.

With no ability to repay? No documentation.

Mr. RAHMAN. Nothing which indicated—

Senator KERRY. No background material. No collateral. None of the normal standards of any kind of loan.

Mr. RAHMAN. The supposed explanation originally to the auditors was that there were various Asian clients who wanted to do some shipping trading business with the help of Gokals unofficially. So these are various Indian companies.

Senator KERRY. How much money do we have outstanding in these various companies?

Mr. RAHMAN. Just over \$300 million.

Senator KERRY. \$300 million. To whom?

Mr. RAHMAN. 71 companies.

Senator KERRY. \$300 million to the 71 companies. But can you break down the other money outstanding?

Mr. RAHMAN. So the result is that now the Gokal came forward and accepted this because some of the monies went back to their companies. So the result was that the Gokals' total exposure loan became over \$700 million.

So here the committee recommended an immediate provision of \$200 million, and this creation of a separate department of expert shipping and trading people who would try to tackle the rest of the \$500 million in a phased manner because they were a well-known corporation. And to try and scale it down, try to get other banks involved and syndicate some of the loans and work out a policy over 3, 4 years.

But we knew that another \$200, \$300 million would go from this.

Senator KERRY. But when you add the Gokal shipping group problem with the fake companies, and you add the outstanding CCAH nonperforming loans and you add the money to Ghaith Pharaon, and you add the money to Kamal Adham, you have over \$2 billion. Correct?

Mr. RAHMAN. About \$2 billion.

Senator KERRY. It has just sunk down a hole somewhere. Correct?

Mr. RAHMAN. Well, as I said, part of it, like the CCAH and First America had underlying value, could be sold. Similarly, the share loan \$300, \$400 million had value because those shares could be purchased by someone else. So I would say net losses would go to about \$1 to \$1.5 billion.

Senator KERRY. Now you found that false companies had been established in the Grand Caymans, Panama, Uruguay, Yemen.

Mr. RAHMAN. Yes.

Senator KERRY. Anywhere else?

Mr. RAHMAN. That's about it, yes. And Kuwait.

Senator KERRY. And Kuwait. Do you know what this money was used for?

Mr. RAHMAN. Unless one had many weeks to look at the—each transaction and each—because the money moved very quickly from bank to bank, and once it goes to third bank, you don't know where it goes from there. They won't give you the details.

Senator KERRY. So really, as you sit here now, you cannot tell us where a lot of this money went?

Mr. RAHMAN. Well, some of it went to the Gokal account. That is why we traced them back to Gokals and Gokals accepted it. A few of them went into other nonperforming accounts which we had said was centralized in Grand Cayman, and obviously to try and make look them more active, \$1 or \$3 million, things like that, but not very large amounts.

Senator KERRY. What did you learn about Kifco of Kuwait?

Mr. RAHMAN. Kifco of Kuwait, up to then, was only a small finance company in which the bank had 49 percent, and the Kuwait laws were deemed to be very strict in terms of secrecy, and therefore a local Kuwaiti audit firm used to audit it and discuss the findings with Price Waterhouse. Price Waterhouse did on several occasions want to go directly but they were told no, the Kuwait laws do not allow a non Kuwaiti company to operate.

Senator KERRY. Did you learn anything about its activities?

Mr. RAHMAN. During this time, we asked the auditor again to look through their statements and see if there any names which appeared to be from companies not local or regional, and that's when we found that another \$40, \$50, or \$60 million of this \$300 million was in Kuwait.

Senator KERRY. Was just hidden in Kuwait?

Mr. RAHMAN. In Kuwait's book, yes.

Senator KERRY. What did you learn about Mohammed Hammoud?

Mr. RAHMAN. Mohammed Hammoud, he was a medium-sized businessman, and he seemed to be very close to some of our executives. And he has been used obviously for taking loans and doing things.

Senator KERRY. He has been used for taking loans? He was a front man?

Mr. RAHMAN. He's definitely a front man.

Senator KERRY. And a flexible front man, moving from loan to loan.

Mr. RAHMAN. Yes. Because he was of a smaller size, it is easier to track him and—

Senator KERRY. Is he the man who purchased shares of CCAH?

Mr. RAHMAN. He was one of the people who's named as shareholder.

Senator KERRY. For First American?

Mr. RAHMAN. First American.

Senator KERRY. He purchased shares?

Mr. RAHMAN. Yes.

Senator KERRY. Did he purchase those from Mr. Altman or Mr. Clifford, do you know?

Mr. RAHMAN. I do not know that.

Senator KERRY. What did you learn about a company called Rubstone?

Mr. RAHMAN. There were two companies, Mid-Gulf and Rubstones, which were also on the list of people who received monies for CCAH loans. Initially Hammoud was denying he had anything—

Senator KERRY. Was Rubstone a Hammoud company?

Mr. RAHMAN. He was first denying but finally it was accepted that both of them belonged to the Hammoud.

Senator KERRY. Do you know what this company did?

Mr. RAHMAN. No, except that it had some loan for the CCHS.

Senator KERRY. It had loans from BCCI?

Mr. RAHMAN. From BCCI for CCAH.

Senator KERRY. But you never saw that until your investigation? You never knew this?

Mr. RAHMAN. No.

Senator KERRY. All right. Now, when you say that Rubstone had outstanding loans from BCCI, did Rubstone also have shares or some way of having ownership in First American?

Mr. RAHMAN. Well, the loan was shown to be for CCAH, for First American shares.

Senator KERRY. So the loan to Rubstone was shown to be for shares in First American?

Mr. RAHMAN. For shares in First America, yes.

Senator KERRY. The report show how many shares?

Mr. RAHMAN. No, it said that the amount was 15 million and for Mid-Gulf, 44 million.

Senator KERRY. Now, in the March 14 Price Waterhouse report as well as in your investigation, did you come to learn something about the gulf group?

Mr. RAHMAN. The Gulf group is the same as the Gokal group.

Senator KERRY. That is the Gokal group?

Mr. RAHMAN. That is the Gokal.

Senator KERRY. So the shipping losses under the gulf group represent the Gokal losses?

Mr. RAHMAN. The Gokal losses, yes.

Senator KERRY. Now, did regulators in other countries besides the United States raise questions about BCCI's activities before you departed from the bank?

Mr. RAHMAN. On some cases as I mentioned that there was a case in Sudan and there was a case in Kenya and a case in India.

Senator KERRY. Wasn't there a problem in Liberia?

Mr. RAHMAN. Also in Liberia, yes.

Senator KERRY. The problem there was black market foreign exchange transactions?

Mr. RAHMAN. Same. I mean, practically in all of these countries it was invariably the manager there doing some black marketing in currencies.

Senator KERRY. So BCCI's reputation came from its managers in these countries who were involved in black market operations?

Mr. RAHMAN. Whenever we inquired, invariably the country manager concerned was either removed or sacked even, and they would make out a case in there that the secondary market is fully operational in the country and buying and selling is going on and they've just become part of it.

Senator KERRY. There was also a problem in France. Correct?

Mr. RAHMAN. France one could be more filing of returns and things. I don't know.

Senator KERRY. Deposit files were not maintained? Credit files were not maintained? Reporting requirements were not met? Is that correct?

Mr. RAHMAN. We had a very senior Frenchman who took over that operation.

Senator KERRY. Well, that's not my question. My question is, is it not correct that the requirements were not met?

Mr. RAHMAN. Yes.

Senator KERRY. The deposits requirements were not met? The credit requirements were not met. Correct?

Mr. RAHMAN. Yes.

Senator KERRY. So almost each country had its own set of banking irregularities. Now, did you become aware of any of those in the course of the auditing process or in the course of your own certifications as financial officer?

Mr. RAHMAN. I mean, it happened—these things didn't happen all at one time. It happened one year in one country, another year in another country. It would not recur once it had been investigated. So over the 18 years, we heard about seven or eight such cases in different—

Senator KERRY. Now, BCCI had a significant exposure from central banks of various countries, did it not?

Mr. RAHMAN. Yes, sir.

Senator KERRY. It had \$300 million to Nigeria?

Mr. RAHMAN. Yes, sir.

Senator KERRY. \$15 million to Sri Lanka?

Mr. RAHMAN. Yes, sir.

Senator KERRY. \$10 million to the U.S.S.R. through the Bank of Foreign Trade?

Mr. RAHMAN. Yes.

Senator KERRY. \$50 million to State Bank of Poland?

Mr. RAHMAN. Yes.

Senator KERRY. \$15 million, National Bank of Hungary?

Mr. RAHMAN. Yes.

Senator KERRY. \$21.9 million, Central Bank of Syria.

Mr. RAHMAN. Yes.

Senator KERRY. \$25 million, Central of Trinidad? \$26.4 million to the Government of Cameroon. \$3 million, Bank of Cuba. \$11.8 million, Bank of Iraq. \$8.5 million, Mexico. \$30 million, Philippines. \$20 million to the Sudan. \$27.8 million to Zambia. \$1.5 million to Bank of Sierra Leone. Is that accurate to your memory?

Mr. RAHMAN. Yes, yes. As far as my memory.

Senator KERRY. What was the significance of that?

Mr. RAHMAN. A bank which was active in international trade would invariably find some cross-country exposure arising out of their trade activity. And in many of those amounts, they are the result of trade activity. In one or two cases like in Philippines or in Nigeria, the amounts were specifically given as advance against future oil exports or future exports as a syndication loan to those countries.

Senator KERRY. Was it Mr. Abedi who directly dealt with the heads of these governments or the heads of these banks in securing these deposits?

Mr. RAHMAN. Not in all cases. If they arose out of commercial activity, Mr. Abedi would not be involved. In the Nigeria case, yes, because it was a very large single country fund allocation. It went to him, and it was approved by him.

But each of these cases go through the normal credit approval process, and the credit division is supposed to have an updated reg-

ister of defaults of those countries to see how much risk can be taken for each country and has to approve these limits.

Senator KERRY. Now, with respect to the—we are getting near the end here and I just want to try to tie up some loose ends if we can.

With respect to weapons trade, weapons were a commodity, were they not?

Mr. RAHMAN. Yes. As far as the letters of credit opened on any goods, the commodity would have to be spelled out on the letter of credit. So in the process of doing \$18 billion worth of trade—I mean, I have not seen L.C.'s, but I presume it has all types of commodities from food and medicine, perhaps to arms also. But if it is through the letter of credit process, it would be a transaction which is a—officially they call it a L.C. transaction.

Senator KERRY. Did you know specifically, personally, about any arms transactions?

Mr. RAHMAN. No, sir.

Senator KERRY. None?

Mr. RAHMAN. None.

Senator KERRY. Does it surprise you now that you are reading in the newspaper about BCCI's link to certain arms transactions?

Mr. RAHMAN. Not really. I mean, not having seen the underlying composition of \$18 billion. I mean, if—how many billion is being talked about, I don't know, but I suppose some of it could be for armament transactions also.

Senator KERRY. With respect to the lawyers who handled the plea bargain in Florida and who handled the drug case, how much were the lawyers paid over that 2-year period?

Mr. RAHMAN. Our total bill was between \$35 and \$40 million, if I recall right.

Senator KERRY. For 2 years of lawyering for a drug case?

Mr. RAHMAN. Yes.

Senator KERRY. \$40 million?

Mr. RAHMAN. Yes.

Senator KERRY. The CIA has disclosed that it has used the BCCI fairly extensively and was gathering information. Was this use of the bank by an intelligence agency of either this country or any other country known to you during the time you were there?

Mr. RAHMAN. No, sir.

Senator KERRY. Nobody ever disclosed that fact to you? You had no knowledge of any dealings with any intelligence agencies of any countries, or personnel?

Mr. RAHMAN. No. Nor in any Price Waterhouse report I've seen anything.

Senator KERRY. What can you tell us about the modus operandi of the bank with respect to the courting of public people and the way in which it sought favor in various countries?

Mr. RAHMAN. As far as the Third World countries are concerned, the fact that BCCI represented a Third World bank with extensive network and was successful in their eyes, it was in any case a very good door opener, and Mr. Abedi and Mr. Naqvi, anybody who went was well received.

Senator KERRY. Who were the principal ambassadors, if you will, of this bank?

Mr. RAHMAN. I think Mr. Abedi and Mr. Naqvi were the principal ambassadors. At regional level, perhaps the general managers in the regions.

Senator KERRY. Did they deal almost exclusively in that effort to open those doors?

Mr. RAHMAN. At the highest level, Mr. Abedi did bulk of this, more than Mr. Naqvi even.

Senator KERRY. Do you know what kinds of efforts the bank engaged in any particular country in order to make doors open?

Mr. RAHMAN. Well, obviously where it was Third World, it was easy enough to sell it as a Third World bank which had global network which could help the country.

Also one of the things that Mr. Abedi and the bank started very early is that—he used to say that unless there is a moral balance sheet, then you can't support a material balance sheet. On that plea, we had started a lot of social work, foundation work, charitable work, in many Third World countries. And between these two, it was quite easy for him to open doors in most Third World countries.

When it came to the European-American situation, I think he contacted some influential people, ex-politicians and things, and no doubt used this as a vehicle to enter into these countries.

Senator KERRY. Could you speak up a little bit into the mike there? It is hard to hear your sentences.

Mr. RAHMAN. Yes. I said that as far as European-American situation is concerned, where it wasn't the Third World image that helped, at that stage he did use important influential people as a vehicle to get to know—

Senator KERRY. Well, can you be a little more specific, for instance?

Mr. RAHMAN. Well, through the Third World Foundation and South Magazine and Third World Prize, et cetera, and Carter Foundation and Global 2000 Foundation, there was—various vehicles were there through which he could get important ex-government people, political people, associated. All the way around the world from the Far East all the way through Middle East and into Europe. And these are important names and—in all these countries.

Senator KERRY. Mr. Rahman, did the bank make payoffs?

Mr. RAHMAN. Well, I am reading a lot about that and definitely if ICIC bank was there, then funds must have been available to make payments also—out of the books.

Senator KERRY. But you are making a presumption there. This is a question which deserves—

Mr. RAHMAN. I wouldn't say anything else, but I've read since—

Senator KERRY. You have no personal knowledge?

Mr. RAHMAN. I have no personal knowledge.

Senator KERRY. None whatsoever?

Mr. RAHMAN. The only thing that came through inquiries and others was where in various banks which we established as joint ventures, some of the local shareholders were given loans to buy the shares.

Senator KERRY. Local shareholders were given loans in order to buy the shares?

Mr. RAHMAN. Yes. For their part of the local shares. Yes.

Senator KERRY. And you viewed that—it was viewed as bank policy as a way of doing what?

Mr. RAHMAN. Well, it—first of all, in most cases, the local counterpart shareholders were fairly good big businessmen and influential people. Sometimes they had to subscribe. They couldn't subscribe for the full amount, so some loans were given to these people.

Senator KERRY. Were the loans serviced?

Mr. RAHMAN. Sometimes from dividends, et cetera, if the bank did well. Otherwise it—it wasn't serviced.

Senator KERRY. Often not?

Mr. RAHMAN. Often not.

Senator KERRY. By and large not?

Mr. RAHMAN. There were about four, five such cases I have seen in the course of the investigation. So I would say 50/50.

Senator KERRY. 50/50. So in effect, those loans were gifts and they were just a way of incurring favor?

Mr. RAHMAN. Also to have the right shareholders associated in the local countries.

Senator KERRY. Because that helped the bank to establish itself in the community. By having the right shareholders and the right people, the bank got a foothold of decency in the community. Is that correct?

Mr. RAHMAN. And got good business and all that.

Senator KERRY. And got good business as a result.

Mr. RAHMAN. Yes.

Senator KERRY. And maybe even some protection against scrutiny because good people were involved.

Mr. RAHMAN. Perhaps.

Senator KERRY. Was that talked about?

Mr. RAHMAN. Not in that context. I mean, more in a commercial sense it was useful.

Senator KERRY. So it was conscious.

Mr. RAHMAN. It was conscious.

Senator KERRY. It was conscious.

Mr. RAHMAN. Yes.

Senator KERRY. Now, is there an effort still underway to limit public investigation of this scandal?

Mr. RAHMAN. As I explained, our report is very comprehensive. It names the amounts, people, where, how, and it obviously, by connotation, names that head of credit, head of inspection; Mr. Naqvi and others were named; the trustees; some board members because Price Waterhouse mentioned to me that they had also informed the board members about 2 years ago some of these events and about the bank within the bank.

Senator KERRY. But nothing happened when that happened, did it?

Mr. RAHMAN. But nothing happened. And on the contrary, what surprised me was that the people who were released from the bank after my April report were, if at all, the better executives from India, from other countries. And the core group who were named

in our report—I had suspended three of them—they were reinstated. Plus all the others continued to be in key positions. And—

Senator KERRY. So people who played by the game, played by the rules and kept quiet were rewarded, and people who seemed not to be were threatened?

Mr. RAHMAN. Yes. And they were released very promptly. And not only that, they were not even compensated properly.

Senator KERRY. Do you know whether or not documents have been destroyed?

Mr. RAHMAN. Again, I read in the papers about it. I don't know.

Senator KERRY. Do you personally know whether documents have been destroyed?

Mr. RAHMAN. No.

Senator KERRY. You do not know?

Mr. RAHMAN. I don't know. Right.

Senator KERRY. What was the relationship of BCCI to South Magazine and the Third World Quarterly?

Mr. RAHMAN. As a part of the globalization of BCCI and the Third World image, Mr. Abedi had wanted a media line and a Third World Foundation-type of situation. So he called upon an ex-government official from Pakistan, Mr. Gauher, G-a-u-h-e-r, Gauher, Altaf, A-l-t-a-f, who was an ex-Minister of Information in the government of General Ayub Khan. And he joined Mr. Abedi in trying to set up a magazine called the South Magazine, and the Third World Journal, and also he arranged some of the Third World conferences and so it was no doubt a tremendous publicity for the bank and enhanced the image of the bank. They were funded from the 30 percent shares that went to ICIC Holdings, which was the foundation.

On this aspect, I don't know if we have touched on it, but the 30 percent that went to ICIC came from Bank America shares in 1980. And soon after that it was split into three parts by the trustees.

Senator KERRY. The bank bought back Bank of America shares. Correct?

Mr. RAHMAN. The ICIC Holding, which was the holding company of the staff.

Senator KERRY. Paid for that.

Mr. RAHMAN. Yes. They were paid and they acquired that 30 percent. And part of the loan for buying this was shown up in the ICIC insider bank. So part of the loan was also to ICIC foundation.

Senator KERRY. Now with respect to the findings of your report—and I have just a few more questions. With respect to the findings of your report, were interest payments made in a timely fashion on the loans for the shareholders of First American?

Mr. RAHMAN. No.

Senator KERRY. They were not?

Mr. RAHMAN. No.

Senator KERRY. Were they ever paid?

Mr. RAHMAN. Maybe in the early days. I did not go far back enough to find out.

Senator KERRY. Do you have any knowledge about allegations that Pakistani President Khan's son-in-law was arrested in New York on a BCCI-related drug charge, later released on diplomatic immunity? Do you know about that?

Mr. RAHMAN. No, sir.

Senator KERRY. You have no knowledge at all?

Mr. RAHMAN. No.

Senator KERRY. And is the President of Pakistan the President of the BCCI Foundation or was he?

Mr. RAHMAN. He was at one time.

Senator KERRY. He was? During what period of time?

Mr. RAHMAN. I think 6 or 7 years ago.

Senator KERRY. For 6 or 7 years, or——

Mr. RAHMAN. In the early days.

Senator KERRY. In the early days. Can you be more precise than that?

Mr. RAHMAN. I do not know. Because the Foundation, the Pakistan Foundation must be now about 15 years old. So I do not know which period he was——

Senator KERRY. Now, let me ask you just a sort of few general questions, if I can. Here you are, you do not have a job. You have invested a significant portion of your life in this bank. And you find yourself in the middle of this hurley burley—obviously difficult.

What is your sense, at this point, of this road you have travelled, and of where you are now?

Mr. RAHMAN. I have always believed that if you stay close enough to the truth, and if you stay close enough, then there will be an answer somewhere.

In a personal sense, my family and I have suffered. I just do not know where we will be month-to-month from now. I started a small trading company. First I joined a bank, Meridian Bank for one year, and then I was released from that, also under pressure.

Senator KERRY. But you have appeared voluntarily before Mr. Morgenthau?

Mr. RAHMAN. Yes, I did.

Senator KERRY. You appeared before the grand jury voluntarily?

Mr. RAHMAN. Yes.

Senator KERRY. And you are prepared to cooperate with the United States officials, are you not?

Mr. RAHMAN. Yes, sir.

Senator KERRY. So you have really put yourself at the mercy of people's judgment and of the facts. Is that correct?

Mr. RAHMAN. Yes.

Senator KERRY. Now, how do you feel about Mr. Abedi at this point?

Mr. RAHMAN. No comments. I do not want to think about him anymore. He has destroyed many lives. And it shocks me to think that 14,000 people's lives, employees of different, 83 nationalities are destroyed; 1 million-plus customers' lives have been destroyed. So I feel that it is very sad. And if anything can be done to salvage it, I should do that.

Senator KERRY. This bank, as you know, has come to be known as bank of crooks and criminals. You have obviously now uncovered extraordinary fraud. You have seen it involved in drugs. There are allegations of kickbacks, and payoffs in various countries. Some countries are in great turmoil over their foreign reserve money that has been lost.

Who was enriched here? Where did this money go?

Mr. RAHMAN. Other than Mr. Abedi, Mr. Naqvi, some trustees, some directors, I do not know where it could have gone. But certainly it was not widely scattered. And while the figures are shocking, and I can see people not in banking confused with such large figures. But I assure you that when you see the list of the names that Price Waterhouse has named, we have named, and the list of the clients Price Waterhouse has named, and we have named, it is nowhere near the level that requires destroying a global organization of 14,000, or 1.3 million customers lives. It is nowhere near it.

And somehow, if this is consolidated, and the facts are put correctly around these people, then you will find a limited bit, it was at the very top. And at the very top you do not need many people.

But I personally feel that one of the reasons I volunteered, in all these places—I have been asked this by the Fed, I have been asked this by Morgenthau, and I have said this—is that somebody has to do this. Somebody has to come forward and get the facts.

There is a great deal of speculation. I know the press interest in drugs. I know the press interest in anything which sounds nasty. But there is a whole, big bank working out there. And thousands of good people who are working there from different nationalities, also.

Pakistanis were hardly 200 people out of 14,000. And out of the Pakistanis, there are 20 names over there, all Pakistanis unfortunately. And the clients are all the same clients. The same 15 names you hear about 20 times. What does that prove? I do not think it proves anything except that if anybody could salvage it, if anybody could isolate these problems then one should.

Senator KERRY. Well, we have heard sums of money that have been lost, significantly in excess of the several billions that you have outlined here today. Now you admit by your own statement that you only focused on three areas, correct?

Mr. RAHMAN. Yes.

Senator KERRY. You focused on ICIC. You focused on the Gulf Group, shipping group, and you focused on the first American outstanding.

But beyond that, there is the potential, obviously, that people have learned of other losses, correct? Or that there were other activities?

Mr. RAHMAN. I have been out of touch for more than a year—so unless I see the latest situation. But my reading was that all these individual countries were getting so many levels of audit: both the local audit, the regional audit, the central audit, the Price Waterhouse audit, the regulatory audit—that I cannot visualize—and most of them were in local currency operation anyway—about 50, 55 of them never saw any hard currency. So those cannot be touched. You will again come back to a few countries, and a few locations.

Now the amounts we have listed are primarily Grand Cayman oriented. Primarily, either they are in Grand Cayman books, or they were emanated from Grand Cayman. You take the situation of UK. They had a \$4 billion balance sheet, for which only 40 percent was in advances; 60 percent was liquid.

Senator KERRY. 60 percent was liquid?

Mr. RAHMAN. It was liquid funds, and they closed the whole bank. It is unbelievable that the Bank of England should—

Senator KERRY. But did they not close the bank because of the fraud? I mean this was not a decision based exclusively on liquidity, et cetera.

Mr. RAHMAN. Sir, I think that in banking terms, you close the people. You do not close the bank.

Senator KERRY. Well, this is the judgment, obviously, which people are going to have to take a look at.

Mr. RAHMAN. It will come out that even in UK, you will have the same people, the same names coming up again. And not the 2,500 people who work there, or the 300,000 clients who have suffered over there.

Senator KERRY. Let me go back to one thing that you raised earlier that may have piqued some people's curiosity.

Back in 1990, when you discovered these problems, you mentioned to me that a number of large investment houses were contacted regarding the sale of First American shares. Is that accurate?

Mr. RAHMAN. Well, Goldman-Sachs was supposed to try and locate a potential buyer.

Senator KERRY. A potential buyer for?

Mr. RAHMAN. First American.

Senator KERRY. First American—so they were supposed to find a buyer for a bank owned by a foreign bank, selling the American bank which was not legally held at the time, or legally owned by the foreign bank. Is that correct?

Mr. RAHMAN. Yes.

Senator KERRY. Did they know that? Were they notified of that?

Mr. RAHMAN. I think they were asked on behalf of the shareholders.

Senator KERRY. Well, were they told that?

Mr. RAHMAN. No, I think that they were told that it is on behalf of Kamal Adham and other shareholders.

Senator KERRY. That they simply want to sell some shares?

Mr. RAHMAN. Sell, I think maybe sell some shares. I do not know whether the whole bank or some shares.

Senator KERRY. So you do not know what the story is with respect to that?

Mr. RAHMAN. But that is what was informed to the committed.

Senator KERRY. Did BCCI entertain lavishly? Did it spend a lot of money?

Mr. RAHMAN. I would say that considering the size of its operation, it was earning close to \$3 billion.

Its expenditure on entertainment was quite small, I should say.

Senator KERRY. It had aircraft, correct?

Mr. RAHMAN. Yes. That was for Mr. Abedi's own use.

Senator KERRY. One aircraft?

Mr. RAHMAN. One aircraft, yes.

Senator KERRY. And what was that aircraft used for?

Mr. RAHMAN. Mr. Abedi used to travel extensively. He needed it.

Senator KERRY. And did he use that aircraft to take major public people places?

Mr. RAHMAN. Yes, sometimes.

Senator KERRY. With respect to—let me just ask this question.

Your wife has been sitting very, very patiently here and putting up with all this. I don't want to put her on the spot at all, but she's been part of this.

If she wants to say anything, I want to afford her the opportunity. [Pause]

Senator KERRY. No. OK, fine.

Well, Mr. Rahman, let me say this to you.

First of all, we're very appreciative of your being here. There are questions yet unanswered. There are questions that are going to remain unanswered in this for some period of time. But clearly your willingness to come forward has been very, very helpful. And I know that other authorities are extremely appreciative of the fact that you have been willing to cooperate and that you are willing to cooperate.

We're interested, as I hope you've been able to tell today, in getting the facts out on the table. And, clearly, some of the facts, as you've described them, don't jibe completely with all of the public accounting and some of the hyperbole and so forth. But I think it's a pretty straightforward indictment of a process of fraud.

Clearly this bank was engaged in a massive fraud, and part of the fraud was on its own employees. I think that's relatively clear.

We still have a lot to learn, and I draw no conclusions about ownership issues and transfers of things until a lot more facts are on the table with respect to those things.

Mr. RAHMAN. I wanted to add, when you mentioned fraud on the people, on the staff, I want to place on the record that the restructuring proposition we made in April was very precise in terms of how to deal with CCAH, how to deal with the ICIC bank, how to deal with Gokals. But the actions since then don't seem to jell in the sense that we do not ever hear what happened to the ICIC shares. They were holding large chunks of the bank. But no people, nobody has asked who owns them. Why has nobody raised any question about their rights.

This is an area which remains unanswered, and I think that somebody should look to find out what happened to those shares.

Senator KERRY. You mean who owns the shares of ICIC?

Mr. RAHMAN. Why 77 percent is talked of every morning, noon, and night, and why not the 23 percent.

Senator KERRY. Which 23 percent?

Mr. RAHMAN. I mean, out of the 100 percent of the group.

Senator KERRY. And that 23 percent is unaccounted for?

Mr. RAHMAN. Well, at least 12 percent of that belongs to the staff and to the people.

Senator KERRY. Is there any record of that?

Mr. RAHMAN. Yes.

Senator KERRY. You, yourself, said you don't have any shares.

Mr. RAHMAN. No. But the filing that was going on as late as April, 1990, indicated that ICIC owned about 11 to 12 percent, even in those days. And the 7.5 percent that was sold for \$150 million should have been reinstated, because they got no value for it.

Senator KERRY. Well, I'm sure that's going to be something which is going to be the subject of considerable inquiry and possi-

bly even court action. It's an issue worth pursuing and we will certainly try to do that as we proceed from here.

Again, Mr. Rahman, I want to thank you. I know that you've been uncomfortable throughout these past weeks and this process.

I'm going to leave the record open because there may be some issues that we will want to submit to you still in writing in order to complete some questioning that we began today or to tie up some loose ends. I would obviously appreciate your continued cooperation with respect to that possibility.

Mr. Rahman, I forgot something. This is an important area of inquiry and I'm sorry, but I didn't mean to leave it for last. I'm searching for something here, so we will reconvene for a moment.

Let me just ask you with respect to the question of Ghaith Pharaon and CenTrust and the ownership of CenTrust, did you discover at some point in the course of your inquiry a BCCI relationship to CenTrust?

Mr. RAHMAN. No, sir. It didn't come up in the Price Waterhouse report.

Senator KERRY. Has it come up since then?

Mr. RAHMAN. Only in the context that the loans that are given include some loans for CenTrust.

Senator KERRY. The loans that were given to whom?

Mr. RAHMAN. To Ghaith Pharaon.

Senator KERRY. All right. So loans were made from BCCI to Ghaith Pharaon, and those were presumably for what?

Mr. RAHMAN. They were for his business. They were for Independence Bank. They were for CenTrust. So these were items that were shown as security.

Senator KERRY. Did you know that before the Price Waterhouse report of 1990?

Mr. RAHMAN. No. Only in this report I saw it.

Senator KERRY. So there's no recordation within BCCI itself of any kind of ownership interest of CenTrust?

Mr. RAHMAN. No, sir.

The Credit Division should go through the process of application and, if at all, they would have any details.

Senator KERRY. Now have you been able to learn anything as a consequence of the records you've looked at subsequently that shed any light on a relationship between BCCI and CenTrust?

Mr. RAHMAN. Not in the papers. There are very few papers of Ghaith Pharaon in the file which we saw.

Senator KERRY. So there's nothing that you can say that—

Mr. RAHMAN. Very few. Even letters, authorization letters, and all were not there in many cases.

Senator KERRY. And those loans you're talking about were directly to Ghaith Pharaon, and he undertook whatever he undertook?

Mr. RAHMAN. Yes.

Senator KERRY. But was he formally representing BCCI in that capacity?

Mr. RAHMAN. I don't know.

Senator KERRY. You don't know the answer to that.

What was his official link to BCCI?

Mr. RAHMAN. He had become very close to BCCI. I think Mr. Abedi and Mr. Naqvi was meeting him quite regularly.

Senator KERRY. Was he an officer?

Mr. RAHMAN. No.

Senator KERRY. A shareholder?

Mr. RAHMAN. He used to be a shareholder, and then he offloaded some shares to his own brother, and some shares were transferred to his brother.

Senator KERRY. Was he a trustee?

Mr. RAHMAN. No, he was not.

Senator KERRY. A director?

Mr. RAHMAN. No.

Senator KERRY. No formal relationship that you knew of?

Mr. RAHMAN. No, just a business relationship.

Senator KERRY. Just a business one. Loans.

Mr. RAHMAN. Loans, yes.

Senator KERRY. All right.

Thank you.

We stand adjourned.

[Whereupon, at 3:19 p.m., the subcommittee adjourned, to reconvene at 10:03 a.m., October 18, 1991.]



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THE BCCI AFFAIR

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OPERATIONS
OF THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE
ONE HUNDRED SECOND CONGRESS
FIRST SESSION

OCTOBER 18 AND 22, 1991

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(III)

NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

FRIDAY, OCTOBER 18, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to subpoena, at 10:03 a.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Senators Present: Kerry, Simon, Brown, Hatch, Wofford, and Jeffords.

Senator KERRY. This hearing of the Subcommittee on Terrorism, Narcotics, and International Operations of the Foreign Relations Committee will come to order.

Today we begin the fifth day of hearings in this subcommittee on BCCI, the bank, and the BCCI scandal.

We are looking at the implications of this bank's dealings on U.S. foreign policy; we are looking at its implications with respect to the war on drugs; and also the role of foreigners in our domestic, financial system.

This is the beginning, today, of a series of hearings over the course of the next week. Next week we will be hearing from a long-time insider in BCCI, one of the major, financial officers of the bank, who will be—for the first time—telling publicly his knowledge of exactly what happened with respect to the many involvements of the bank here in this country.

In addition, we will hear from Mr. Bert Lance, with respect to the National Bank of Georgia, and early introductions of Mr. Abedi and BCCI in this country. And then on Thursday, we will have Messrs. Clark Clifford and Altman appear before the committee, in order to answer questions with respect to this matter.

And finally, on Friday—time permitting, if we do not spill-over and need a second day with Mr. Altman and Mr. Clifford—we will have the CIA before the committee to talk about CIA involvement and knowledge with respect to this bank, and possibly the State Department.

Today we are going to look at a case study, if you will, on a particular branch's direct involvement in criminal activity. A lot of people have heard, over the course of the last months, about BCCI's cultural criminal activity, or the culture of criminal activity, as it has been referred to.

There have been many oblique references to arms dealings, to smuggling, and to other activities. But no one has really described what that was, or how it happened. Today we are going to do just that. Today we are going to really open the window on a particular case of smuggling, and arms dealing, and learn something about how BCCI contributed to that.

Today is really a case study in the way in which a bank—a supposed upstanding, and important member of any community—can be an important part of the conspiracy that rips at the fabric of our values and those laws.

Today we are going to have testimony about a specific case involving a Jordanian arms dealer by the name of Munther Bilbeisi who, as you will learn, it will be alleged, used BCCI to carry out covert weapons deals, the bribery of foreign officials, commodities fraud, and tax evasion in the United States and elsewhere.

The case raises, regrettably, further questions about the handling of these matters by United States law enforcement agencies. Mr. Bilbeisi's banker was a man named Amjan Awan, who was deposed by this committee in 1988, and who was Manuel Noriega's personal banker at BCCI.

In previous hearings, witnesses testified before this subcommittee about how various U.S. officials and agencies fought to keep Noriega's drug dealing secret, and to prevent his exposure because of concerns that it would embarrass our Government. The fact that Amjan Awan and BCCI were simultaneously personal bankers to both Noriega and Bilbeisi, may also be a coincidence. But it is also possible, and it raises the question, that U.S. Government agencies may not have been able to address the issues raised by the information that they did have on Bilbeisi and BCCI because of the Noriega connection.

Before we begin, I just want to caution the witnesses, as I have prior to their coming here, that we want facts, not surmise; and that we are going to document with the admission of a significant volume of documents the assertions that are being put forward here today.

One final comment. This committee has, on occasion, been criticized, supposedly for chasing goblins, or for looking at strange and nefarious types that people did not take seriously.

I can remember back in 1986 when we issued our first report in which we pointed the finger at the private aid network to the Contras, and talked about the drug-running and gun smuggling that many people were very quick to dismiss our witnesses because they were felons, and because they were drug runners.

I am quick to point out today that those very people are the principal witnesses that our own Government is paying significant sums to and using as their witnesses in a number of major drug cases in this country, not the least of which is the prosecution of General Noriega.

I finally would point out that a number of those people that we had then asked questions of, and were pursuing, are the very people who have pled guilty in recent days because they lied to this committee, as our inquiry was ongoing. And I am referring, obviously, to Mr. Alan Fiers, to Clair George, and to Elliott Abrams for

whom specific counts of their indictments are lying to this committee.

I say that not with any pleasure or glee, but because I think that it is important that this committee's record of correctness be set out and be understood.

Before we turn to the witnesses, I might also point out that Lloyd's of London, and the gentlemen in front of us who are engaged by Lloyd's of London to pursue insurance fraud, which is what led them to their understanding of the BCCI involvement, expended some \$6 million and major staff personnel in order to pursue one element of one branch's involvement in BCCI.

This committee was criticized for expending some \$200,000 with only two personnel, over a 3-year period, to pursue the entire BCCI investigation. Senator Brown.

Senator Brown. Thank you, Mr. Chairman.

I think it is appropriate to note here that you have played the leading role in bringing this issue to the forefront. And I, personally, am very appreciative of the leadership you have provided in that area.

The simple fact is that we have long recognized that matters of war and peace have an international flavor to them. Since World War II, the world has begun to recognize, in a very broad way, that we live in an international market, versus a local market or a national market. And that has dramatically impacted our statutes, both in business, with business regulation, as well as trade matters. Taxes have clearly been impacted by an adjustment to an international and a world market. In health matters, and a variety of other things, we have slowly begun to recognize, in the last 4 decades, what an international village it is that we live in, and tried to adjust our laws to accommodate that.

One area, though, that we are woefully behind the times, is in recognizing that crime has gone international. I do not mean that it has not been discussed, or thought about. But the simple fact is we have never recognized it from a legislative point of view, the way it is necessary to approach it.

The current cases involve an excellent example. The simple fact is that while criminal activities are illegal in each country, that there is a woeful lack of mechanism of recognizing how crime can operate on an international basis, and thus circumvent national laws.

I think what we have is an excellent example—or a tragic example, perhaps I should say—of how these loopholes allowed an international, criminal conspiracy to be fostered and developed. It is quite clear that this Nation has not developed the kind of statutes we need to, to deal with this international, criminal problem.

This is an example where banking practices become an integral part of a criminal conspiracy. And while we have been enthusiastic as a Nation about regulating banks—perhaps even too much in some areas—this is an area that simply has been neglected.

And Mr. Chairman, I believe that the important hearings that you have brought forward will lead to significant new, legislation that will attempt to deal with international, criminal conspiracies, and will reach out in a wide variety of areas that will impact U.S. statutes—specifically with regard to banks. But I suspect, in addi-

tion, we will have to be looking at international mechanisms to make sure that the U.S. laws can be enforced. And I suspect our trading partners will have similar concerns.

So I see the hearings today as having a major impact, not only in exposing criminal practices, but a major impact in developing new legislation that can deal with these practices.

Senator KERRY. Senator Brown, thank you very much.

Let me just say, for myself, I appreciate your bipartisan, and deep commitment to getting at this, and your help in doing so.

I think we are, indeed, going to be able to produce some legislation on this. And I think there are a number of areas where we began a few years ago, in trying to get currency transaction reports from off-shore banks, because of the huge loophole that existed.

Many Americans do not realize it, but American banks are required to keep transaction reports on any cash transaction of \$10,000 or over. But the minute that American bank opens a branch off-shore, it no longer is required to provide those reports, nor is any foreign bank, off-shore, required to do so.

So we have created an incentive to move cash transactions through these off-shore accounts. And in an age where we are literally transferring, on a daily basis, trillions of dollars through the international banking system by electronic wire, people have a huge menu in front of them for ways to avoid accountability. The system is way behind, as you have said, way behind, in creating accountability in that, and really has become an aid—a boon, if you will—to criminal activity.

I think it is absolutely vital that the G-7, at least, and perhaps the G-15 stop talking about this, as they have been, and really try to do something about it with international agreements on how to monitor this kind of activity.

Senator SIMON. Thank you.

Unfortunately, I am going to have to be here just briefly. But I have read your statements, and I should not be reading from them in advance, but you say it is our conclusion that what worked well with coffee, might just as well have worked with cocaine or other illegal drugs.

And the second thing, the failure of the Justice Department to respond—and this is not just something that happens with this administration, or Republican administrations. It is a bipartisan thing that happens too often. I think there has to be some mechanism created—maybe it is an ombudsman in the executive branch—when we are talking about laws, where people, whether it is your department, or HHS, or anyone else, have where an agency fails to respond to something that is essential, some place else to turn.

And maybe it is simply that people have to turn to us. I am not sure. But clearly, we have to just not look at what has happened. We have to say how can we improve the process? Let me just add my appreciation of your work and your leadership, Mr. Chairman. And let me add—if I may get Senator Brown's attention here for 1 minute—let me just add my appreciation also for Senator Brown, not only is he working in a bipartisan way here, he has been a real legislator. I serve on another committee with him. And I appreciate

your willingness to dig in on these things, and do a job that needs to be done.

Senator BROWN. Well, I have merely been trained by the Senator from Illinois.

Senator SIMON. You are kind.

Thank you, Mr. Chairman, and I apologize.

Senator KERRY. Thank you very much, Senator.

Gentlemen, we welcome you here today, and appreciate very much your coming.

I would like to ask both of you if you would stand to be sworn? Would you raise your right hand, please? Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you, God?

The WITNESSES. I do.

Senator KERRY. If you would each state your name for the record, and then identify yourselves, and proceed with your opening statement.

STATEMENT OF JAMES F. DOUGHERTY, II, ATTORNEY AT LAW, MIAMI BEACH, FL; ACCOMPANIED BY VICENTE VALLS, ESQ., AND RICHARD A. LEHRMAN, ESQ.

Mr. DOUGHERTY. I am James Dougherty, 1301 Dade Boulevard, Miami Beach, FL. And my associate, Richard Lehrman, is here with me. He practices law with me at our same office, at 1301 Dade Boulevard in Miami Beach, and my investigator, Vicente Valls, from Miami, FL, who has worked on this claim in our travels to Central America.

Senator KERRY. Would you proceed with your opening statement?

Mr. DOUGHERTY. Thank you very much, Senator Kerry, Senator Simon, and Senator Brown.

My associate, Richard Lehrman, and I are attorneys admitted to practice in the State of Florida. We are engaged primarily in the defense of commercial, insurance litigation. We are here at the request, specifically, and pursuant to subpoena of your subcommittee, to discuss what we have learned about the Bank of Credit and Commerce International, and subsidiaries, in its course of protracted litigation that commenced in the federal courts in Miami, FL, the southern district of Florida, beginning in January 1988 involving one of its best, high net-worth customers, Munther Ismail Bilbeisi, a Jordanian citizen, who resided both in Hollywood, and Boca Raton, FL.

What our experience in three different lawsuits has provided us—and we wish to share with you today—is a window, through which you can see how Bank of Credit and Commerce International supported this criminal client in various violations of the U.S. Code, that began early in 1982.

Looking at the case of Munther Bilbeisi, who was both a smuggler of commodities, and a clandestine arms dealer, you will be able to see how important the bank was as the financial partner in facilitating his criminal activity in violations of the U.S. Code and the laws of Central America.

Mr. Bilbeisi violated the laws of the Central American countries—at least—of Honduras, El Salvador, and Guatemala, as well as the United States. He has recently been indicted in the southern district of Florida, and a copy of the entire criminal complaint and the indictment will be provided and made a part of the record.

That indictment relates to coffee smuggling and preparation and filings of false income tax returns. His accountant was also indicted. Mr. Bilbeisi, you should know, is presently residing in Amman, Jordan. As announced to the world press, he does not intend to return to the United States. There is an issue as to whether or not he can be extradited.

His codefendant, Mr. Gruschoff, was active in the preparation of his tax returns, and the books and records which were a direct impediment to the unraveling of this task, as well as from the books and records of BCCI.

Now Bank of Credit and Commerce International, S.A., and its affiliates had two branches: one in Miami on Brickel Avenue, and one in Boca Raton, FL. Mr. Bilbeisi was a direct reason why the Boca Raton branch was opened to facilitate his commercial activity with that bank. Indeed, one of his relatives, Fahkri Bilbeisi has been, and is, today—although the bank is in receivership, as we all know—the senior bank partner in BCCI, Amman, Jordan.

Mr. Bilbeisi, from the evidence that we have reviewed, has moved various funds of his three corporations—Coffee, Inc., Orion Systems, Inc., and Mura International—with the direct connivance and participation of BCCI to conceal accounts, arrange cash payments, and facilitate the smuggling of coffee and other commodities through Central America into the United States.

When our investigation began—and there should be a brief word about this—we knew nothing of Munther Bilbeisi or BCCI. Very simply, Senator Simon, Munther Bilbeisi individually obtained what is called a fine arts policy of insurance, to ensure what he represented to a particular underwriter, Richard Fielder, were a collection of antique rugs, and a Chinese vase—the appraisals, it was later determined, to be absolutely fraudulent.

He also obtained, in the name of his company Coffee, Inc., or Orion Systems, Inc., an insurance vehicle called a Marine Insurance Shipment, to facilitate the movement of coffee.

Two claims were filed in short succession, Senator Brown, after October 24, 1986. That date is significant because that was the date that the world price of coffee had dropped over 200 points.

Within 2 days of that significant economic event, Mr. Bilbeisi filed a false insurance claim, claiming that his home had been burglarized. In the course of the investigation of that claim, Mr. Bilbeisi stated under oath that his company, Coffee, Inc., had sustained a financial claim and loss of some \$4 million, as a result of the switch of some \$12,000 bags of coffee. And it was at that point, in order to demonstrate the existence and validity of the claim, that Mr. Bilbeisi began to introduce vast, incomplete sets of records of Bank and Commerce International.

Now let me take a further minute to explain our involvement in this matter.

Lloyd's rejected—the underwriters at Lloyd's—both claims, on the grounds—briefly—of fraud, and false-swearing. The documen-

tation supplied by Mr. Bilbeisi, particularly in the Coffee, Inc. claim demonstrated on its face that there were no bills of sale; there were no contracts of sale; all that was given were a series of cashier's checks.

I wish to stress that even though we were involved with litigation against BCCI as a nonparty witness, and Mr. Bilbeisi as a defendant, we are not here to try our case, but rather to convey information we have learned concerning the operation of Bank of Credit and Commerce; and, the U.S. Government's response to what we obtained through subpoenas from grand juries.

We do not purport to have knowledge of all of BCCI's operations in its network of 69 countries. We will limit our remarks to those transactions which involve Mr. Bilbeisi in criminal conspiracy with the bank's operations in Miami, in England, and in Amman, Jordan.

The documents produced in the litigation, since 1988, that we have obtained from the bank at different times, from Mr. Bilbeisi and his corporations at different times, and from third-party witnesses, exceed the size of a large warehouse.

We have attached to the various records that we have, a fragmentary selection of some of those records in order to demonstrate the issues of coffee smuggling and arms violations here today.

On the first topic of arms dealing, you might ask: what is the relevance of an arms dealer to contracts of insurance? Senators, that goes to the moral hazard of the applicant himself, and the obligation and utmost good faith that an applicant for insurance disclose his true activities. Mr. Bilbeisi did not do that.

We have documentation that there are at least seven, separate transactions of major arms shipments in which Munther Bilbeisi was involved, with weapons either obtained or supplied from the United States or England, which ultimately went to Jordan.

The first involved a sale of small arms to Honduras and El Salvador. During the brief, 1969 soccer war between Honduras and El Salvador, Mr. Bilbeisi sold small arms or light armaments to both El Salvador, and attempted, and did sell some of the armaments to Honduras.

The second transaction that we are aware of began in 1974. This clandestine shipment of British-made centurion tanks, surface-to-air missiles, and jet aircraft that were given by and sold by the Government of England to Jordan, resulted in a clandestine, subsequent sale when those weapons became obsolete, by Mr. Bilbeisi, and they were brokered to South Africa.

We now know that in 1974, a particular reporter, Martin Walker for the Guardian, was in Jordan and came upon this particular transaction which, historically, in the world events, was a shattering revelation, because world opinion had prohibited the sale of weapons to South Africa.

Mr. Walker, in Jordan, came across this event, publicized it. It led to an official cessation of some of the shipments, and a recognition by Jordan that those shipments had occurred.

In 1975, we now know that Mr. Bilbeisi had also participated in the sale of surplus F-86 North American Sabre Jets from Yugoslavia to Honduras.

This becomes significant, since in 1978, Mr. Bilbeisi once again, became involved in a sale of the retrofitting of the entire core of British and American made tanks, which the Jordanian Government decided to update to be on a position of equivalency with the state of Israel.

That contract resulted in a claim by Mr. Bilbeisi and his corporation—and still one other shell corporation—to seek, in the American courts, in federal court in Michigan, commissions over \$7 million. All of these facts were not revealed to the underwriters at Lloyd's.

We know that during the years when insurance coverage existed, beginning in 1983, and before the filing of the false insurance claims in 1986, that Mr. Bilbeisi had a former operative of the Central Intelligence Agency, Mr. William Toten, working in his company; supposedly—and which we do not believe—for the sale of coffee. We know that in 1984 upon the retirement of Gen. James Vaught, the Three-Star Army General from the U.S. Army, that there were attempts also, by Mr. Bilbeisi to sell weapons. These proceeded, ultimately, in 1985 by further attempts by Mr. Bilbeisi to sell weapons to the Contras through Adlofo Colero.

In 1987, in the midst of the litigation that, and the investigation that had resulted from the present claim, Mr. Bilbeisi attempted to sell 10 Northrop Jet Fighters, F-5's, and 18 Sikorsky S-76 helicopter gun ships from Jordan to Guatemala with some 13,000 general purpose bombs.

Mr. Bilbeisi attempted to finance this sale of American manufactured arms without the requisite State Department and user certificates, through originally a \$34 million letter of credit. This letter of credit was initially issued, but was not completed by BCCI in Amman, Jordan.

Despite the efforts of several intermediaries on Mr. Bilbeisi's behalf, including a former consul general in Miami, and several Guatemalan generals, all of whom—as of last week—are now under indictment by the Republic of Guatemala. The financing for the complete transaction fell through.

Mr. Bilbeisi set up a \$5,175,000 letter of credit, naming BCCI Miami as the advising bank for three, of the quote, end of quote "civilian helicopters" which were manufactured by Sikorsky—S-76 helicopters, in the possession of King Hussein of Jordan.

Mr. Bilbeisi admitted that these obsolete, Jordanian helicopters were obtained for approximately \$2 million, and were later sold to the Republic of Guatemala for some \$5 million.

Discovery has revealed various facsimiles from Mr. Bilbeisi, and his intermediaries in Guatemala containing a list of various Guatemalan public and military officials, including the brother of a former president of Guatemala, Vinizio Cerezo, Milton Cerezo, to whom various kickbacks of profits from this completed transaction were directed.

The Bank of Credit and Commerce International wire transferred these funds to Bank Leumi, in Miami Beach. Included in the payoff list was the mention of some \$400,000 to BCCI—and in parenthesis, (NB) which we contend, and we believe we have evidence—represented a kickback to BCCI Miami.

These assumptions are corroborated by the issuance of BCCI cashier's checks to all of the persons named in the pay off list, in the same amounts listed on the payoff list. In addition, BCCI Miami received the \$400,000 assignment of proceeds from the letter of credit when the \$5.1 million sale of the helicopters was completed.

In pleadings which Lloyd's has filed seeking sanctions in the southern district of Florida, we have argued that this illicit sale of the United States-manufactured arms from Jordan to Guatemala, which Mr. Bilbeisi brokered, was directly tied to our litigation. The payoffs to these Guatemalan officials were made soon after the disputed insurance claims involving coffee smuggled into the United States, and which Mr. Bilbeisi contended was mysteriously switched, for which he sought insurance coverage.

Our investigation of this insurance claim for a coffee loss centered in Guatemala, since the coffee—although claimed to be of the origin of El Salvador, in fact—was grown in Guatemala. It was purchased from Guatemalan brokers, stored in Guatemalan warehouses, and trucked from Guatemala to Port St. Thomas de Castillo. When the coffee arrived in the United States, the marks on all of the bags were changed.

The greatest resistance that we received was when we began the process of investigating whether or not there was an insurance claim that was valid when we attempted to verify the origin of the coffee in Guatemala. We determined that the bags were falsely marked; that the coffee in the subject claim, as all previous shipments was smuggled. And it was at that period of time that Mr. Bilbeisi and the bank had attempted to block this investigation by initiating and then completing a partial arms shipment.

It is a documented fact in the southern district of Florida that subsequent to the unraveling of this tale of smuggling, of political payoffs, that there were attempts by Mr. Bilbeisi's Guatemalan attorneys to bribe our attorneys in Guatemala City, which led to—with the consent of our Guatemalan attorney who was investigating and assisting us—a tape recording made by agents of the U.S. Department of Justice, the Drug Enforcement Agency. Those tapes were filed, of record.

The fallout from the completed sale of these three, overpriced and obsolete civilian helicopters, involving kickbacks to Guatemalan generals and other officials, has now resulted in widely reported, national scandal in the Republic of Guatemala and, the indictment not only of the former president of Guatemala, Vinizio Cerezo and his brothers, but other members of the military.

I would like to turn for one minute, now, to an explanation of the coffee-smuggling scheme. As we all know, coffee is one of the most significant, important commodities in world trade. Because of the existence of the International Coffee Agreement, Senator Brown, in 1982 through its termination in February 1986, there were two, international prices for coffee. The agreement coffee sells for much more than non agreement coffee. What Mr. Bilbeisi and his alter-ego companies, Coffee, Inc. and Orion Systems, Inc., during the years 1982 through 1986, was buy coffee in Central America, as nonagreement coffee, and then sell it in the United States as more expensive agreement coffee.

He entered into a complicated system of a vertical conspiracy, in which he bribed members of shipping lines, agents at the ports in Central America, and as Mr. Lehrman will describe, used three different methods of illegally introducing coffee in multiple, successful violations of the United States law. When the coffee arrived in the United States, it was remarked, there were kickbacks made to people in the United States to rebag the coffee, and then to transmit it to various coffee buyers in the United States.

During the years 1983 through 1987, Mr. Bilbeisi directed BCCI to issue in excess of \$100 million in letters of credit to finance the purchase of coffee from various Central American countries, which included El Salvador, Guatemala, Honduras—and significantly, coffee in Panama. Mr. Bilbeisi insured the inland transit, second aspect warehouse storage, and then finally the open marine ocean shipments of this coffee from various Lloyd's syndicates, which we represent.

Under the insurance contract, this Central American coffee was purportedly destined for Third World countries, such as Agaba, Jordan, or Syria. In reality, each of those shipments, Senator Brown, was smuggled into the United States for resale to roasters or brokers in New York City, Miami, or New Orleans.

My associate, Mr. Lehrman, will describe the methods by which the coffee was smuggled into the United States, including the ports of New Orleans, Louisiana, Miami, and Tampa, Florida.

Although many records have been deliberately destroyed, we have been able to reconstruct the illegal importation of coffee into the United States, for which Mr. Bilbeisi paid, with the cooperation of BCCI as its financial partner, in excess of \$34 million.

In addition, we have been able to trace kickbacks of some of the illicit profits from the resale of this coffee to the United States shippers, storage facilities, brokers, the roasters, and of course, the various BCCI officers who participated in this continuous scheme.

The insurance claim, as I earlier indicated, which was initiated in February 1987, for an alleged coffee switch during the spring of 1986, all emanated when the world price of coffee fell in October 1986. Smuggling, therefore, became no longer profitable to Mr. Bilbeisi and he attempted to recoup his profit by claiming that cheap, low-grade coffee had been switched, in each of some 12,000 bags. And therefore, he was entitled to make this marine claim. So that in reality, the false insurance claim was an attempt by him to recoup the paper loss that he sustained as the world price of coffee fell, between April 1986 and October 1987.

The U.S. attorney's office for the southern district of Florida did file an indictment against Mr. Bilbeisi on August 5, 1991. A criminal complaint was filed by his office, the Office of the United States District Attorney on May 5, 1991—barely one day before the expiration of the statute of limitations. Mr. Lehrman will describe more fully a review of BCCI records which were not withheld in discovery, or destroyed, that reveals that the coffee smuggling conspiracy at all times took place with the full cooperation and knowledge—and direct bribery and payments—by various officers of BCCI in Miami and Boca Raton.

Moreover, although efforts have been made to characterize this conspiracy as a local operation involving two Florida, BCCI officers,

documents do demonstrate that the scheme was financed, in part, by bank guarantees from BCCI Amman, Jordan, and approved by BCCI's central credit office in London, England. And we now know, as a result of discovery that we have uncovered in the last 6 months, Senator Kerry, that the same personal banker used by Munther Bilbeisi, was, as you've indicated in your opening remarks, the same personal banker of General Noriega, Amjan Awan.

We additionally know that substantial payments, Senator Brown, were made by Munther Bilbeisi to Gerardo Harris, the ex-Treasurer of Panama, who was the direct financial link between Munther Bilbeisi and BCCI and General Noriega.

Both you, Senator Brown, and Senator Kerry should be aware that there have been reported statements issued by the Los Angeles Times by Mr. Franz, which have detailed that there was a grand jury leak in 1990, of the participation of General Noriega and Munther Bilbeisi in smuggling and introducing into the United States during the years 1982 and 1983, Colombian coffee, through the actual records that we uncovered in our coffee claim. In other words, in order to demonstrate the falsity of the claim in 1986, it was necessary to unravel the entire previous, historical, commercial activity between the bank and Bilbeisi between 1982 and 1987.

I would like to turn from our experience to some of the dangers that are posed as a result of this insurance claim, and the massive, complicated federal litigation in the southern district of Florida. What this case has demonstrated, is that Bank of Credit and Commerce International was a direct financial partner with Munther Bilbeisi and his companies, as a continuous, criminal enterprise.

The bank, BCCI, gave Bilbeisi the credit for his business. The bank worked with him with the bank's capital—not Mr. Bilbeisi's capital—and the bank, in turn, took substantial shares of that profits.

BCCI prepared, at all times, documents—which some of the exhibits will demonstrate clearly on their face, which were not destroyed, and which we obtained, selectively, from random documents torn out of files, placed back together, that the bank, itself knew, through its employees and officers—that the subject coffee was being smuggled.

The bank used its branch network to hide the profits which were made through the coffee smuggling, through the use of cashier's checks, wire transfers, and letters of credit—all in violation of the U.S. Code. Without BCCI, Bilbeisi would not have had a legitimate front during the years before the bank's indictment to conduct his enterprise.

Now, we are deeply distressed ourselves, at having conducted this litigation, and the discovery, since 1987. And when we were subpoenaed by agencies of the U.S. Government to produce those records to the Government, to demonstrate ongoing violations of the U.S. Code, time and time again we raise Mr. Bilbeisi's smuggling activities with representatives of the U.S. Customs. In fact, a major meeting took place here in Washington, DC, with Mr. Rosenblatt, when we had uncovered most of the pieces of the missing puzzle. The statements which were made at the conclusion of that meeting were that the U.S. Customs was not interested in a paper

case—a paper case that involved clear violations of the U.S. Customs sections of the Code, when we were able to demonstrate that the bank facilitated the profit made from the coffee smuggling, through the bank's branches in Boca Raton, by moving substantial amounts of income—not reported by Mr. Bilbeisi's business partners—to the banks offices in phony accounts in London, England, which were clear violations of the income tax laws of the United States.

Controlling illegal activity means controlling illegal banking. This is especially true when the activity involves international, continuous commerce, because that bank, the Bank of Credit and Commerce International is illustrative of how a corrupt bank, given the power of drug trafficking, arms transactions, political payoffs, corrupt payoffs between the customers and other employees of the bank, is a bank awash and designed solely to violate the laws of the United States.

It is a disappointment that with all of the information that we learned and gave to agencies of the Treasury Department—particularly, U.S. Customs—and with the information that we now know, that U.S. Customs possessed earlier information that Mr. Bilbeisi was, indeed, smuggling the coffee in 1983, and that Mr. Bilbeisi, as of 1987 was violating the currency transaction laws of the United States, that no serious attempt was made to indict Mr. Bilbeisi in the years 1983-87, indeed, with the information available to United States law enforcement agencies, if the indictment had taken place in the years between 1983-86, the underwriters at Lloyd's would have not had to litigate a false insurance claim.

Indeed, it's regrettable that the statute of limitations on the actual Customs violations have all expired. And now, Mr. Bilbeisi is left with primarily an income tax violation, a serious income tax indictment.

Thank you, Senator Kerry and Senator Brown.

[The prepared statement of Mr. Dougherty follows:]

PREPARED STATEMENT OF JAMES F. DOUGHERTY, II

Good morning. My name is James F. Dougherty, II. I am accompanied by my co-counsel Richard Alan Lehrman. We are members of the Florida Bar. We are engaged in the private practice of law in Miami Beach. We are here at the request of the Subcommittee to discuss what we have learned about BCCI in the course of litigation against BCCI and one of its criminal customers, a Jordanian national, Munther Ismael Bilbeisi.

What our experience provides is a window through which you can see how the bank supported criminal clients in their various activities. Looking at the case of Munther Bilbeisi, who was a smuggler and an arms dealer, you will be able to see how important the bank was in facilitating criminal activity.

Mr. Bilbeisi violated the laws of a number of countries in the course of his activities. He evaded taxes and smuggled coffee into the United States. He evaded taxes in Guatemala, Honduras and El Salvador. He bribed officials to arrange arms transaction in Guatemala and failed to comply with controls on arms exports.

BCCI financed his transactions with loose and accommodating letters of credit. It then moved his money to conceal accounts, it arranged cash payments to him, and prepared paperwork which concealed what had occurred. When our investigation began, BCCI helped Bilbeisi by stalling on discovery and presenting only a fraction of the subpoenaed information.

Let me take a minute to explain our involvement in greater detail. We represented certain underwriters of Lloyd's when Bilbeisi filed two multimillion dollar insurance claims during October 1986 and February 1987. Lloyd's rejected the claims and we began discovery against Bilbeisi and BCCI at the end of 1987. The discovery led

us and our clients to conclude that Bilbeisi and the bank had been engaged in a multiyear, multinational conspiracy to smuggle coffee, launder money and sell weapons illegally.

I wish to stress that even though we are involved with litigation against BCCI and Mr. Bilbeisi, we are not here to try our case but rather to convey information we have learned concerning the operation of BCCI and the Government's response to what we have learned. We do not purport to have knowledge of all of BCCI's operations in the 69 countries in which it conducted business. We will limit our remarks to the transactions which involved Bilbeisi and his colleagues.

The documents produced in discovery in our civil actions fill an entire warehouse. We have attached to our statement a fragmentary selection of those documents which will give you a sense of the problems.

COFFEE SMUGGLING

Coffee is one of the most important commodities in world trade. Because of the International Coffee agreement there is a two tier international price for coffee. Agreement coffee sells for much more than nonagreement coffee. What Bilbeisi did was buy coffee in Central America as nonagreement coffee and sell it in the United States as the more expensive agreement coffee.

During the years 1983-87, Mr. Bilbeisi directed BCCI to issue in excess of \$1 billion in letters of credit to finance the purchase of coffee from various Central American countries, including El Salvador, Guatemala and Honduras. Mr. Bilbeisi insured the inland transit, warehouse storage and ocean shipment of this coffee with the interested underwriters at Lloyd's, London.

Under the insurance contract, this Central American coffee was purportedly destined for Aqaba, Jordan or other Middle Eastern ports. In reality, the coffee was smuggled into the United States for resale to roasters or brokers in New York City.

My colleague Mr. Lehrman will describe the methods by which the coffee was smuggled into United States ports including New Orleans, Louisiana and Miami and Tampa, Florida. Although many of the records have been destroyed, we have been able to reconstruct the illegal importation of coffee into the United States for which Mr. Bilbeisi paid in excess of \$34 million. In addition, we have been able to trace "kickbacks" of some of the illicit profits from the resale of this coffee to United States shippers, storage facilities, brokers, roasters, and of course BCCI officers.

The insurance claim arose when the Coffee agreement collapsed and with the collapse, the price of coffee fell. Smuggling was no longer profitable so Bilbeisi tried to make his profit by claiming that cheap, low grade coffee had been swapped for expensive coffee and that his insurers, our clients, had to make up the difference. U.S. attorney's office for the southern district of Florida recently issued an indictment of Mr. Bilbeisi and his accountant for a tax evasion conspiracy arising out of the failure to report the profits from this coffee smuggling conspiracy.

As Mr. Lehrman will describe more fully, a review of BCCI records not withheld in discovery or destroyed, reveals that the coffee smuggling conspiracy took place with the knowledge and active participation of BCCI officers in Miami and Boca Raton, Florida. Moreover, although efforts have been made to characterize the conspiracy as a local operation involving two Florida BCCI offices, documents show that the scheme was financed in part by bank guarantees from BCCI-Amman, Jordan, was approved by BCCI's central credit office in London, England, and involved the participation of General Manuel Antonio Noriega's personal banker, the country manager of BCCI-Panama, Amjad Awan.

ARMS DEALING

Mr. Bilbeisi has been a recognized international arms dealer for nearly a quarter of a century. His well documented partially completed sale of American and British manufactured Centurion tanks, Hawker-Hunter jet fighters and missiles to the racist regimes in South Africa and Rhodesia appeared on page 1 of the September 10, 1974 Manchester Guardian. This disclosure created a national scandal in England. Over the years, Mr. Bilbeisi has attempted or completed sales of American manufactured 105-MM guns for the entire tank corps of the Royal Jordanian army, American manufactured F-86 jet fighters from Yugoslavia to Honduras, American manufactured small arms to the Nicaraguan Contras, C-130 transport planes from Jordan to Argentina and nuclear material to the Middle East.

Many of these earlier transactions may have involved BCCI financing. Many appear to the outsider as being of questionable legality at best. However, we can say

with certainty that Mr. Bilbeisi's most recent attempt to sell American manufactured arms to Guatemala involved the active assistance of BCCI and were illegal.

During 1987 and 1988, Mr. Bilbeisi attempted to sell ten Northrup F-5 jet fighters and eighteen Sikorski S-76 helicopter gun ships from Jordan to Guatemala. Mr. Bilbeisi attempted to finance this sale of American manufactured arms without the requisite State Department end-user certificates through a \$34 million letter of credit. The letter of credit was issued by BCCI in Amman, Jordan.

Despite the efforts of several intermediaries on Mr. Bilbeisi's behalf, including a former Consul-General and several Guatemalan Generals—all of whom are under indictment in Guatemala along with Mr. Bilbeisi—the financing for the complete transaction fell through.

However, Mr. Bilbeisi set up a \$5.175 million letter of credit naming BCCI-Miami as the advising bank for the sale of three of the Sikorski S-76 helicopters. Mr. Bilbeisi admitted that these obsolete Jordanian helicopters were obtained for only \$2 million and we have well founded reason to believe that the price was even less.

Discovery has revealed a facsimile from Mr. Bilbeisi's intermediary in Guatemala containing a list of the various Guatemalan public and military officials, including the brother of then President Vinicio Cerezo, to whom "kickbacks" of the profits from the deal were to be directed.

Included in the "payoff list" was a mention of \$400,000 to "BCCI (M.B.)," representing a kickback to BCCI-Miami. These assumptions are corroborated by the issuance of BCCI cashiers checks to all the persons named in the "payoff list" in the same amounts listed on the "payoff list." In addition, BCCI-Miami received a \$400,000 assignment of proceeds from the letter of credit when the \$5.175 million sale of the helicopters was completed.

In pleadings seeking sanctions, which we filed with the court in the southern district of Florida, we argue that this illicit sale of U.S. manufactured arms from Jordan to Guatemala was tied to our litigation. The payoffs to Guatemalan officials were made soon after the disputed insurance claims involving coffee smuggled from Guatemala.

Our investigation of the insurance claim for a coffee loss centered in Guatemala since the coffee was Guatemalan in origin, was purchased from a Guatemalan broker, stored in a Guatemalan warehouse, and trucked within Guatemala to the Guatemalan port of Santo Thomas De Castilla.

I personally met substantial resistance when I attempted to investigate this claim in Guatemala during 1987 and 1988. I am convinced that Mr. Bilbeisi's payments were the source of this difficulty. In addition, Mr. Bilbeisi tried to bribe our attorneys and investigators in Guatemala through one of the people named in the 1988 "payoff list."

The fallout from the completed sale of these three overpriced obsolete Sikorsky S-76 helicopters involving kickbacks to Guatemalan generals and other officials has resulted in a widely reported national scandal and the issuance of several indictments by the Guatemalan Government against Mr. Bilbeisi, BCCI and those who lined their pockets with the proceeds from this illicit transaction.

CONTACTS WITH U.S. GOVERNMENT AGENCIES

Almost from the inception of these civil actions it was clear that the coffee smuggling conspiracy involved multiple violations of the United States criminal code, especially 18 U.S.C. § 541 et. seq., which prohibits the importation of goods into the United States under false or fraudulent bills of lading or other documents. In addition, we became aware of multiple violations of the Munitions Control Act, which prohibits the sale of U.S. manufactured military weaponry without State Department authorization. Finally, we became aware of multiple acts of money laundering committed by BCCI in connection with coffee smuggling conspiracy and arms transactions.

As officers of the court we considered it our duty to bring these crime to the attention of appropriate law enforcement agencies. Over the next three years we repeatedly notified the Customs service, IRS, and the U.S. attorney's offices of three districts of these crimes. Finally, in frustration I sent a letter to the Attorney General outlining the problem.

There was no response to our efforts other than a form letter of appreciation from Customs.

We subsequently became aware of an internal U.S. Customs memorandum dated June 1983 describing Mr. Bilbeisi's illicit importation of coffee from Central America. We also became aware, through the public press, of an indictment and conviction of an English arms dealer named Colin Breeze, involving the sale of a single Sikorsky S-76 helicopter, also supplied from Jordan. Our numerous written contacts

and meetings with customs are outlined in the attached set of exhibits. To our knowledge, U.S. Customs never followed up on any of the information we provided.

In 1990, the criminal investigative division of the Internal Revenue Service subpoenaed our records, apparently in connection with an investigation of the tax consequences of the illicit profits generated by the coffee smuggling scheme. Our cooperation included not only supplying the IRS with thousands of records but devoting literally hundreds of hours to inputting and analyzing data at the request of the IRS. It is a matter of public record that the Internal Revenue Service issued a criminal complaint on May 15, 1991—the day before the expiration of the Statute of Limitations—against Mr. Bilbeisi and his accountant for tax evasion arising from the coffee smuggling scheme. Three months later, the U.S. attorneys office for the southern district of Florida issued a criminal indictment against Mr. Bilbeisi and his accountant listing the same charges. To our knowledge, no indictment has been issued against any of the BCCI officers connected with the scheme or against any of the persons named in the Guatemalan indictments.

THE DANGERS POSED

What this case shows is how central an accommodating bank is to criminal activity. BCCI gave Bilbeisi the credit to do business. He worked with their capital, not his own. Inturn they took a share of profit.

BCCI prepared documents which were essential to the shipment and then interpreted them loosely so that a false destination would not impede payment. It used its branch network to hide the profits abroad and its cashiers checks to turn profits into untaxed, non traceable cash.

Without BCCI, Bilbeisi would have had a really difficult time organizing and financing his deals. With BCCI they were a snap.

Moreover, it is our conclusion that what worked well with coffee might just as well have worked with cocaine or other illegal drugs. What worked as a system of payoffs to foreign officials to stop our discovery effort, could just as well have covered buying silence on drug running.

We are deeply distressed by the obvious difficulty the Justice department has had addressing this bank as an institution. Time and again we brought the bank's role in the affair to the attention of Justice. Time and again we have raised Bilbeisi's smuggling activities without response. Even when we turned over what we thought was conclusive evidence of coffee smuggling Justice failed to act.

Controlling illegal activity means controlling illegal banking. This is especially true when the activity is cross border and the bank is an elusive, unregulated foreign entity which is never subject to careful scrutiny.

Thank you for your attention. We will be glad to answer any questions you may have.

Senator KERRY. Thank you very much, Mr. Dougherty.

Is Mr. Lehrman going to testify separately, or just answer questions?

Mr. LEHRMAN. I will just respond to questions, Senator.

Senator KERRY. Well, I want to thank you very much for that.

What I want to do now is see if we can draw a simpler, and clearer picture, in a sense. There is a lot of convoluted history there of involvement. And for the person coming at this for the first time, it is not that easy to follow.

I want to try to draw that picture as clearly as we can.

I think one of our initial points of inquiry here is to understand exactly how BCCI facilitated these two schemes. So let us take the one arms deal, where BCCI was a clear facilitator. Do you want to walk us through that?

Mr. DOUGHERTY. Do you want us to take the charts, Senator?

Senator KERRY. Sure, let us put the charts up. That is what they are there for, and show it in very clear terms.

Mr. Lehrman, while they pull those out, why do you not just answer a question for me, here, verbally, before they get the charts up.

How was BCCI integral to the arms deal, and how would BCCI have had to have known what it was involved in?

Mr. LEHRMAN. BCCI was the conduit through which the funds to finance the arms deal were funneled.

Senator KERRY. Now what makes this arms deal illegal, right up front?

Mr. LEHRMAN. The Arms Export Control Act prohibits the sale of U.S.-manufactured arms, without State Department approval.

Senator KERRY. Was there State Department approval here?

Mr. LEHRMAN. There was not.

Senator KERRY. Does any facilitator of financing for this know for a fact that that is required?

Mr. LEHRMAN. Anyone involved in the financing of arms deals would know that requirement. We have correspondence in our records reflecting inquiries that are contained in BCCI's filed, with respect to whether the end-user requirement was adhered to.

Senator KERRY. And what was the response with respect to those inquiries?

Mr. LEHRMAN. Mr. Bilbeisi typically evaded the response, or he said he would have that requirement taken care of.

Senator KERRY. And notwithstanding the lack of adequate response, the bank went ahead and provided the financing?

Mr. LEHRMAN. That's correct.

Senator KERRY. If you would walk us through these charts that are up here, one by one, would you explain precisely what they are?

Mr. LEHRMAN. The chart closest to you, Senator, is a May 27, 1987, letter from Mr. Bilbeisi to Brigadier General Rojas, the highest ranking officer at the time, military officer, of the Government of Guatemala. In short, it says, in Spanish, we are the exclusive representatives of the Jordanian Armed Forces for the sale or military equipment. We also represent companies specializing in the manufacture of equipment in East and West Europe, especially Yugoslavia and Czechoslovakia.

In effect, it's a letter of introduction from Mr. Bilbeisi to the Guatemalan government to get an entree to the highest-ranking officials of the Guatemalan military.

Senator KERRY. The significance of that letter, with respect to BCCI is what?

Mr. LEHRMAN. The significance of the letter is that Mr. Bilbeisi is a known arms dealer.

Senator KERRY. The next document?

Mr. LEHRMAN. The May 27, 1987, letter to Brigadier General Rojas, describes a proposal for an arms deal involving Sikorsky S-76 helicopters, which Mr. Bilbeisi described as "civilian" helicopters, to the authorities regulating those helicopters, and to us, in discovery responses. In fact, as can be seen on page 2 of the letter which states, all of the above aircraft can be fitted with armament kits consisting of spare, support teams, upon which you can hang armaments to carry 50 caliber machine guns, 7.62 mm twin machine guns, or 2.75-inch aerial rockets, as described in the enclosure. At all times those helicopters were to be retrofit as gun ships.

Senator KERRY. And is it not true that in the course of this transaction it was clear that the retrofitting and the provision of the military capacity was, in fact, part of the deal?

Mr. LEHRMAN. It was not only a part of the deal, in a way, it was the only way the deal could be consummated. Because had the ships been fit with armament kits prior to Bilbeisi's applying them to Guatemala, it would have been very clear—even clearer—that the end-user certificate requirement had been avoided.

In this cases, Mr. Bilbeisi is trying to end-run the end-user certificate requirement, by providing ships with helicopters, which were always intended to be retrofit as gun ships.

Senator KERRY. Notwithstanding the lack of end-user certificate, BCCI provided the requisite—or was prepared to provide the requisite financing. Is that accurate?

Mr. LEHRMAN. That is correct.

Senator KERRY. Is there any other role that BCCI played to facilitate this?

Mr. LEHRMAN. Part of arms transactions is to make sure that people in the military, highly ranked public officials are taken care of financially. BCCI provided the conduit through which the necessary persons could be paid off. These persons would include generals, other highly ranked public officials. In this case, the brother of the then-President of Guatemala, Milton Cerezo, and, of course, the intermediaries hired by Mr. Bilbeisi, including the former Counsel General of Guatemala.

Senator KERRY. Now you say that very matter-of-factly. I think most Americans would sit there and say what the hell is going on here? Do you mean, whenever there are these arms transactions in government, the guys in power get paid off? And we are basically saying yes, that is true? Do not be surprised, Senator, that is the way it works everywhere. Is that accurate?

Mr. LEHRMAN. Let me clarify that, Senator. In a legitimate government-to-government transaction, these type of payoffs don't exist—or at least not that we're aware of. It was precisely because this was an illicit transaction, and as Mr. Dougherty stated before, for the purpose of blocking our coffee investigation in Guatemala, that the transaction was conducted not only to benefit Mr. Bilbeisi, but to pay the people who would be in a position to block our investigation.

Senator KERRY. Now, the third document is a reference to what?

Mr. LEHRMAN. The third document, which is a signed letter from Mr. Bilbeisi to Mr. Bilbeisi's intermediary in Guatemala, describes the spare parts that were to be provided as part of the helicopter transaction, including a list of roughly 16,000 general-purpose cluster bombs. The letter states, B, General Purpose, because obviously to hide the nature of the transaction.

However, when Mr. Bilbeisi was confronted with this letter at his deposition on May 16, 1990, in the case pending in the southern district of Florida, he did admit that B stood for cluster bombs. However, he said that the request for the cluster bombs was made by the Guatemalans, so naturally it didn't make Mr. Bilbeisi an arms dealer.

Mr. DOUGHERTY. Senator Kerry, part of that original contemplated deal involved the sale—as we said in opening statement—of

squadron of F-5 jet fighters. And the bombs were designed as a further inducement to have the Guatemalan Air Force be in a position of parity in 1987 with the squadron of F-5 jet fighters that the State Department had approved for the sale to Honduras. But the State Department, at all times, had prohibited—as we understand it—the sale of any jet fighters or gun-ships to the Republic of Guatemala, for what the State Department claimed was an ongoing violation of human rights violations going back to 1981.

Senator KERRY. That is what I want to get to.

That is why, Mr. Lehrman, in the middle chart, the mounting of machine guns on these helicopters was important for Guatemala. Why? To precisely get around what Mr. Dougherty has just talked about. Is that correct?

Mr. LEHRMAN. Precisely. The purpose of the end-user certificates are to ensure that only foreign governments which receive the approval of the State Department receive the lethal weaponry listed in the statute. So the whole point of using BCCI as an intermediary, and using Mr. Bilbeisi was to permit the government of Guatemala to obtain these Northrop F-5 jet fighters, and these helicopter gun-ships without the approval of the U.S. Government.

Senator KERRY. Now, it is pretty fair to assume that any legitimate banking institution that wants to be in good standing, understands that when it receives letters and requests for letters of credit with respect to a weapons sale, it is automatically on notice that it ought to have an end-user certificate, and know that this is a legitimate and approved sale, correct?

Mr. DOUGHERTY. Yes, Senator Kerry. And the first document, the very first document in the bank's file, dated January 1983, is a letter of introduction from Munther Bilbeisi. And in the second paragraph of that letter, Mr. Bilbeisi boasted in English—we have an enlargement of that—of the same last paragraph, 4 years later in 1987 that he was an arms dealer.

In other words, the bank knew from the inception of its relationship, at all times, that Mr. Bilbeisi held himself out as an arms dealer.

Senator KERRY. And the date of that is when?

Mr. DOUGHERTY. January 1983.

Senator KERRY. And in 1983, Mr. Bilbeisi was based in Miami, was he not?

Mr. DOUGHERTY. He was, sir.

Senator KERRY. And in 1983, when he was based in Miami, he was dealing in U.S. arms. Is that not correct?

Mr. DOUGHERTY. To our knowledge, he was. From the records that we have received in discovery responses that dealt with all manners of weapons.

Senator KERRY. So in 1983 you have an arms dealer dealing out of Miami, holding himself out to this bank, initially as an arms dealer, yet, nevertheless, not dealing within the confines of U.S. law.

Mr. DOUGHERTY. That is correct.

Senator KERRY. OK, now how exactly does the end-user certificate normally get provided? What is the process one would go through?

Mr. DOUGHERTY. To our—to my knowledge, there is a request made to the Department of State and a specific subagency, to the Department of Munitions Control, that the provider of the American-made weapons signs an end-user certificate—which was obtained in this case, initially, by—at the end, by President Vinizio Cerezo. There is a copy of that. But there was never any signoff of the document of the Sikorsky helicopters, to our knowledge, by King Hussein of Jordan, who was the provider of the weapons.

In any event, those documents were to be sent to the Department of State Munitions Control Board. A request was made by us to obtain that document search. And the response came back that there were none. There were none done in the deal. You should know, Senator Kerry, that U.S. Customs officers from West Palm Beach, and an agent, Jeffrey Martin, came to the home of Mr. Bilbeisi in late 1987 to confront him of the requirement of the end-user certificates, and to confront him that portions of those helicopters contained prohibited equipment—VHF radios. Mr. Bilbeisi then ordered that the helicopters be shipped from Agaba Jordan, directly to Port of St. Thomas, Castilla, Guatemala, so that the vessel never reached the United States shores so that it could be seized, and that it be subject to investigation. The end-user certificates were never obtained.

Senator KERRY. Is there any other way that the committee should be aware that BCCI facilitated this process, or played a role in it?

Mr. DOUGHERTY. The answer to that question is yes, Senator. There are source books which we have obtained in our civil discovery. We, the attorneys for Lloyd's, are under a confidentiality order with respect to the third lawsuit in which Lloyd's, as the plaintiffs, sued the bank for a RICO action, a civil RICO action. Those source records would contain the identity of corporations contained in the letters of credit file, the bank's wire transfers, and their cashier check volumes. Those documents are, of course, available to your subcommittee. And I believe from your review of it, you would be able to identify still other corporations that sold armaments from the south Florida area, or that the bank, through its branches, provided financial assistance.

Senator KERRY. You have brought a RICO, a civil RICO?

Mr. DOUGHERTY. Yes.

Senator KERRY. Why has the Government never employed a RICO approach here?

Mr. DOUGHERTY. The U.S. Government did not file a RICO action until—a civil RICO action—to our knowledge, at any time. That is a matter that we addressed. And it's the only time that I, personally, have ever written a letter to the Attorney General of the United States, which will be later placed in evidence, in December of 1990, as it became apparent that the bank—subject to several lawsuits—was about to—having announced that it was going to retire from the United States, and that records would be taken back to Abu Dhabi, or that records would be taken back to England. And like a prophet, in one letter, one of the fifth and last letter that I addressed to the U.S. attorney, putting him on notice with a sheaf of records to all of the possible violations, and bases to bring a civil RICO action.

I reminded the U.S. attorney and the Attorney General of the United States, that under the U.S. Code they possessed the power, under the civil RICO statute to issue what is called a civil investigative demand, and seize the records of the bank, before those records were taken back to the Middle East, so that the U.S. Justice Department could conduct just such an inquiry, and find out whether or not from the branches in Miami, Boca Raton, Los Angeles, Tampa, New York, or Chicago, major arms transactions had taken place in Central America, and we received no response to that.

In other words, I felt it necessary, before my client's authorized the filing of a RICO claim, to bring to the attention of the U.S. attorney and the Attorney General, himself, of the fact that they possessed the power of greater magnitude than the underwriters at Lloyd's, as a civil plaintiff, to seize those records. And no attempt was done.

As soon as my clients' initiated a RICO action, we immediately sought from the United States magistrate in the southern district of Florida—Magistrate Johnston—orders, to seize the records, as in January the bank announced its close-down.

We were successful in obtaining a series of orders in the civil litigation, in which Magistrate Johnston, and later, United States District Judge Marino ordered these source records seized, and made available to us, subject to this confidentiality order.

To answer your question, I don't believe that the U.S. attorney's office has ever done it. We could only speculate as to the reasons why they have not done that.

Senator KERRY. You keep putting your hand on a book. What is that, that you are referring to? Is that what you have sent to the Justice Department?

Mr. DOUGHERTY. We have those letters here. I wanted to show you, Senator, and I have it—the actual orders themselves, that contain the orders prohibiting the removal of the records. And we have an index of a series of correspondence that we will deliver to you at this hearing.

Senator KERRY. Yes, but I am trying to get the sequence here.

You were—as you went through the investigation, in 1987, 1988, you began to collect more and more information. You said there were four times, five times, you were in touch with law enforcement authorities?

Mr. DOUGHERTY. Yes, we have an index of those letters sent to the U.S. Justice Department.

Senator KERRY. What was the date of the first letter?

Mr. DOUGHERTY. The first letter went September 13, 1989, to the District Director of U.S. Customs in Tampa.

Senator KERRY. Setting out what?

Mr. DOUGHERTY. A request for records that would demonstrate coffee smuggling, by Coffee, Inc., and asking Customs if they would permit us to receive those records.

Senator KERRY. What happened to that?

Mr. DOUGHERTY. No response.

Senator KERRY. What was the next correspondence?

Mr. DOUGHERTY. The next correspondence, in sequence, went to the Assistant U.S. Attorney, Louis Kerry. And then on November

29, 1989, to the U.S. attorney—the U.S. attorneys in both Miami, New Orleans, and Tampa, bringing to their attention the existence of the coffee smuggling scheme and a request to receive records in the possession of U.S. Customs. No response.

Senator KERRY. OK, no response at all.

Mr. DOUGHERTY. None.

Senator KERRY. And then the next correspondence?

Mr. DOUGHERTY. The next correspondence was on December 15, 1989. It was a letter directed to Mr. Flynn to attempt to—

Senator KERRY. Who is Mr. Flynn?

Mr. DOUGHERTY. Mr. Flynn is an Assistant U.S. Attorney here in Washington, and that dealt with the inquiry as to whether or not there were any end-user certificates issued to Mr. Bilbeisi or his corporations, for the Guatemalan transaction, or any of the previous ones. And there was a response that the appropriate Department of State Agency Munitions Control had no such records of Mr. Bilbeisi.

Senator KERRY. What was—and then you wrote another letter, subsequent to that?

Mr. DOUGHERTY. Yes, we wrote a letter on April 30 to the Assistant U.S. Attorney, Mark Jakowski—

Senator KERRY. April 30, what year?

Mr. DOUGHERTY. 1990—asking for a request to review specific records that were introduced in the BCCI criminal indictment, and the criminal conviction in Tampa, and an opportunity to confer with him, and to review the records that were seized from BCCI in Miami, under a search order that was issued by the United States magistrate, when the bank's offices were all closed and the records were sealed.

Senator KERRY. What happened to that request?

Mr. DOUGHERTY. No response.

Senator KERRY. Well, is it possible—being devil's advocate, and taking their side for a minute—is it possible that they had an ongoing investigation and did not want to deal with somebody on the outside at that time?

Mr. DOUGHERTY. Well, the records we wanted to see, Senator, we wanted to confirm, were the records of Munther Bilbeisi that were also seized at the same time that the grand jury subpoena and search order was issued.

In other words, when the Operation C. Chase indictment occurred, there was a seizure of bank records, including Amjan Awan's records, when he was in charge of Lacro in Miami. And part of all of his customers included not only the individuals in the Tampa—

Senator KERRY. I am not sure that answers my question. I mean, there was an ongoing investigation at the time, correct?

Mr. DOUGHERTY. Well, the records that we wanted to see, were the records that were either not used by the Middle District Attorneys—U.S. attorney's office that were taken, that should have been available to us—

Senator KERRY. I see.

Mr. DOUGHERTY [continuing.] And we should have been given an opportunity to see the records that were put in evidence. And we weren't allowed to see those, either.

Senator KERRY. And what was the last letter you referred to?

Mr. DOUGHERTY. That was a letter of April 30, 1990, to the——
Senator KERRY. A subsequent letter?

Mr. DOUGHERTY. The next letter went to Bonnie Tischler, on May 4, 1990, from U.S. Customs Service, because we were requesting at that time to meet and confer concerning the ongoing investigation that we had to prove and establish in our civil case, the existence of a——

Senator KERRY. Well, what I am trying to get at. Some of these communications that you are referring to, seem to be requests for information. But in your testimony, you say as officers of the court we considered it our duty to bring these crimes to the attention of appropriate law enforcement agencies.

Mr. DOUGHERTY. Over the next 3 years we repeatedly notified the Customs Service, IRS, and U.S. attorneys offices of three districts of these crimes.

Finally, in frustration, I sent a letter to the Attorney General outlining the problem.

Senator KERRY. Was there any response with respect to those crimes, investigatively or otherwise?

Mr. DOUGHERTY. None—the only agency that contacted us for—that responded, was the Criminal Investigation Unit of Internal Revenue Service, which did subpoena portions of our records.

I do not know if the U.S. attorney's office New Orleans or Miami then referred the inquiries we made to IRS. But at all times, the only response that we ever received were subpoenas issued by the Internal Revenue Service.

Senator KERRY. Now you say you sent a letter to the Attorney General. What was the purpose of that letter?

Mr. DOUGHERTY. Senator, the purpose of that letter was subsequent to the request for a conference with Mr. Rosenblatt, which occurred in August of 1989. Because as I testified in my opening statement, that conference in which we laid out to him all of the information that we had acquired, in 1987, 1988, and through the summer of 1989, for the clear violations of Customs violations—all of the documents, money laundering, income tax violations. As far as Customs was concerned, and Mr. Rosenblatt, it was a paper case. It had no glitz. They were not interested in it.

It then became apparent that because of more information that we received in the summer of 1989, and in 1990, that the manner in which the bank moved money from Mr. Bilbeisi and his former partners, was a common method used by still other customers, whose records we had access to.

And we wish to use, under Federal Rule of Evidence 404(b), evidence of similar conduct. And here we are, with the bank about to leave the United States, and the records going, we're asking, in advance, the assistance of the Justice Department to initiate—if they're not going to file a RICO claim, to at least seize the records before the records go.

Senator KERRY. And they did not seize the records.

Mr. DOUGHERTY. They did not seize the records. They did not respond to the letter. And we——

Senator KERRY. Did records go? Did you lose records as a consequence?

Mr. DOUGHERTY. Senator, we believe so.

Senator KERRY. But you do not know.

Mr. DOUGHERTY. I don't know that. But I do know that a major fire took place in London, England, and a large source of those bank records were, quote "burned" about 3 months ago. I know that from speaking to various witnesses who have testified that bank records were moved out of Miami and Boca Raton back to England.

Senator KERRY. Do you have any of the letters that you sent to the various departments there?

Mr. DOUGHERTY. I provided them to your office, Senator. And we couldn't locate them yesterday. So I asked for an additional set. And they were sent yesterday, Federal Express. And they should be here now. I have the chronology of them, but we have a hard set for you.

Senator KERRY. What is the chronology? Do you have that on paper there?

Mr. DOUGHERTY. Yes.

Senator KERRY. Is the clerk here? Would you collect those? I would like to put those into the record at this time. And without objection, I would like to put the other documents into the record in sequence, as we get them now. And we will make those available.

[The information referred to follows:]

INDEX OF LETTERS SENT TO JUSTICE DEPARTMENT OR CUSTOMS

09/13/89	Dianne A. Zwicker District Director Department of the Treasury U.S. Customs Service 4430 East Adamo Drive, Suite 301 Tampa, Florida 33605
11/13/89	Lewis P. Carey, Jr. Assistant United States Attorney Department of Justice Southern District of Florida 155 South Miami Avenue Miami, Florida 33130
11/29/89	Dexter Lehtinen United States Attorney 155 South Miami Avenue Suite 1000 Miami, Florida 33130 Robert S. Siberski Special Agent in Charge U.S. Customs Service Airport Executive Center 2203 North Lois Avenue, Suite 600 Tampa, Florida 33607 John Volz United States Attorney Hale Boggs Building, Room 210 500 Camp Street New Orleans, Louisiana 70130
12/15/89	Charles F. Flynn, Esq. Assistant United States Attorney Judiciary Center, Room 4118 555 Fourth Street, N.W. Washington, D.C. 20001
04/30/90	Mark Jackowski Assistant United States Attorney 920 Zack Street Tampa, Florida

05/04/90 Bonnie Ticshler
Department of the Treasury
United States Customs Service
4430 East Adamo Drive, Suite 301
Tampa, Florida 33605

05/29/90 United States Customs Service
Legal Counsel
909 S.E. 1st Avenue, Room 606
Miami, Florida 33131

05/30/90 Richard Keating
Department of Treasury
United States Customs
4430 East Adamo Drive, Suite 301
Tampa, Florida 33602

05/31/90 John Forbes
United States Customs Services
Smuggling & Investigative Division
13001 Constitution Avenue, Room 5408
Washington, D.C.

06/22/90 Andres Rivero
Assistant United States Attorney
United States Attorneys Office
Southern District of Florida
155 South Miami Avenue
Miami, Florida 33130

07/02/90 Sandy Francis
Senior Special Agent
United States Customs
108 Decatur Street
New Orleans, Louisiana 70130

08/24/90 K. Brooks Thomas, Esq.
Regional Counsel
United States Department of Treasury
United States Customs Service
909 Brickell Plaza, Suite 606
Miami, Florida 33131

10/05/90	K. Brooks Thomas, Esq. Regional Counsel United States Department of Treasury United States Customs Service 909 Brickell Plaza, Suite 606 Miami, Florida 33131
12/12/90	Dexter Lehtinen United States Attorney 155 South Miami Avenue, Suite 1000 Miami, Florida 33130
01/19/91	United States Customs Services Smuggling Investigative Division R-5408 13001 Constitution Avenue, N.W. Washington, D.C. 20229 Attention: John Forbes
03/14/91	Office of the Regional Commissioner United States Customs Service South Central Region 423 Canal Street, Suite 337 New Orleans, Louisiana 70131-2341 Attention: Robert Grimes
03/26/91	Andres Rivero Assistant United States Attorney United States Attorneys Office Southern District of Florida 155 South Miami Avenue Miami, Florida 33130
03/28/91	Andres Rivero Assistant United States Attorney United States Attorneys Office Southern District of Florida 155 South Miami Avenue Miami, Florida 33130
04/24/91	Mr. John Moscow New York District Attorneys Office One Hogan Place New York, New York 10013

05/20/91

Michael Rubenstein, Esq.
United States Attorneys Office
500 Zack Street, Suite 400
Tampa, Florida 33602

06/19/91

Andres Rivero
Assistant United States Attorney
United States Attorneys Office
Southern District of Florida
155 South Miami Avenue
Miami, Florida 33130

07/02/91

William Jung
United States Attorneys Office
500 Zack Street
Tampa, Florida 33602

Jeanne Huetting
Criminal Supervisor
Clerk of the Court
Criminal Division
United States District Court
611 North Florida Avenue
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Criminal Division
United States District Court
611 North Florida Avenue
Tampa, Florida

07/15/91

Andres Rivero
Assistant United States Attorney
United States Attorneys Office
Southern District of Florida
155 South Miami Avenue
Miami, Florida 33130

Mr. DOUGHERTY. Senator, I have some of the copies, and I have the index here. Richard provided them with me.

Senator KERRY. Well, if you could give us the index and the copies that you have—

Mr. DOUGHERTY. And if I could, here is the specific letter of December 12, 1990, with a copy to the Attorney General of the United States.

Senator KERRY. Could you read that? I would just be interested in what you said.

Mr. DOUGHERTY. Yes, this letter was written on December 12, 1990, to the U.S. attorney for the southern district of Florida, Dexter Lehtinen.

Senator KERRY. No, that is not the one I am talking about. I thought you said you had the one to the Attorney General?

Mr. DOUGHERTY. Yes, it shows a carbon copy.

Senator KERRY. Oh, I am sorry. All right.

Mr. DOUGHERTY [reading]:

Dear Mr. Lehtinen: I enclose for your review the following: One, a copy of my correspondence to you, and Robert S. Sibursky, U.S. Customs, Tampa, and John Voltz, United States Attorney, New Orleans, dated November 29, 1989, outlining the essential elements of the illegal activities involved in the above-referenced litigation, Exhibit No. 1. And we gave him all the records.

Two, a copy of the letter from the Secretary General of the Republic of Guatemala, and personal attorney to the President of Guatemala, dated December 7, 1990, seeking your assistance and cooperation in a matter of great importance to the Government of Guatemala. And that was a request to have Mr. Bilbeisi extradited to Guatemala if he came to the United States.

Three, a copy of an article appearing in the South Florida Business Journal for the week of November—October 1990, entitled Insurance Claims Reveal a Web of Intrigue: Former Boca Businessman, Bilbeisi in a Guatemalan Arms Deal, Coffee Smuggling.

In other words, we're waiving a red flag. Hey, here is a complete newspaper article outlining in simple form the entire caper. Five, a copy of the motion for summary judgment filed by Lloyd's, based on illegality. Judge Marcus has not yet set oral argument on the motion.

This motion reviews all of the classic elements of multiple violations of the U.S. Code, involving Customs violations—and I identify the Code sections—fraud, and false statements.

Why? I'm telling them that I know that the statute of limitations is going to expire.

Six, a—

Senator KERRY. And just to make the record clear, the statute of limitations did expire, is that correct?

Mr. DOUGHERTY. And then it subsequently expired.

Senator KERRY. Correct.

Mr. DOUGHERTY [reading]:

Six, a copy of a proposed RICO complaint, to be filed on behalf of my clients, seeking money damages for multiple RICO violations under Chapter 18, 1964. We have received a series of subpoena duces tecum to produce our files and all of our databases which have demonstrated clear, continuous, multiple instances of laundering of money instruments in violation of Title 18, all committed by various officers and employees of Bank of Credit and Commerce International.

We understand that this matter is presently assigned to your Assistant U.S. Attorney Andros Rovero.

As you are aware, Judge Hodges of the Middle District of Florida has sentenced bank officers of BCCI, after accepting from that bank an agreement entered into with the office of the U.S. attorney of the middle district, a \$15 million fine.

We, have uncovered still further evidence of money laundering, kickbacks, extortion attempts, and continuing, multiple violations of obstruction of justice made by

officers of the Bank of Credit and Commerce International, their attorneys and investigators here in Miami.

Since your office possesses the power to file or make recommendations of civil, investigative demands under Title 18, 1986 to expedite this matter, and under 1966 allowing the U.S. Government to recover money damages, we are requesting—underlined—an immediate conference to bring these matters to your attention.

And then I say in caps:

Prior to the further attempts of Bank of Credit and Commerce International to destroy records or remove records from the jurisdiction, as contemplated by the withdrawal of the bank from the State of Florida, before January 11, 1991, with a Federal Expressed copy of all of the records, and a shown copy of the letter to the Honorable Richard Thornburgh, Attorney General of the United States—to which we received no answer.

Senator KERRY. So you were never contacted for that meeting?

Mr. DOUGHERTY. We were not.

Senator KERRY. You never had that meeting?

Mr. DOUGHERTY. We never did.

Senator KERRY. Now there is a whole area of the coffee smuggling, and more on the arms. But I am going to accede to my colleague at this point. I have gone considerably longer than I intended.

Mr. DOUGHERTY. We have these letters here, Senator.

Senator KERRY. Those letters are now to be made part of the record. And we will put them in, in sequence, if the package is made available to the clerk.

[The information referred to follows:]

November 29, 1989

Via Federal Express

Mr. Dexter Lehtinen
United States Attorney
155 S. Miami Avenue
Suite 1000
Miami, Florida 33130
Attn: Carol Wilkinson

Mr. Robert S. Siberski
Special Agent in Charge
U. S. Custom Service
Airport Executive Center
2203 N. Lois Avenue
Suite 600
Tampa, Florida 33607

Mr. John Volz
United States Attorney
Hale Boggs Building
Room 210
500 Camp Street
New Orleans, Louisiana 70130

Re: Nicholas Collwyn Sturge vs. Coffee, Inc.
Case No: 88-0125 Civ-Marcus

Gentlemen:

I enclose for your attention, copies of the following pleadings filed in the above case which establish a prima facie showing of the existence of multiple federal crimes which have been committed both prior to and during the claim made against my client an Underwriter at Lloyd's of London seeking an excess of \$6,000,000.00 in damages. Coffee, Inc. through its president, Munther Bilbelsi, claimed that coffee beans purchased in El Salvador were switched in transit in three (3) shipments from Guatemala to Tampa, Florida, and that the beans were switched in transit as a result of which an insurance loss has been processed. This claim has been rejected and is

Mr. Dexter Lehtinen
Mr. Robert S. Siberski
Mr. John Volz
November 29, 1989
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Re: Nicholas Coliwyn Sturge vs. Coffee, Inc.
Case No: 88-0125 Civ-Marcus

a subject of litigation and is being denied on the grounds of false swearing, misrepresentation and illegality in that not only the subject shipment but over 20 shipments between 1983 and 1986 were illegally shipped into the United States through fraudulent bills of lading and manifest.

I believe it is my obligation to bring to your attention what appears to be the formation of a criminal conspiracy beginning in 1983, which continues to date, to illegally import contraband coffee into the United States without the payment of necessary custom duties in the countries of origin, i.e., Guatemala, Honduras or El Salvador and, through the use of false bills of lading and other fraudulent document in violation of the United States code, to illegally import this coffee into the United States of America through the ports of Tampa, Miami and Port Everglades, Florida, as well as New Orleans, Louisiana. When the coffee reach the United States, it was re-bagged and sold, apparently according to the financial records of Coffee, Inc., in a manner which would probably violate substantial sections of the United States Internal Revenue Service Code.

We are also including copies of the affidavits executed by attorney Francisco Palomo in Guatemala, which have been filed with Judge Marcus and the Clerk of the United States District Court after this attorney, retained by me as set forth in the affidavit, had as witnessed by agents of the Drug Enforcement Agency, been solicited for bribery for release of work product records, at my request to establish the above continuance conspiracy to import contraband coffee. He was also requested to execute a false affidavit at the request of Mr. Bilbeisi. Mr. Palomo will be available in Federal Court tomorrow in Miami before Magistrate Peter Palermo and again upon your request, to corroborate these charges that involve Munther Bilbeisi as president of Coffee, Inc. who is presently in Amman, Jordan.

We previously brought this matter to the attention of an assistant United States attorney in Miami on October 27, 1989 and, had previously brought to your attention attempts to illegal distribute S76A helicopters and F5 jet fighters from Jordan to Guatemala through Munther Bilbeisi and his corporation Mura International, S.A.,

Mr. Dexter Lehtinen
Mr. Robert S. Siferski
Mr. John Volz
November 29, 1989
Page -3-

Re: Nicholas Collwyn Sturge vs. Coffee, Inc.
Case No: 88-0125 Civ-Marcus

during the years 1987 and 1988.

Sincerely yours,

James F. Dougherty, II

JFD/mb
encls.
ltr

December 12, 1990

The Honorable Dexter Lehtinen
United States Attorney
155 S. Miami Avenue
Suite 1000
Miami, Florida 33130

Re: Nicholas Collwyn Sturge v. Coffee, Inc.
Case No: 88-0125 Civ-Marcus

Dear Mr. Lehtinen:

I enclose for your review the following:

1. A copy of my correspondence to you and Mr. Robert S. Silbersky, United States Customs, Tampa, Florida, and John Volz, United States Attorney, New Orleans, Louisiana dated November 29, 1989, outlining the essential elements of the illegal activities involved in the above-referenced litigation. (Exhibit 1).
2. A copy of a letter from Mr. Carlos Diaz-Duran, Secretary General of the Republic of Guatemala, S.A., and personal attorney to the President of Guatemala dated August 7, 1990 to you, seeking your assistance and cooperation in a matter of great importance to the government of Guatemala. (Exhibit 2).
3. A copy of an article appearing in the South Florida Business Journal for the week of October 29, 1990, entitled, "Insurance claims reveal web of intrigue. Former Boca businessman named in Guatemalan arms deal, coffee smuggling." (Exhibit 3).
4. A copy of an article appearing in the South Florida Business Journal for the week of November 19, 1990, entitled, "BCCI (Bank of Credit and Commerce International) closing last Florida branch office". (Exhibit 4).
5. A copy of the Motion for Summary Judgment filed by my client, Nicholas Collwyn Sturge, an underwriter at Lloyd's of London against Coffee, Inc. Based on Illegality, filed dated 11/16/90. Judge Stanley Marcus has not set oral argument on this motion. This motion reviews all of the classic elements of multiple violations of the United States Code involving Customs Violations, 18 U.S.C. §§541-551 and Chapter 47, §1001, fraud and false statements and Title 31, §5316. (Exhibit 5).

The Honorable Dexter Lehtinen
 United States Attorney
 December 12, 1990
 Page -2-

Re: Nicholas Collwyn Sturge v. Coffee, Inc.
 Case No: 88-0125 Civ-Marcus

6. A copy of a proposed complaint filed on behalf of my client, Nicholas Collwyn Sturge, seeking money damages for multiple RICO violations under Chapter 18, §1964. (Exhibit 6).

We have received a series of subpoenas duces tecum to produce our files and databases which have demonstrated clear, continuous multiple instances of laundering of money instruments in violation of Title 18, §§1956 and 1957, all committed by various officers and employees of the Bank of Credit and Commerce International. We understand this matter is presently assigned to Assistant District Attorney Andres Rivero.

As you are aware, Judge Hodges of the Middle District of Florida has sentenced bank officers of BCCI after accepting from the same bank through an agreement entered into with the office of the United States for the Middle District of Florida a multi-million fine.

We have uncovered still further evidence of money laundering, kick backs, extortion attempts, and continuing multiple violations of obstruction of justice made by officers of the Bank of Credit and Commerce International, their attorneys and investigators here in Miami and in London.

Since your office possesses the power to file or make recommendations of civil investigative demand under Title 18, §1968 and to expedite this matter under §1966 allowing the United States Government to recover money damages, we are requesting an immediate conference to bring these matters to your attention PRIOR TO THE FURTHER ATTEMPTS OF BANK OF CREDIT AND COMMERCE INTERNATIONAL TO DESTROY RECORDS OR REMOVE RECORDS FROM THIS JURISDICTION AS CONTEMPLATED BY THEIR WITHDRAWAL FROM THE STATE OF FLORIDA ON OR BEFORE JANUARY 11, 1991.

Sincerely yours,

James F. Dougherty, II

jfd/mb
 encls.
 1-lehtin.en3
 cc: The Honorable Richard Thornburg
 Attorney General
 United States of America
 Department of Justice
 Washington, D.C. 20530

July 2, 1990

Via Federal Express

**Ms. Sandy Francis
Senior Special Agent
United States Customs
108 Decatur Street
New Orleans, LA 70130**

**Re: Nicholas Coliwyn Sturge v. Coffee, Inc.
Case No: 88-0125 Civ-Marcus**

Dear Ms. Francis:

Enclosed please find the following with regard to the above-reference litigation:

- 1. A copy of my correspondence to Messr. Dexter Lehtinen, Robert S. Sibersky and John Volz outlining the essential elements of the illegal activities involved in the above-referenced litigation.**
- 2. An internal memorandum explaining the illegal smuggling operation of coffee from Central America into the United States.**
- 3. Copies of Jay Anthony Aramburo's 11/7/89 depositions taken on 11/7/89, 11/16/89 and 11/17/90 and summaries thereto with regard to the above-referenced litigation.**

Please review these documents at your earliest convenience. I look forward to hearing from you so that we may discuss same.

Very truly yours,

James F. Dougherty, II

August 7, 1990

The Honorable Dexter Lehtinen
United States Attorney
155 S. Miami Avenue
Suite 1000
Miami, Florida 33130

Re: Nicholas Collwyn Sturge vs. Coffee, Inc.
Case No: 88-0125 Civ-Marcus
Our File No: 7539

Dear Mr. Lehtinen:

I am seeking your assistance and cooperation in a matter of great importance to the government of Guatemala. We have presented to you under separate cover an order issued by the Republic of Guatemala for the extradition of Munther Bilbeisi, pursuant to the Bilateral Treaty of Extradition between the United States and the Republic of Guatemala entered into force March 13, 1941 (55 Stat. 1097), and the Multi-Lateral Convention on Extradition entered into force for the United States on January 25, 1935 (49 Stat. 3111). This order was issued incident to Mr. Bilbeisi's participation in a scheme to smuggle coffee valued at several million United States dollars from Guatemala into the United States during the years 1983 through 1988. Mr. Bilbeisi accomplished this scheme through the use of three or more wholly owned and controlled entities under the jurisdiction of the United States courts, including but not limited to Coffee, Inc., Orion Systems, Inc. and Mura International, S.A. In addition, the scheme involved the cooperation of and illegal payments, bribes and/or kickbacks to agents or employees of various third parties under the jurisdiction of the United States courts, including financial institutions, shippers and coffee roasters. The scheme was financed through the knowing participation of the Bank of Credit & Commerce International (Overseas) Ltd. The financial loss the Republic of Guatemala attributable to this smuggling scheme is in excess of \$1 million U.S. dollars.

The Honorable Dexter Lehtinen
United States Attorney
August 7, 1990
page -2-

Re: Nicholas Collwyn Sturge vs. Coffee, Inc.
Case No: 88-0125 Civ-Marcus
Our File No: 7539

In addition to illegally depriving the Republic of Guatemala of tax and customs revenues, we have been informed that the above-referenced coffee smuggling scheme was conducted in violation of several United States law. Because Mr. Bilbeisi has little if any assets located in Guatemala, we are obviously concerned as to the possibility of restitution of revenue stolen from the Republic of Guatemala. In view of the possible violations of the United States law, combined with the loss to the United States Treasury of substantial revenues and customs duties, we believe that the mutual interests of our respective governments coincide and would be served by the filing of a criminal action against Munther Bilbeisi, Coffee, Inc. and BCCI, as well as through cooperation in a civil action to be brought by the Republic of Guatemala against these same parties.

I look forward to hearing from you as soon as possible.

Sincerely,

Carlos Diaz-Durant
Secretary General
Republic of Guatemala, S.A.

RAL:ab:jc
7539\letters\l-Lehtin.1

January 19, 1991

U.S. Customs Services
Smuggling Investigative Division
R-5408
13001 Constitution Avenue, N.W.
Washington, D.C. 20229

Attn: Mr. John Forbes

RE: Sturge v. Coffee, Inc.
Our File No. 7539

Dear Mr. Forbes:

It has been more than six months since we have requested U.S. Customs Offices in New Orleans, Tampa and Miami, Florida to supply us with entries for coffee which arrived in 1983 through 1986 imported by Coffee, Inc., Orion Systems, Mura International and Cornishe, Inc. As of this date, we have not received any records.

For your information I am enclosing copies of two U.S. Customs forms obtained from Coordinated Caribbean Transport ("CCT") (a/k/a Crowley Caribbean Transport) showing changes in destinations of the coffee (i.e. from Jordan to Honduras), proving how Mr. Munther Bilbeisi together with his associates Steve Calderon (Vice President of CCT), Jose Otano (Operations Manager for CCT) and Joseph Villaba (In Bound Manager for CCT) were manipulating the shipping company and the United States Customs Service to smuggle non-quota coffee into the United States in violation of International Coffee Organization ("ICO") Rules and Regulations and U.S. Customs laws.

We would appreciate your directing us to the appropriate department to provide these necessary documents. If you require any additional information in order to expedite this request please do not hesitate to contact us.

Very truly yours,

JAMES F. DOUGHERTY II

JFD/cd
Enc.
7539/letters/forbes

June 19, 1991

VIA FACSIMILE

**Mr. Andres Rivero
Assistant United States Attorney
United States Attorneys Office
Southern District of Florida
155 South Miami Avenue
Miami, Florida 33130**

Re: Federal Grand Jury Subpoena

Dear Mr. Rivero:

At precisely 3:20 p.m. today a Mr. Khouri from Amman, Jordan called for me stating to my receptionist that it is extremely important that he speaks to me. He indicated he would call tomorrow morning between 8:00 a.m. and 8:30 a.m. He refused to leave his phone number or any other information.

This is not the first time a "plant" phone call has been received by my office possibly at the direction of Munther Bilbeisi. You will recall the Ladikos incident wherein an anonymous phone call advised my office exactly one year ago that the fine arts which were the subject of Munther Bilbeisi's fraudulent insurance claim were located at the residence of a man by the name of John Ladikos and how Mr. Ladikos subsequently sued me personally as well as the Underwriters at Lloyd's of London and the City of Miami Beach.

Due to the numerous threats on my life as attested to by Affidavit filed with the Federal Bureau of Investigation, I respectfully request that an agent be assigned to follow-up on this matter, including the taping of "Mr. Khouri's" phone call to my office between 8:00 a.m. and 8:30 a.m. tomorrow morning.

Sincerely,

James F. Dougherty, II

JFD/wdr
Enclosures

Senator KERRY. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

I am not sure if Mr. Dougherty or Mr. Lehrman is the appropriate one—just to backtrack a bit—an end-user certificate is required by U.S. law for the export of arms?

Mr. DOUGHERTY. For the export or the reintroduction, or the subsequent sale of a U.S.-made weapon, yes.

Senator BROWN. So there is three requirements here: if it is exported, or if it is reworked, or if it is resold, U.S. law requires an end-user certificate.

Mr. DOUGHERTY. That's my understanding of the United States law.

Senator BROWN. And thus, review by munitions control and approval of that sale.

Mr. DOUGHERTY. That's correct, Senator.

We keep track on our major weapons, so that the movement or subsequent sale of them will not interfere with the State Department policy, or the policy of the U.S. Government.

Senator BROWN. Now in this instance, Jordan was interested in selling arms through this agent, to Guatemala?

Mr. DOUGHERTY. Yes.

Senator BROWN. What obligates Jordan to obtain an end-user certificate, or seek U.S. approval to resell those U.S. arms?

Mr. DOUGHERTY. As I understand, if it's a direct, government sale by the Hashemite Kingdom of Jordan to the Republic of Guatemala, the seller, Jordan, would be required to obtain State Department approval of the sale.

Senator BROWN. And how required?

Mr. DOUGHERTY. It's mandatory.

Senator BROWN. They have agreed, as a condition of getting the certificate themselves?

Mr. DOUGHERTY. At the time of the original, or initial sale of the Sikorsky S-76's, as any major American made weapon, they are obligated—the recipient of the weapon—to confirm and acknowledge that upon the resale of that equipment, there must be an end-user certificate. And that sale must be done with State Department approval.

Senator BROWN. Now in this case, Jordan did not obtain that certificate.

Mr. DOUGHERTY. To our knowledge, it did not.

Senator BROWN. And did not—as far as we know—even apply for it?

Mr. DOUGHERTY. To our knowledge, it did not. The Munitions Control Board has no record of those records. They did a records search and represented that there are no such records.

Senator BROWN. So what we have here, is Jordan, has violated its agreement with the United States with regard to the resale of U.S. arms, and BCCI appears to have entered into a conspiracy to violate—or at least to accommodate the noncompliance with that agreement.

Mr. DOUGHERTY. That's correct.

And there's one other factor—at the time, Senator, that that was being processed, Munther Bilbeisi owed BCCI over \$3.5 million,

plus interest, for this overdraft facility where he could write all the cashier's checks to buy the coffee.

In other words, Bilbeisi, in debt to the bank, Coffee, Inc., owed the bank, in 1987, \$3.5 million—with interest. And there are, in the files, repeated demands to pay the money or your security in Jordan will be forfeited. The security is not forfeited.

It is much like a person who is in debt to a lender, then goes to the lender and enters into an arms transaction?

Senator BROWN. What was the security that Bilbeisi had tied up in Jordan?

Mr. DOUGHERTY. They were a series of CD's, which ultimately the bank did call upon, and which were paid. So that the security in certain banks in Switzerland, or in France, or in Jordan, were paid to BCCI, Miami, leaving an unpaid difference of approximately a \$.5 million.

Mr. LEHRMAN. Senator, could I just add to that? The security was basically a bank guarantee issued by BCCI, Amman. We found a substantial level of correspondence between BCCI, Miami, and BCCI, Amman. And so all of the arms deals and all of the coffee smuggling took place, essentially financed by BCCI, Amman—although all the documentation purports to show that it was conducted through a BCCI, Miami account.

And, in fact, Ex-Im Bank, to a certain extent, financed the sale of the three helicopters.

Senator BROWN. How could Ex-Im Bank finance something and not insist on an end-user certificate?

Mr. DOUGHERTY. By the use of the euphemism, quote "civilian helicopters" I would assume. There was constant—

Senator BROWN. The sale was represented as a non—as being exempt from the end-user certificate requirement.

Mr. DOUGHERTY. Apparently, that these were, at all times, civilian helicopters, used by the King with mahogany, and they were alternatively to be used for three helicopters, sold to the Republic of Guatemala for \$5 million, as alternately ambulances. And that was their true intention.

Mr. VALLS. May I add something, Senator?

Senator KERRY. What shows that BCCI knew that? That's a key question.

Mr. DOUGHERTY. We have the bank files, that would indicate that there, from the exhibits that you have, that we have here, previously, the bank was aware during coffee smuggling that there was an absolute requirement from the Munitions Control Board that there be proper certificates for an arms transaction. We have that.

So they knew in 1984, and 1985, the necessity for United States approval.

Mr. LEHRMAN. Senator, if I could amplify that by directing you to enclosures, and to the exhibits in enclosure No. 1—there was a handwritten memo—

Senator KERRY. Just hold on one second. We are going to get those for Senator Brown and myself so we have them. [Pause.]

Senator BROWN. This is the memo that involves a handwritten note that they felt they did not have an obligation to notify the U.S. Customs Service?

Mr. LEHRMAN. That is correct.

Senator BROWN. If, for illegal activity, unless it related to arms or drugs?

Mr. LEHRMAN. That is correct.

I direct your attention to the chart closest to you, which is a handwritten memo, signed by Grace Perez. That is the second page of a handwritten memorandum on top of a letter from Munther Bilbeisi—show page 1.

In the course of smuggling the coffee, which was done through these documentary letters of credit, Mr. Bilbeisi was constantly advising the bank to, at the last minute, change the destination from Agaba, Jordan, to Miami.

Finally, one of the bank officers who was apparently out of the loop, handwrites a memo, on top of Mr. Bilbeisi's request, to change the letter of credit to reflect a different destination—that is, Miami, Florida, rather than Agaba, Jordan. And this bank officers says, in effect, it's not—

Senator KERRY. Why do you not read it, precisely what the bank officer says?

Mr. LEHRMAN. In the bank officer's handwriting, it says, as per regulations of the U.S. Customs, all coffee imports into the U.S.A. are subject to validated release by U.S. Customs, and inspection by the U.S. Food and Drug Administration, as per Article 8(a) of the ICC publication—and it references a specific publication. Quote, "In documentary credit operations, all parties concerned deal in documents, and not in goods. I have consulted with my counterpart in other New York banks, and they are of the view that it is not the bank's duty to monitor quotas. If a nonquota item is entering the U.S.A., it is U.S. Customs who will hold or release goods, * * *

The second page of the document is a memo dated the next day, that indicates this bank officer spoke to someone in New York from the Council International building, who confirms that quote, "Banks are not to monitor or to be responsible for quotas of commodity. That it is the importers—in this case Mr. Bilbeisi's responsibility. And that in our security agreement, it stipulates that they assume this responsibility to meet U.S. Customs laws and regulations." Quote, "The only commodity we should be aware of is that of arms and explosives."

Senator BROWN. In other words, if the bank is aware of shipments that violate U.S. law, their position was that they had no obligation to advise U.S. Customs of that violation.

Mr. LEHRMAN. According to this memorandum, that was the position of this bank officer.

Senator BROWN. Let me take you back, if I could, on the arms shipment.

Arms were sold to Jordan. They obtained an end-user certificate. And Jordan agreed to obtain an end-user certificate, if it resold those arms.

Mr. LEHRMAN. As a condition of purchasing those arms.

Senator BROWN. As a condition of purchasing.

Jordan, through a criminal agent, and in conspiracy—in concert, I guess, with BCCI, resells those arms without an end-user certificate.

Mr. LEHRMAN. That is correct.

Senator BROWN. There is evidence to show that BCCI and the agent, and Jordan were aware of the fact that they had not had an end-user certificate in selling that.

Mr. LEHRMAN. Yes.

Senator BROWN. Is there any indication that Guatemala was aware of the fact that they were buying arms without an end-user certificate?

Mr. LEHRMAN. Yes.

Senator BROWN. Does the State Department, to your knowledge, raise this issue with the Governments of Jordan and Guatemala?

Mr. LEHRMAN. Not to our knowledge.

Mr. DOUGHERTY. Excuse me, Senator Brown.

To our knowledge, the Customs agent in charge of it, Jeffrey Martin from U.S. Customs in West Palm Beach, had a meeting with the assistant U.S. attorneys in Miami, and recommended criminal action.

And the reason I know that, is that from the same airport where the 18 Sikorsky helicopters were—12 of which were to go to Guatemala; 3 of which did go to Guatemala—3 of the same S-76 helicopters were from the same group, same airport, same manufacturer—attempted to be sold in 1989 to the Government of Iran.

And an Englishman by the name of Colin Breeze attempted to take those helicopters, had them changed to gun-ships, and sold to Iran, and work was to be done in the United States. Colin Breeze came to West Palm Beach, FL, and he was arrested. And, by coincidence, he was tried before Judge Stanley Markus. And after a jury trial, and he was convicted, he was sentenced to at least 10 years in prison.

And Jeffrey Martin testified in court. And since they were the same helicopters that came from Jordan—and they were going to Guatemala—we were interested to see the actual people who were testifying in front of the same, federal judge. And the individual from the State Department, Munitions Control Board testified, together with Jeffrey Martin.

So, here we have—although it was a clear, clear violation of the United States law, that American made helicopters are going to Iran, for which a person was arrested, we had the issue then, was their compliance when the same helicopter is going from Jordan, the same batch, was going to Guatemala.

So it became clear that at least the agent charged with the Breeze indictment, who became involved in the Bilbeisi investigation, felt strongly enough to state to the assistant U.S. attorney that an indictment take place, but it never happened.

And at all times, and during 1988, certainly, the U.S. attorney's office was aware, from the correspondence that you have, of the combination of Bilbeisi and the bank—the bank financing the helicopters; the bank financing the smuggled coffee. And nothing happened.

Senator BROWN. Mr. Chairman, I would like to ask unanimous consent at this time that this subcommittee ask the staff to prepare a letter for the signatures of this subcommittee, addressed to the Secretary of State, reviewing the evidence of the violations of—the apparent violations of the agreements under arms control pro-

cedures, by Jordan and by Guatemala, and asking for a State Department investigation of this report, and appropriate followup with the governments involved.

Senator KERRY. I think that is a very good idea. I think it's appropriate. And without objection, it is so ordered. And we will do so.

Senator BROWN. With your permission, Mr. Chairman, I would like to proceed just briefly—the coffee aspect of this.

Senator KERRY. Absolutely, that is an area that we want to get into. But just before you leave the arms area, may I ask for your indulgence and for you to yield to me for just a minute? I want to complete just one thing on the arms.

In packet No. 2, defendant's Exhibit No. 10, as is labeled within that packet—excuse me, it is packet No. 3, not 2—in packet number No. 3, defendant's Exhibit No. 10, there is a memorandum to a Munther Bilbeisi from Alberto Coppo.

Would you explain to the committee what that memorandum is, and what it purports to set forth?

Mr. DOUGHERTY. Yes, Senator, in one of the three cases involving Munther Bilbeisi, the fine arts claim in West Palm Beach, continued demands were made to have Mr. Bilbeisi's counsel, and Mr. Bilbeisi—who had fled to Jordan last summer—produce records to establish that he was an arms dealer.

Finally, his latest attorney, Mr. Arthur Coski, in Palm Beach, filed a series of documents in which this was contained. This document is a memorandum prepared by Alberto Coppo, who was a vice president of Mura International. And it was sent to Mr. Bilbeisi. And it's contained in the discovery requests, showing correspondence between Mr. Bilbeisi and his employees under the name Mura.

And it describes what occurred in October 1988, when Mr. Bilbeisi was in the process of sending, at his own personal expense, an entire delegation of the Guatemalan air force, from Guatemala, through Miami and New York, to Amman, Jordan. And he paid for that, so that the Guatemalans could inspect both the helicopters and the jet fighters.

The memo states: Please be advised of the following; the purpose of the Guatemalan Technical Commission is to inspect the three units that were purchased in the contract with Bilbeisi's company, Mura International. In parenthesis, they will also inspect the ten units they intend to buy. One, Royal Jordanian Air Force 719, VIP, King Hussein's; two, Royal Jordanian Air Force VIP with low hours in good condition; and three, a medical ambulance.

These three must be ready for inspection and testing by Commission—that is, the Guatemalan Commission—and they can already be painted or done during the time the Commission is there. Also needed is the list of spare parts, with the price covering \$1,375,000. We can include, in the list, ground support equipment, tools and any equipment necessary.

To collect our money, we need to have Royal Jordanian Air Force prepare, Senator Brown, a bill of sale transferring property—three units—from the Royal Jordanian Air Force to the Republic of Guatemala.

Next paragraph—regarding the assignments, we have already covered the following:—we have already covered the following—\$400,000 to BCCI, in parenthesis (M.B.)—\$200,000—

Senator KERRY. What does M.B. stand for?

Mr. DOUGHERTY. Well, it stands for Munther Bilbeisi. And the question is, what was going to be done with the \$400,000? We know now what happened with the money in Guatemala. And the question is, was any of that money distributed by Mr. Bilbeisi to members of the Royal Jordanian Air Force, as it was distributed to members of the Republic of Guatemala?

To the President's brother, Milton Cerezo \$270,000—the President's brother is referring to context, and the President's brother referring to the republic of Guatemala; \$17,500 to J. Valdez; \$150,000 to Mauricio Coronado, M.D. and Luis Altamar.

Senator KERRY. In terms of this transaction, what does that mean?

Mr. DOUGHERTY. Valdez was then an employee, or a member of the Guatemalan Commission. Coronado and Altamar were the original brokers on the deal, who Mr. Altamar had smuggled the coffee for Mr. Bilbeisi in Honduras and Guatemala, in 1985-87, and Coronado was the former Consul of Guatemala, to Miami, who worked with Mr. Altamar to put this deal together.

Senator KERRY. Could that have been a legitimate broker fee to them?

Mr. DOUGHERTY. In the opinion, could that be a legitimate broker fee? Well, that was their confirmed piece of the action. That was what they demanded in order to introduce the Bilbeisi crowd to the Guatemalans.

Senator KERRY. Well, that is often paid for, isn't it?

Mr. DOUGHERTY. That is, that is a frequent, much like a real estate broker commission. Two people agree as to what the commission—

Senator KERRY. So it is not necessarily anything of—

Mr. DOUGHERTY. An illegal nature?

Senator KERRY. That.

Mr. DOUGHERTY. No.

Senator KERRY. No, but obviously, of great interest is the payment to the president's brother, the payment to BCCI, and subsequent to that, the payment to two generals, correct?

Mr. DOUGHERTY. Yes, still needed to be paid, \$517,000 to the Bank of Guatemala for performance bond. And then it states, \$150,000 to the two generals. That is a crime in Guatemala, and a separate representative of the Republic of Guatemala has traveled here, and has the criminal indictments that have been filed against the former president of Guatemala, his brother, and the generals, as well as the subsequent new indictments filed against Bilbeisi, for unpaid coffee customs duties.

[The information referred to follows:]



MEMORANDUM

*Sif
Office*

FROM Grace Perez TO Advances Dept.
LOCATION Letters of Credit Dept. ~~Letters of Credit Dept.~~
DATE January 22, 1985
REF. Orion Systems
SUBJECT: Panama

The following are procedures which are to be followed as per instructed by Mr. Sakhia and under no circumstances are we to deviate from this without prior consent from Mr. Sakhia.:

- 1) All transactions are to be made under Orion Systems (Panama) no transactions are to be made under Coffee Inc.
- 2) All transactions are to be fully collateralized under the guarantee or cash collateral.
- 3) Destination is not to be shown if it is not to the USA.



CARIBBEAN REGIONAL MARKETING CONFERENCE

4/8/84 Spoke to Vicente Mandala of the
 Council Int'l Bkg. 212-623-2541 who confirms
 that banks are not to monitor or to be responsible
 for quotas of commodity that it is the importers
 responsibility and that in our security agreement
 it stipulates that they assume this responsibility
 to meet US customs laws & regulations. The
 only commodity we should be aware of is
 that of arms and explosives.

John Perry

In view of the opinion
 expressed by Council of
 International Banking, a
 letter of indemnity may
 be issued.

W. L. H. H. H.

OUR DESIRE AND HOPES FOR 1984 - YEAR OF MARKETING

COFFEE INCORPORATED

May 23, 1984

THE BANK OF CREDIT AND COMMERCE INTERNATIONAL (Overseas) LTD.
 1200 Brickell Avenue
 Miami, Florida 33131

Attn: Mr. Zaeed Sakrani

Dear Mr. Sakrani:

I am enclosing herewith, post-dated checks to be deposited in our account with you. These checks total \$950,000.00 (Nine Hundred and Fifty Thousand Dollars), and have been issued against checks and Purchase Orders.

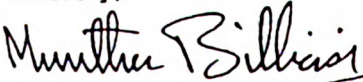
The above-mentioned post-dated checks are as follows:

<u>CHECK#</u>	<u>DATED</u>	<u>AMOUNT</u>	<u>ISSUED AGAINST</u>
1816	June 1, 1984	\$300,000.00	James W. Phyfe & Co./ Brokers for Farmers Bros., California-P.O.# 3398 totalling \$555,502.52
1817	June 6, 1984	\$150,000.00	Chase and Sanborn
1818	June 12, 1984	\$200,000.00	James W. Phyfe & Co. P.O. #3405 for \$311,203.53
1819	June 15, 1984	\$150,000.00	Chase and Sanborn
1820	June 22, 1984	\$150,000.00	Chase and Sanborn

We have instructed Messrs. Chock Full of Nuts to wire transfer directly to our account with you the value of of three invoices, #303 for \$151,368.00, invoice #304 for \$57,283.20 and invoice #305 for \$652,080.00.

These payments are due before the 10th of June, 1984, and are to be directly wire transferred to your bank.

Sincerely,



Munther Bilbeisi
 COFFEE INC., President
 MB/ss
 enc

RCA APR 26 10234
 264089 MURA UR
 8033 CITCR CR
 APRIL 26TH, 1984 TELEX NO. 017/84

TO: COFFEE , INC.
 FROM: FINANCIERA DEL ATLANTICO, S.A.

ATTN: MR MUNTER BILBEISI
 RE: DOCUMENTARY CREDIT IMP-140/84 OF BCCI-MIAMI , ADVISED THROUGH
 U.B.S. (PANAMA) INC.

AS OUR COFFEE SALES TO YOU WERE FOR COUNTRIES NOT MEMBERS OF THE
 I.C.O. THE ABOVE MENTIONED L/C HAS TO BE AMENDED TO COMPLY
 WITH THE FOLLOWING POINTS:

- 1) AS WE HAVE NOTHING TO DO WITH INSURANCE WE WOULD GLADLY
 PROVIDE A PHOTOCOPY OF OUR TELEX SHIPPING ADVICE BUT CANNOT
 PROVIDE A "CERTIFICATE TO THIS EFFECT".
- 2) -THE CERTIFICATE OF ORIGIN WILL BE ISSUED BY THE CHAMBER
 OF COMMERCE.
 -IT WILL NOT REPEAT NOT BE CERTIFIED BY INCAFE.
 -IT WILL NOT REPEAT NOT BE ACCOMPANIED BY ICO STAMPS.
- 3) A QUANTITY CERTIFICATE BY INCAFE WILL NOT REPEAT NOT BE
 PROVIDED AS THE PACKING LISTS ALREADY CONTAIN THIS INFORMATION.
 PLEASE ADVISE.

REGARDS
 ARTURO LINDO

8033 CITCR CR
 ‡
 264089 MURA UR



DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE
MEMORANDUM OF INFORMATION RECEIVED

3000-01, PLPM

1. DATE June 15, 1983
2. ORIGINATING OFFICE (FPM/PM/MT)
3. SYSTEM ID NUMBER

TECS QUERY
☒ YES

4. RELATED CONTROL NUMBERS

INFORMATION TOPIC

1. Illegal introduction of coffee into the U. S. Commerce

INFORMATION HAS BEEN RECEIVED THAT:

Coffee importations not covered by the International Coffee Organization quotas are received at the ports of Miami, Jacksonville, Port Everglades, Houston, New Orleans and New York, in transit to countries not members of ICO. Shipments are then diverted and sold in the U. S. Market.

ACTION TAKEN: Investigation initiated in conjunction with Customs Inspectors at Miami.

UNDEVELOPED LEADS: Pending additional information being developed.

OFFICE INDICES QUERIED: Negative

ACTION TO BE TAKEN BY ISS/TECS: Create a permanent record on all subjects listed in this report.

IDENTIFYING DATA/TECS QUERY:

Munther BILBEISI
1. dark complexion, heavy build
DOB: 072330
Res: 701 Sanctuary Drive
Boca Raton, Florida

Alleged

NR TECS

Jose A. OTANO, aka Tony
M/M. POB: Cuba
Occup: Ops Manager for
CCT Shipping Line

Alleged

NR TECS

Jose VILLALBA, aka Joe
M/M, about 50 yrs of age,
5'6", slim, bald, lt. colored eyes
POB: Puerto Rico
Occup: Traffic Mgr for CCT Shipping Line

Alleged

NR TECS

ADMINISTRATIVE INFORMATION BELOW FOR CUSTOMS USE ONLY

6. SOURCE NAME OR NUMBER John Lewis	9. DATE AND TIME INFORMATION RECEIVED 6/14/83
10. SOURCE ADDRESS Miami, Florida	
11. ORIGINATING OFFICE SAC/MI	12. SIGNATURE OF OFFICER RECEIVING F. Gonzalez Senior Special Agent
	13. REVIEWED BY Larry M. Morphis Jr. General Supervisor
	DATE 6/15/83
14. DISTRIBUTION (Customs Action Office) ORIGINAL - Originating office 1st CC - LESP 2nd CC - 3rd CC - 4th CC - Local OI	15. AREA SAC/MI; ARC(E)/MI; DO/MI (FPAF) (Outable Agency) SAC/NO: SAC/JX: SAC/NY: SAC/SJ: SAC/HQ HQ/E: I & Coffee Control/ISS/TECS

16. DEFENDANT'S EXHIBIT 4

UNITED STATES GOVERNMENT
Memorandum

DEPARTMENT OF THE TREASURY
 UNITED STATES CUSTOMS SERVICE



DATE: June 22, 1983

FILE: H108AR340010

TO : Special Agent in Charge
 Thru: Group Supervisor, Group II *Lmm*

FROM : Senior Special Agent Gonzalez
 Group II

SUBJECT: Technical smuggling of green coffee in violation of the
 International Coffee Agreement. (P.L. 96-599 of 12/24/80,
 28 UST 6401)

Information received at this office indicates that large quantities of green coffee beans are being illegally entered into the commerce of the United States in the following ways:

1. Counterfeit or otherwise false certificates of origin are used in support of importations entered for consumption in the United States. Investigations at several ports, with the cooperation of the International Coffee Organization (ICO) have verified that this method is widely used.

Under this method, the information specifically indicates that coffee produced in Honduras and Guatemala in excess of the quota is normally sold at about 65¢ per lb and shipped to Panama where it is repacked in Colombian bags and shipped to the U. S. under false certificates of origin illegally obtained, already stamped, from the Coffee Growers Association of Colombia. False Colombian certificates are freely sold in Panama for about 10¢ per lb of coffee covered by the stamps on the back of each certificate. (Sample of false certificates are available in this office.) From Panama, coffee is shipped to Houston, New Orleans and Miami; sometimes it is first shipped to Jamaica, Haiti, and other Caribbean islands.

2. Coffee is normally packed for shipment in 70 kgs (154 lbs) bags and in 50 kgs (110 lbs) bags which are then shipped in 20 and 40 ft containers. It has become a standard procedure to declare in the bills of lading and, hence, in the cargo manifest of the importing vessel, approximately half of the actual net weight of the coffee in the container.

Coffee not covered by ICO certificates is declared in the bills of lading and cargo manifests as in transit to other countries, mostly to Akaba, Jordan; Jeddah, Saudi Arabia; and most recently to Spain. Immediate Exportation entries are filed with U. S. Customs and the coffee containers are released in bond under the custody of a bonded carrier. Once in the warehouse, coffee is unloaded from the container. In the local market. Since exportation is



-2-

not verified by Customs, containers allegedly containing coffee are shipped to the above mentioned countries. The containers are either empty or contain other small value merchandise.

4. The illegal coffee trade has become a multi-billion dollar business. In Guatemala, which is a small country, coffee production in 1983 exceeded the quota by 800,000 bags, of which by the end of May 475,000 bags had already been shipped to the U.S. and illegally entered into the U.S. market.

Large quantities of coffee will come into the U.S. before July 1, 1983, date on which the penalty for not filing ICO forms with imports into the U.S. will go up from 10% to 40%. Also on that date the color of the ICO stamps will change and the present certificate will not be acceptable.


The investigation has disclosed that large shipments of coffee in containers have recently come into Miami and are presently on the docks in Dodge Island. Most of it is being taken out of the docks under I.E. entries. In a few shipments, the containers have been weighed and/or the bags in them have been counted. The contents have been found to be grossly understated in the bills of lading and cargo manifests. Customs controls of IEs have been reduced to an honor system where the responsibility for exporting the goods is placed on the carriers, bonded warehouse operators and importers. Exportations are not verified. In one instance, coffee was removed from pier to exporter's warehouse without an entry being filed. Also, three I.T. entries checked had not been delivered at destination and the coffee covered is still in the warehouse of the carrier, the Coordinated Caribbean Transport (CCT). CCT officials explained they are in the process of filing I.E.s to cancel the I.T.s.

Under the circumstances it is nearly impossible to enforce the International Coffee Agreement. If serious enforcement action is to be taken, I suggest that the following emergency measures be immediately adopted at all ports where coffee is being imported:

- a) that all coffee containers be weighed or otherwise verified before they are released from the piers at port of importation. Significant excesses in declared quantities should lead to seizure of whole shipment. (Then, seizures should be sold at auction immediately as perishable merchandise. Shipments seized and returned to importer on the condition that coffee be exported out of the U.S., are known to have been brought back into the country and illegally sold here.)
- b) Coffee containers under I.E.s should remain in port until they are reexported, and importer of record should notify Customs three days previous to loading onto exporting vessel.

-3-

Containers should be sealed with Customs seals and no manipulations should be permitted without Customs supervision (costs to be paid by requesting importer).


Francisco Gonzalez

WSJ/E NOV 14-83

U.S. Crackdown on Coffee Smuggling Helps Boost Bean Prices to High for 1983

By KATHLEEN A. HUGHES
Staff Reporter of THE WALL STREET JOURNAL

The federal government is cracking down on coffee smugglers, and that is helping to boost the price of coffee beans.

The Customs Service says it has seized so far this year about \$26 million of coffee beans imported in violation of a coffee price-support accord, the International Coffee Agreement.

The crackdown is a factor pushing U.S. wholesale coffee prices to \$1.60 a pound, an increase of 14% since August and the highest level this year. Other factors speeding the rise include a strong seasonal pickup in demand by roasters, a drawdown in warehouse stockpiles and a shortage of high-quality beans. The increase soon may boost retail coffee prices.

The Customs Service acted after surplus coffee, much of it dumped on world markets by cash-short Third World producers, began to enter U.S. markets in significant quantities. The U.S. is a party to the International Coffee Agreement, an accord of 73 coffee producing and consuming nations. The agreement has supported coffee prices in participating nations at a minimum \$1.20 a pound for the past two years by limiting exports and imports.

Recently, the price of coffee beans traded outside the agreement's jurisdiction sagged as low as 30 cents a pound. That price difference has led some dealers to buy low and sell high—illegally. One of the most common practices is to move low-priced coffee into member countries, using forged documents. Other tactics are bribing customs officials and using misleading labels on coffee bags, such as "corn," traders say.

The Customs Service is investigating more than six individuals or firms, one official says. The department earlier this month seized 21,000 bags containing about 2.7 million pounds of mislabeled coffee, valued at about \$4 million at current U.S. prices, in New Orleans, he said. He wouldn't disclose the dealers involved in the smuggling.

Most of the seizures occurred in New Orleans and Miami, the U.S. ports closest to Central American coffee-producing nations

where much of the coffee originates, traders say. The department also has seized contraband coffee in New York and San Francisco. Officials didn't specify how many pounds of coffee were seized; adding that the \$26 million total included beans valued at different prices per pound.

The crackdown has helped boost coffee prices because buyers who relied on illegal imports now are forced to turn to legal markets, spurring demand. "A lot of small roasters depend on contraband coffee," says Guillermo Sarmiento, vice president of Los Americanos Inc., a commodity brokerage concern in Miami. "But now that the Customs department has become very stringent, that flow has been cut in half."

The effort to reduce smuggling isn't limited to the U.S. The International Coffee Organization, which oversees administration of the coffee agreement, recently slapped more-stringent documentation requirements on coffee exports, fearing that smuggling would undermine the agreement.

Under the new rules, a coffee-producing nation must document sales to nonmember coffee importers within 30 days. The documentation must prove to the coffee organization that the low-priced beans arrived at the proper destination and weren't diverted illegally to a member nation.

The joint effort is expected to reduce illegal imports as much as half, dealers estimate. About 250 million pounds of beans valued at \$312 million were smuggled into member nations last year, dealers say.

Analysts expect coffee prices in the near term to climb probably no higher than \$1.50 a pound, an increase of less than 3% from current levels. Weather problems in Brazil and delayed shipments from the Ivory Coast, among other things, have pushed prices higher recently. If coffee prices should continue to climb, the International Coffee Organization probably would authorize increased exports under the agreement, moderating the rise.

Developing nations with heavy debt loads rely on the coffee agreement to maintain coffee export revenue.



P. NETWORK

Research and Investigative Journalism

THE WALL STREET JOURNAL EUROPE.

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FRIDAY - SATURDAY, SEPTEMBER 13 - 14, 1991 PAGE 15

BCCI Had Close Connections to Italy's BNL, Adding Another Dimension to the Scandal

By PETER TRUHL

Staff Reporter

WASHINGTON — Close financial and management ties existed between Bank of Credit & Commerce International and Italy's scandal-plagued Banca Nazionale del Lavoro, adding a new dimension to the BCCI affair.

BCCI's links with BNL include the movement of funds for the government of Iraq, according to an internal Federal Reserve report. The association of the two banks also raises intriguing new questions about the possible role of intelligence figures in the BCCI affair.

At the very least, the connections join the two greatest banking scandals of recent years: the BCCI affair, with its allegations of money-laundering, arms financing and secret ownership of U.S. financial institutions, and the BNL scandal, involving fraud in U.S. government financing programs and billions of dollars in excessive lending to help finance Saddam Hussein's war machine.

'No Great Surprise'

"The existence of another foreign bank entity engaged in criminal activity comes as no great surprise," U.S. Rep. Henry Gonzalez said Wednesday at a hearing on BCCI. Italy's BNL, he said, "became Baghdad's banker in the U.S. before our regulatory eyes at the Federal Reserve could locate Iraq on the map."

The most prominent link between the two banks involves Alfred Hartmann, a successful Swiss banker and businessman, who until recently was a BCCI director and the chairman of its Swiss unit, Banque de Commerce & Placement SA, or BCP. Following the exposure of BCCI by Western regulators on July 6, Mr. Hartmann resigned from BCP, which has been sold to a Turkish group.

In addition to serving BCCI in these capacities, Mr. Hartmann also has served as and remains the chairman of BNL's unit in Zurich, Switzerland, known as Lavoro Bank AG.

Hartmann's Links

Finally, Mr. Hartmann is vice chairman of a small, joint-venture institution in Geneva called Bank of New York-Geneva-Martinus Bank. A predecessor bank existed among its owners and investors: Abn-Am Global, one of the brothers whose shipping empire not only invested in BCCI but is recorded as borrowing — and defaulting on

— some \$700 million of BCCI loans.

Mr. Hartmann's links to the these institutions were established by P. Network, a research service based in Geneva.

Mr. Hartmann didn't return telephone calls to his various offices in Switzerland or answer a letter transmitted to him earlier this month, but employees at his various offices confirmed his roles at BNL and BCCI's Swiss units and at Bank of New York-Inter-Martinus Bank, Geneva. A spokeswoman at Bank of New York's head office also confirmed his role at the Geneva bank.

The involvement of the BCCI-BNL banker in Bank of New York-Inter-Martinus Bank is particularly intriguing. The chairman of that bank is Bruce Rappaport, an international oilman who has been thought for years to have close ties to the U.S. and Israeli intelligence communities.

In a separate development, the U.S. Federal Reserve refused to accept vital evidence in the BCCI affair so that it wouldn't have to turn it over to a grand jury in Manhattan seeking access to the information, according to an internal Fed memorandum.

The report doesn't suggest that the Fed was trying to protect BCCI, but that it was trying to thwart a separate investigation of BCCI. The same memorandum describes the efforts of a Fed official to crack down on the rogue bank.

But the memo from late 1980 provides the starkest illustration yet of the rivalry that appeared to grip various law enforcement agencies pursuing BCCI — a competition that has only slowed efforts to prosecute the bank.

A Fed spokesman in Washington, while verifying the authenticity of the memo, said it inaccurately characterized what was happening inside the Fed.

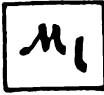
The memo, dated Dec. 18, 1980, was written by Thomas McQueney, an assistant chief examiner at the New York Fed, to Bob O'Sullivan, a senior Fed official in New York. It describes a conversation between Mr. McQueney and William Ryback, a top banking regulator at the Fed.

Mr. Ryback, according to the memo, had just met with with Zafar Iqbal, the Abu Dhabi-based chief executive officer of BCCI Holdings (Luxembourg) SA. "Bill was very impressed with Iqbal, who offered to open the books of BCCI to us," the memo says. Mr. Iqbal was detained by authorities in Abu Dhabi last week along with about 20 other senior BCCI executives.

Mr. Iqbal, according to the memo, showed Mr. Ryback a copy of a Price Waterhouse audit report asserting that BCCI controlled 60% of First American Bankshares Inc., even though the Fed had explicitly denied BCCI the authority to buy into the Washington-based bank holding company.

Mr James DOUGHERTY
Geneva at 14 91

Just an example of our press agency investigative work - as quoted by the wall street Journal.


MURA INTERNATIONAL, S.A.
August 28, 1987
**Attn: Mr. Altemar - Mr. Coronado
Camino Real Hotel**

In addition to my previous Fax, this spare parts list is included without cost for the following items:

<u>Quantity</u>	<u>Description</u>
392	B, General Purpose
48	B, General Purpose
485	B, General Purpose
305	B, General Purpose
37	B, General Purpose
13,490	B, Practice

Plus Pin assembly, Shaft and Drive Fuse.

N. P. Stein
Request



Offices:
 AMMAN, JORDAN • GENEVA, SWITZERLAND • HOLLYWOOD, FLORIDA, U.S.A. • LONDON, ENGLAND • PALMA DE MAJORCA, SPAIN

October 17, 1988

TO: MUNTNER BILBEISI

FR: ALBERTO COPPO

Please be advised of the following:

The purpose of the Guatemalan technical commission is to inspect the three units that were purchased in the contract with MURA International. (They will also inspect the 10 units they intend to buy).

1. RJAF 719 V.I.P. King's personal helicopter
2. RJAF V.I.P. with low hours in good condition
3. Medical ambulance

These three must be ready for inspection and testing by the commission. And they can already be painted or done during the time the commission is there.

Also needed is the list of spare parts with price covering \$1,375,000.00. We can include in the list ground support equipment, tools and any other equipment necessary.

To collect our money, we need to have RJAF prepare a bill of sale transferring property (3 units) from RJAF to the Republic of Guatemala.

Regarding the assignments: we have already covered the following-

- 400,000.00 to B.C.C.I. (M.B.)
- 270,000.00 to President's brother
- 17,500.00 to J. Valdez
- 150,000.00 to M.C. and L.A.

Still needed to be paid:

- 517,500.00 to Banco de Guatemala (performance bond)
- 150,000.00 to the two generals
- 12,500.00 to Rafael

We will need .25% of the total value plus administrative costs for the bank in order for them to prepare the notification of proceeds as soon as possible.

Best regards,
ALBERTO

000186





MURA INTERNATIONAL

199A Newenden Lane London NW10 1QL Telex No 01 450 6602 Cables Muriant London NW10

27 de Mayo de 1,987

Senor
General de Brigada.
Cesar Augusto Caceres Rojas
Jefe del EMDN.
Palacio Nacional
Guatemala.

Mura International, es una compania de origen Jordano, la cual fue establecida en 1968, con oficinas en Londres, Suiza, Espana y su mas reciente en el estado de la Florida, Estados Unidos de Norte America.

Nos especializamos en equipo de defensa, y hemos tratado anteriormente con paises tales como Jordania, Nigeria, Kuwait, La union de Estados de la Tregua Emiratos Arabes, El Salvador (1969, 1970), Peru, Ecuador, Honduras (1974), y Sur Africa (1974-1975) ya sea directo o a travez de companias asociadas.

Somos representantes exclusivos de las Fuerzas Armadas de Jordania, para la venta de equipo de defensa, tambien representamos companias especializadas en la manufactura de armamento en Europa Occidental y Oriental, especialmente de Yugoslavia y Checoslovaquia.

Atentamente,

Mura International

TRANSLATION FOR BODY OF MURA INTERNATIONAL LETTER

Mura International is a company that originated in Jordan, which was established in 1968, with offices in London, Switzerland, Spain and its most recent one is in the State of Florida, in the United States of North America.

Our specialty is in defense equipment, and have dealt previously with countries such as Jordan, Nigeria, Kuwait, the union of Arab Emirates, El Salvador (1969, 1970), Peru, Ecuador, Honduras (1974), and South Africa (1974-1975) either directly or through affiliated companies.

We are the exclusive representatives of the armed forces of Jordan, for the sale of defense equipment, we also represent companies which specialize in the manufacture of arms in Western and Eastern Europe, especially in Yugoslavia and Czechoslovakia.

MEMORANDUM

To : Mr. Munther Stilwell

From : Alberto Coppo

Reference : Business trip to Guatemala - 02/28 to 03/08

I.- REASON FOR THE TRIP

- 1) To get an official confirmation from the Guatemalan Authorities for the purchase of 6 S-76 and 16 E-5
- 2) To get the Letter of Credit for the 5 units, if the decision was positive.
- 3) To start a direct report with the authorities, avoiding the future participation of the actual representatives.

II.- ACTIVITIES

- 1) Visit to the Minister of National Defense
The Minister, Crl. Hector Gramajo did not want to compromise himself without talking with the President. Nevertheless, the meeting (an official appointment) was very friendly. He designated Col. Felix Balsa, Secretary General of the Ministry, as my link for any coordination or necessity.
After talking with the President, the Minister confirmed the decision of purchase of the 5 and 16 units.
Col. Balsa asked me to have a meeting with Col. Vargas.
- 2) Visit to Col. Marco A. Vargas, Chief, Army's Financial Department.
Col. Vargas wanted to be emphatic about the necessity of the Air Force for the equipment. Also he wanted clarify that his Department had not any participation handling the economical side of the project. According to him, the delay was originated in the Presidential House. He suggested me a meeting with Crl. Matta Culves, Chief, General Staff of the President. He also was emphatic about the negative feelings created by our local representatives.
Col. Vargas asked me to give you his best regards. He will be in Miami in the end of this week and he wants to talk with you and me. He did not want to disclose the matter, in Guatemala.
- 3) Visit to the Chief, General Staff of the President.
In our meeting, Crl. Matta confirmed the necessity of the 5 units. According to him, the problem was originated when MURA was not able to provide financial support for this sale (offered only 180 days), later, the funds availables were assigned to other projects with higher priority. He told me that Allumar and Coronado were working looking for a bank in USA able to give the loan to Guatemala. (I guess this is a lateral business for them).
The latest situation is that Guatemala got the commitment for the loan. Crl. Matta, introduced to me Col. Rafael Rosatto (he is also an Economist), Financial Advisor for the President and former President of the Banco del Ejercito. With him, I check the situation, finding out that the operation was blocked last week because the lender bank was not recognized as Correspondent by the Central Bank. Banco de Guatemala. This situation was solved talking with the Chairman, the Bank is been already nominated and now is just a matter of Financial Contract and

Promissory Notes.

In the last meeting in the Presidential House, Grl. Matta told me that he has the commitment from every part involved in this matter, that the L/C will be issued approx. March 10. Yesterday, I got the same information from the bank.

Regarding the P-5, I request from Grl. Matta an active participation of the Guatemalan Armed Forces in the coordination with the D.O.S. I was authorized to coordinate directly with Col. Anacleto Massa, Military Attache in Washington D.C.

The letters about spare parts were not received by the president, yet. I gave him copies.

Paz for the deal with Holland, was a great help!

III.- CONCLUSIONS

1) The sale of the 5 S-76 is a fact.

2) L/C is now organized. Will be issued approx. March 10.

3) Armed Forces does not like our Representatives, but Grl. Matta does. In the end of March, Grl. Matta will be in another position (Inspector General) under direct command of Grl. Gramajo. At that moment we must look for an appointment with the new Military Chief of the Presidential House.

IV.- RECOMMENDATIONS

1) I will talk with Altamir and Coronado in order to have a direct feeling.

2) We must make a follow up in Washington for the F-5.

3) I can not loose the opportunity to talk with Col. Vargas in Miami. I will need your backing.

Please give me your comments, I will be writing your call in Miami.

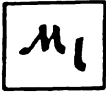
Best Regards,

[Handwritten signature]

Notes:

a) Air tickets supplied by Roger
Total expenses in Guatemala US\$ 476.00 (8 days)

b) I believe, that the project was block in the Presidential House, but when the Minister went to see the President with the information and the Paz from Holland, he got a strong backing from him and the order, to everybody, for the conclusion of the deal.



MURA INTERNATIONAL, S.A.

MAY 27, 1987

SEÑOR
GENERAL DE BRIGADA.
CESAR AUGUSTO CACERES ROJAS
JEFE DEL EMDN.
PALACIO NACIONAL
GUATEMALA.

SIR:

WE HAVE BEEN ASKED BY THE JORDANIAN GOVERNMENT TO ASSIST THEM IN THE SALE OF EIGHTEEN (18) SIKORSKY HELICOPTERS, MODEL S-76A. WHEN FITTED WITH WEAPONS SYSTEMS, THE AIRCRAFT IS CALLED THE H-76 EAGLE MULTI-MISSION HELICOPTER (GUNSHIP) UNDER SEPARATE COVER.

GENERAL DESCRIPTION

A. THREE (3) ARE IN V.I.P. CONFIGURATION, AS DESCRIBED IN ENCLOSURE #4, PAGE 1. THE PRICE IS ONE MILLION TWO HUNDRED FIFTY THOUSAND U.S. DOLLARS (\$1,250,000.00).

TWO (2) ARE CONFIGURED AS EMERGENCY MEDICAL SERVICE HELICOPTERS, AS DESCRIBED IN ENCLOSURE #5, PAGE 1. THE PRICE IS ONE MILLION TWO HUNDRED THOUSAND U.S. DOLLARS (\$1,200,000.00)

SEVEN (7) HAVE UTILITY INTERIORS FOR PASSENGER/CARGO AND TROOP CARRIERS AS DESCRIBED IN ENCLOSURE #3, PAGE 1. THE PRICE IS ONE MILLION ONE HUNDRED THOUSAND U.S. DOLLARS (\$1,100,000.00)

FOUR (4) HAVE EXECUTIVE INTERIORS FOR COMMANDER'S OPERATIONS, AS DESCRIBED IN ENCLOSURE #2, PAGE 1. PRICE IS ONE MILLION ONE HUNDRED THOUSAND U.S. DOLLARS (\$1,100,000.00) EACH.

TWO (2) HAVE UTILITY INTERIORS FOR PASSENGER/CARGO AND TROOP CARRIERS AS DESCRIBED IN ENCLOSURE #1, PAGE 1. PRICE IS ONE MILLION ONE HUNDRED THOUSAND U.S. DOLLARS (\$1,100,000.00) EACH.

PRICES LISTED ABOVE ARE F.O.B. AMMAN AIRPORT OR AQABA SEA PORT.

- B. ALL OF THE ABOVE AIRCRAFT CAN BE FITTED WITH ARMAMENT KITS, CONSISTING OF SPARE SUPPORT BEAMS, UPON WHICH YOU CAN HANG ARMAMENTS TO CARRY .50 CAL MACHINE GUNS, 7.62 MM TWIN MACHINE GUNS, OR 2.75 INCH AERIAL ROCKETS, AS DESCRIBED IN ENCLOSURE #6.
- C. IN GENERAL, ALL THE AIRCRAFTS HAVE LOW FLYING HOURS, AS DESCRIBED IN ENCLOSURES 1 THRU 5.

SPARE PARTS AND AVIONICS

LARGE QUANTITIES OF SPARE PARTS ARE AVAILABLE, AND ARE ESTIMATED AT APPROXIMATELY THREE TO FIVE YEARS OPERATION, AT AN EXTRA COST.

GROUND SUPPORT EQUIPMENT

ALL NECESSARY GROUND SUPPORT EQUIPMENT IS AVAILABLE AT EXTRA COST. FLIGHT MANUALS, MAINTENANCE MANUALS AND ALL OTHER LITERATURE IS TO BE SUPPLIED AT NO COST.

ALSO, UNITED TECHNOLOGIES SIKORSKY AIRCRAFT HAS ALL THE AVIONICS, GROUND EQUIPMENT, SPARE PARTS AND ENGINES YOU REQUIRE.

TRAINING

THERE IS AN AGREEMENT BETWEEN UNITED TECHNOLOGIES SIKORSKY AIRCRAFT AND JORDAN, THAT IN THE EVENT THAT THE AIR CRAFT IS SOLD, SIKORSKY WILL UNDERTAKE TO TRAIN THE PILOTS, ENGINEERS AND ELECTRICIANS AT THEIR TRAINING CENTER IN WEST PALM BEACH, FLORIDA. ADDITIONALLY, ENGINE MAINTENANCE TRAINING IS CONDUCTED AT THE ENGINE MANUFACTURER'S FACILITY AT INDIANAPOLIS, INDIANA PRIOR TO THE AIRCRAFT MAINTENANCE TRAINING.

SIKORSKY AIRCRAFT HAS EXTENSIVE EXPERIENCE IN TRAINING FOREIGN PILOTS AND MAINTENANCE PERSONNEL. S-76 AIRCRAFT OPERATE IN OVER 27 COUNTRIES AROUND THE WORLD. THE ABOVE TRAINING IS AT EXTRA COST, AND IS DESCRIBED IN ENCLOSURE #7.

DELIVERY

THE ABOVE HELICOPTERS ARE AVAILABLE FOR IMMEDIATE DELIVERY.

SHIPPING

WE RECOMMEND THAT THE ABOVE HELICOPTERS BE SHIPPED BY A CHARTER VESSEL, FROM THE PORT OF AOABA (RED SEA PORT), TO GUATEMALA. ALSO, THE JORDANIAN GOVERNMENT IS WILLING TO AIR FREIGHT THE HELICOPTERS BY JORDANIAN AIR FORCE (C-130, TWO AT A TIME) FOR ONLY THE COST OF FUEL AND LANDING FEES EN ROUTE.

PAYMENT

- A. PAYMENT IS TO BE MADE AGAINST CONFIRMED IRREVOCABLE LETTER OF CREDIT.
- B. DEFERRED PAYMENT CAN BE ARRANGED AT THE PRIME RATE PLUS.

INSPECTION

WE SUGGEST THAT A TEAM CONSISTING OF PILOTS, ENGINEERS ETC. VISIT JORDAN TO MAKE AN INSPECTION OF THE HELICOPTERS.

WE ARE PREPARED TO FURNISH THE ABOVE TECHNICAL TEAM WITH AIR TICKETS (CLUB CLASS/BUSINESS CLASS) TO FLY FROM GUATEMALA CITY TO AMMAN, JORDAN AND RETURNING TO GUATEMALA CITY FOR SAID INSPECTION. ALL FOOD, TRANSPORTATION, AND ACCOMMODATION COSTS AT A FOUR STAR HOTEL IN JORDAN WILL BE BORNE BY US.

ALL OF THE ABOVE AIRCRAFT HAVE AN FAA CERTIFICATE OF AIRWORTHINESS AND THE ENGINES HAVE ALL THE LATEST MANDATORY MODIFICATIONS.

YOURS FAITHFULLY,


 MUNTER. BILREISI
 MURA INTERNATIONAL

MR/SA
 ENC

310 257
500003 COFFEE

475018351KINTL
COFFEE 2ND.
EACH M. 1000. 1000.
MAY 27, 1967
ATTN: MR. T. BILBEE

DURING OUR TELECON ON 5-16, THE SUBJECT OF S-76 WEAPON SYSTEMS WAS DISCUSSED. SINKSHI HAS DELIVERED ARMED S-76 HELICOPTERS TO FOREIGN CUSTOMERS. THESE HELICOPTERS ARE FORMIDABLE, ARMED, MULTI-ROLE MACHINES THAT CAN BE EASILY CONFIGURED TO PERFORM A VARIETY OF MISSIONS.

IN AN ATTACK CONFIGURATION WITH A WEAPONS SUPPORT PYLON, THE S-76 CAN CARRY A WIDE VARIETY OF FOLDING GUNS, CANNONS, OR ROCKETS. THE S-76 HAS PROVEN TO BE AN EFFECTIVE AND STABLE WEAPONS PLATFORM WHEN EQUIPPED WITH .50 CAL MACHINE GUNS, 7.62 MM TWIN MACHINE GUNS, OR 2.75 INCH AERIAL ROCKETS.

IN ORDER TO DETERMINE THE COST TO RETROFIT THE WEAPONS SUPPORT PYLON INTO THE S-76 HELICOPTERS, WE ARE DISCUSSING AN ENGINEERING STUDY WOULD HAVE TO BE ACCOMPLISHED. THIS RETROFIT MAY NOT PROVE COST EFFECTIVE; HOWEVER, THE MODIFICATION IS POSSIBLE.

I WILL SEND YOU BROCHURES WHICH DESCRIBE THE H-76 EAGLE MULTI-MISSION HELICOPTER (GUN SHIP) UNDER SEPARATE COVER.

I EXPECT SOME INPUT SHORTLY ON EXIM BANK REQUIREMENTS FOR SUBJECT COUNTRY.

REGARDS.

W. O'MALLEY

475018351KINTL

500003 COFFEE

.....
475018351KINTL

Munther Bilbeisi

Telephone (305) 994-3005
FAX: (305) 994-2777

File # ~~28009 MURDER 002~~
568663 COFFEE

H.E. Mutasim Bilbeisi
c/o Ismail Bilbeisi & Co. Ltd.
King Hussein Street
Amman, Jordan

My dearest Mutasim:

I am enclosing two photocopies of the Purchase Orders, which have been signed by His Excellency, The President of Guatemala, for the purchase of five Sikorsky S-76A Helicopters and for sixteen F-5As and F-5Bs.

I have also enclosed a copy of the letter that I sent to John O'Connell, Esq.

I would appreciate it if you would hand deliver a set of enclosed copies of the Purchase Orders to our mutual Friend, that we met together.

I am looking forward to seeing you soon in Amman,.

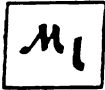
All my love to the family,

Munther

MB/sa

enc

4710 North West Second Avenue, Suite 200, Boca Raton, Florida 33431 U.S.A.



MURA INTERNATIONAL, S.A.

c/o 4710 N.W. 2ND. AVENUE, BOCA RATON, FL. 33431

TEL: (305) 994 3005 TLX: 568663 FAX: (305) 994 2777

JANUARY 29, 1988

JOHN O'CONNEL, Esq.,
#400
900 17TH ST. N.W.,
WASHINGTON D.C. 20006

DEAR JACK:

I AM ENCLOSING HERewith, A COPY OF THE PURCHASE ORDERS, WHICH HAVE BEEN SIGNED BY HIS EXCELLENCY THE PRESIDENT OF GUATEMALA, FOR THE PURCHASE OF FIVE SIKORSKY S-76A HELICOPTERS AND FOR SIXTEEN F-5A AND F-5B.

ALSO ENCLOSED, PLEASE FIND A COPY OF A LETTER ADDRESSED TO HIS MAJESTY KING HUSSEIN.

I AM PLANNING TO GO THROUGH WASHINGTON, D.C., SOMETIME NEXT WEEK, SO AT THAT TIME WE CAN FURTHER DISCUSS THE ABOVE MATTER. I WOULD APPRECIATE IT VERY MUCH IF YOU COULD PLEASE CHECK TO SEE IF OUR EFFORTS WOULD NOT BE IN VAIN, SO THAT I WOULD NOT WASTE ANY MORE TIME AND MONEY IN THIS ENDEAVOUR.

I AM LOOKING FORWARD TO SEEING YOU AGAIN AFTER SO MANY YEARS, AND AM HOPING THAT THIS BUSINESS WILL BE BENEFICIAL TO US BOTH.

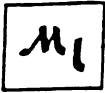
SINCERELY,

MUNTHER BILBEISI
PRESIDENT.

000183

Offices

AMMAN JORDAN • GENEVA SWITZERLAND • HOLLYWOOD FLORIDA, U.S.A. • LONDON ENGLAND • PALMA DE MAJORCA SPAIN



MURA INTE

, S.A.

May 12, 1987

His Excellency General Hector Gramajo
 Minister of Defense
 Nacional Palace
 Guatemala City, Guatemala C.A.

Dear Sir:

Enclosed, please find a list on the status of the F5-A and the F5-B Aircraft. The total number of these aircrafts that are available for sale is 20 (twenty), with all supporting spare parts and engines for approximately five years and ground equipment.

These aircrafts are available for immediate delivery. If this is of any interest, we will furnish more details if required. However, we suggest that an inspection team fly over to the country and visually inspect the aircraft.

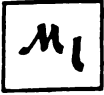
Yours faithfully,

M. I. [Signature]
 MURA INTERNATIONAL

000342

Offices:

AMMAN, JORDAN • GENEVA, SWITZERLAND • HOLLYWOOD, FLORIDA, U.S.A. • LONDON, ENGLAND • PALMA DE MAJORCA, SPAIN



MURA INTERNATIONAL, S.A.

July 22, 1987

For the attention of: CCL. YUSEF MUKAIMER

From: Mura International, S.A.

I am sorry for the delay in contacting you, but until last week, I did not have any concrete information to report. We have finally reached an agreement with the Guatemalan Government. They have committed for a minimum of TEN -S-76A, EIGHT -P5A, and TWO -P5B. The quantity could be increased to the full total quantity, subject to the following conditions:

1. Subject to the conditions, terms and period of the financing.
2. The Performance Analysis of the aircraft, as most airports are located at very high altitudes.

If Sikorsky, Northrop and the bankers can satisfy their requirements, the quantity will be increased to the full amount.

Mr. O'Malley, Mr. Kelley and myself (along with my group) are departing on Sunday, July 26, 1987 for Guatemala. We will be joined there by the bank people from Switzerland.

Kindest regards,

M. Bilbelle
MURA INTERNATIONAL, S.A.

P.S.
Please note that our new FAX number is (305)994-2777

000273

Offices:

AMMAN, JORDAN • GENEVA, SWITZERLAND • HOLLYWOOD, FLORIDA, U.S.A. • LONDON, ENGLAND • PALMA DE MAJORCA, SPAIN

Translation of Official letter No. 12088

Guatemala, August 4, 1987

Sirs:
Mura International
City

Sirs:

I have the pleasure of directing you in relation to the offer that you presented to the Minister. It has been considered and we are interested in the aquisition, as follows:

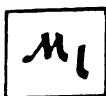
- 1) One Helicopter Sikorsky 76A, Type Executive
- 2) Two Helicopters 76A, Type Ambulance
- 3) Sixteen Airplanes F-5 (A/B) with armament and ammunition

The above with supplies for three years minimum.

Subject to the disposition or change at the final hour by the Senor President of the Republic, Commander General of the Army, in effect.

Truly yours,

General Brigadier Hector Alejandro Gramajo Morales
Minister of National Defense



MURA INTERNATIONAL, S.A.

July 23, 1987

Mr. Louis C. Altemar
Vice President-MURA INTERNATIONAL

Mr. Mauricio E. Coronado
Vice President-MURA INTERNATIONAL

Dear Sirs:

Please find this letter as confirmation that in the event of the sale of the F5-A and F5-B Tactical Fighters, which are owned by the Royal Jordanian Air Force, to the Republic of Guatemala, through your efforts, that we do hereby undertake to pay to you 50% (FIFTY PERCENT) of the net profits, after payment of all other commissions and expenses, from this said sale to the Republic of Guatemala.

It is understood that the agreed upon purchase price of the aircraft is to be \$1,400,000.00 (ONE MILLION FOUR HUNDRED THOUSAND U.S. DOLLARS) each. Any discount of this purchase price will be negotiated separately.

Sincerely,

Munther Bilbeisi
MURA INTERNATIONAL, S.A.
President

MP/sa

Accepted by:

Louis C. Altemar

Mauricio E. Coronado

STATE OF FLORIDA)
COUNTY OF PALM BEACH)

SWORN TO and subscribed before me this 23rd day of July, 1987.

Notary Public

Notary Public, State of Florida

My Commission Expires September 1987

Notary Public, State of Florida

000265

Offices

AMMAN JORDAN • GENEVA SWITZERLAND • HOLLYWOOD FLORIDA U.S.A. • LONDON ENGLAND • PALMA DE MAYORCA SPAIN

(46)

Nombre del titular Murtha B.

Arango

Personas que lo acompañan:
 Person's accompanying them:

Se esposa _____
 Wife _____

Menores de 18 años que están bajo su patria potestad
 Minors under his age of 18 who are under parental jurisdiction

o todos: _____
 or all: _____



Documentos de Identidad que se incluyen:

La cédula De 7-0116072 Leg.
7-012 de fecha 27 de Julio
de 1924 expedida en el
Consulado.

DATOS PERSONALES

PERSONAL DATA
 Nacionalidad adjunta por Salvador
 Nationality San Salvador

Lugar y fecha de nacimiento San Salvador
 Birth place and date 19 de marzo de 1938

Estado civil Casado
 Civil Status Ch. Soria

Profesión o oficio Comerciante
 Profession 51 Dues-15 Housc

Domicilio Veracruz, California
 Permanent address San Diego

Señales particulares:
 Scars or Birthmarks



M. B. Arango
 (Firma del Titular)

OBSERVACIONES

Este pasaporte contiene 48 páginas y es válido por 600 AÑOS a partir de la fecha de su expedición, pudiendo ser REVALIDADO una sola vez por 600 AÑOS más.

Es bueno para viajar por cualquier país, previa visa, con las siguientes excepciones:

Expedientes o direcciones de AMULAN.

En caso de, entrega de este documento a nombre del titular, se debe hacer llegar al Consulado de El Salvador solo primero a el Ministerio de Relaciones Exteriores, San Salvador, El Salvador, C. A.

OBSERVATIONS

This passport contains 48 pages and is VALID for TWO YEARS from the date of issue. It may be RENEWED for one additional period of TWO YEARS.

Attention or notification of PASSPORT made is INVALID

If this document is lost, or in the case of death of owner, please return same to the nearest Salvadoran Consulate, or to the Ministry of Foreign Affairs, San Salvador, El Salvador, C. A.

SERVICIO EXTERIOR
DE LA
REPUBLICA DE EL SALVADOR
AMERICA CENTRAL

Registro Nº 5/2.9

PASAPORTE Nº 0451910

Autoridad que lo expide: Consulado de El Salvador

Lugar y fecha: Ginebra, Suiza
28 de Agosto de 1978



TIMBRE ESPECIAL
CUATRO DOLARES

REVALIDACION
PASAPORT RENEWAL

Revalidacion hecha
Renewal with

el reintegro (24)

de Agosto de 1982

Autoridad que lo autoriza /
Authorized by

General de El Salvador

Lugar y fecha: /
Place and date

MAQUILA, HONDURAS

AUG 19 1982



Notas /
Remarks

(Tumbona)



VISAS

No 006159

THE UNITED STATES
OF AMERICA

BERN

8-18-2 15 SEP 1978

DATE

15 SEPTEMBER 1982

MULTIPLE

APPLICATIONS FOR
ENTRY

MUNTER ARANJO

U.S. DEPARTMENT OF STATE
OFFICE OF THE ATTACHÉ
BERN

MEMORANDUM

: Mr. Munther Bilbetsi

: Alberto Coppo

Reference : US Approval - F-5 Sale to Guatemala

ANTECEDENTS

A direct application done by the Guatemalan Government, was request from the D.O.S.

The President of Guatemala issued an End User Certificate asking the approval by the American Government of the purchase of F-5A and F-5B for his country. This document was submitted to the D.U.S. in Washington D.C.

Two weeks after this presentation, we wanted to find out the status of the request. I found out some negative comments from the D.O.D. They said that this is not the right time to introduce this equipments into the area of Centro America. (Honduras already have F-5E. They were talking about the "Plan Arias" for peace in C.A.) The D.U.S. (Desk of Political and Military Affaires and the Guatemala Desk) said that nevertheless they did not get the papers, yet, in their opinion, the permission will not be granted. As a reason, they gave the comment that this deal is out of their direct control.

ACTUAL SITUATION

In a short term Mr. Pastorino, Deputy Assistant Secretary, must be given an official position to the D.O.S., in behalf of the D.O.D.

Two days ago, you mentioned to me that you have received good news from a person who is handling officially the papers in Washington D.C. I did not get the nature of those news.

We need to coordinate all our efforts to get a positive action in the approval of the Guatemalan request.

CONCLUSIONS

Now you have the authorization to talk with the person in charge of the papers and get from him the latest official information, also, I will get from him the information I have.

We must make an official follow-up done by the Guatemalan Military Mission.

We will need the help from the Jordanian Authorities in Washington.

The last problems in Centro America are in our favor.

If it's necessary got already a full P.R. program.

MEMORANDUM

To : Mr. Munther Bilbunt

From : Alberto Coppo

Reference : Business trip to Guatemala - 02/29 to 03/08

I.- REASON FOR THE TRIP

- 1) To get an official confirmation from the Guatemalan Authorities for the purchase of 5 S-78 and 16 F-5
- 2) To get the Letter of Credit for the 5 units, if the decision was positive.
- 3) To start a direct report with the authorities, avoiding the future participation of the actual representatives.

II.- ACTIVITIES

- 1) Visit to the Minister of National Defense
The Minister, Grl. Hector Gramajo did not want to compromise himself without talking with the President. Nevertheless, the meeting (an official appointment) was very friendly. He designated Col. Felix Baeza, Secretary General of the Ministry, as my link for any coordination or necessity.
After talking with the President, the Minister confirmed the decision of purchase of the 5 and 16 units.
Col. Baeza asked me to have a meeting with Col. Vargas.
- 2) Visit to Col. Marco A. Vargas, Chief, Army's Financial Department.
Col. Vargas wanted to be emphatic about the necessity of the Air Force for the equipment. Also he wanted clarify that his Department had not any participation handling the economical side of the project. According to him, the delay was originated in the Presidential House. He suggested me a meeting with Grl. Matta Culez, Chief, General Staff of the President. He also was emphatic about the negative feelings created by our local Representatives.
Col. Vargas asked me to give you his best regards. He will be in Miami in the end of this week and he wants to talk with you and me. He did not want to disclose the matter, in Guatemala.
- 3) Visit to the Chief, General Staff of the President.
In our meeting, Grl. Matta confirmed the necessity of the 5 units. According to him, the problem was originated when MURA was not able to provide financial support for this sale (offered only 180 days), later, the funds availables were assigned to other projects with higher priority. He told me that Allemar and Coronado were working looking for a bank in USA able to give the loan to Guatemala. (I guess this is a lateral business for them).
The latest situation is that Guatemala got the commitment for the loan. Grl. Matta, introduced to me Col. Rufael Rosetto (he is also an Economist), Financial Advisor for the President and former President of the Banco del Ejercito. With him, I check the situation, finding out that the operation was blocked last week because the lender bank was not recognized as Correspondent by the Central Bank. Banco de Guatemala. This situation was solved talking with the Chairman, the Bank is been already nominated and now is just a matter of Financial Contract and

Summary Notes.

In the last meeting in the Presidential House, Grl. Matta told me that he has the commitments from every part involved in this matter, that the L/C will be issued approx. March 10. Yesterday, I got the same information from the bank.

Regarding the P-5, I request from Grl. Matta an active participation of the Guatemalan Armed Forces in the coordination with the D.O.S. He was authorized to coordinate directly with Col. Anacleto Nassa, Military Attache in Washington D.C. The letters about spare parts were not received by the president, yet. I gave him copies. For the deal with Holland, was a great help!

CONCLUSIONS

- 1) The sale of the 58-78 is a fact.
- 2) L/C is now organized. Will be issued approx. March 10.
- 3) Armed Forces does not like our Representatives, but Grl. Matta does. In the end of March, Grl. Matta will be in another position (Inspector General) under direct command of Grl. Gramajo. At that moment we must look for an appointment with the new Military Chief of the Presidential House.

RECOMMENDATIONS

- 1) I will talk with Altamir and Coronado in order to have a direct feeling.
- 2) We must make a follow up in Washington for the P-5.
- 3) I can not loose the opportunity to talk with Col. Vargas in Miami. I will need your backing.
- 4) Give me your comments, I will be waiting your call in Miami.

Best Regards,

[Signature]

Tickets supplied by Roger

Travel expenses in Guatemala US\$ 478.00 (8 days)

I believe, that the project was blocked in the Presidential House, but when the Minister went to see the President with the information and the Fax from Holland, he got a strong backing from him and the order, everybody, for the conclusion of the deal.

AMMAN, Jordan.
November 9th, 1986.

TO:- ALBERTO COMPTON
FROM:- MUNTHER BILDEISI

Today I made all the necessary arrangements with B.C.C.I. Amman regarding the financial commitment for the two gentleman and also L.A. and M.C. The bank air mailed the four documents.

Regards.

Munt her.

سندع الجو الملكي الاردني

JORDANIAN AIR FORCE



RJAF/AC/1P4/69/D/6031

1 / NOV/1988

الرقم

التاريخ

LETTER OF INTENT

MURA INTERNATIONAL S.A

AMMAN

TLX: 21513 JO

FAX 824165

ATTN: MR MONIHER BILBEISI

SUBJECT: SALE OF TWO RJAF C130B
AIRCRAFTS AND SPARES

Ref your offer dated 31/OCT/1988 for purchase of two RJAF C130B aircrafts and spares.

1. Please be informed that above referenced offer has been accepted by the selling committee provided that subject aircrafts should be transferred to an acceptable end user to both Jordanian and United States Governments.
2. You are requested to inform the buyer i.e the Argentinian Air Force to contact the U.S Government in order to obtain their approval.

Thank you for your kind cooperation.

Y.A. MUKHAIMER, BRIG

CHAIRMAN OF THE COMMITTEE

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LIMITED
BENEFICIARY'S ASSIGNMENT OF PROCEEDS
(INSTRUCTION TO BANK TO PAY PROCEEDS OF LETTER OF CREDITS)

Date _____ 19 _____

MURA INTERNATIONAL S.A.
4710 N.W. 2ND AVE SUITE 200
BOCA RATON, FLORIDA 33431
 ("Beneficiary")

Re: Letter of Credit XLU/1311/88

No: _____

Issued by:
BCO. DE GUATEMALA / CAPITAL BANK MIAMI

Advice No.:
CAPITAL BANK'S REF. NO. 49510

Bank's Reference No.

IN FULL AND FINAL CONSIDERATION, the receipt of which is hereby acknowledged, the undersigned Beneficiary hereby authorizes and instructs and agrees with Bank, and its successors and assigns, as follows: to pay to captioned Assignee, from the proceeds, if any, of the draft(s) drawn by Beneficiary under and in compliance with the captioned L/C (as such L/C is now or hereafter amended), if and when such draft(s) is presented to Bank, for the aggregate amount of: USD400,000.00

FOUR HUNDRED THOUSAND DOLLARS ONLY

to pay the balance, if any, of said proceeds to Beneficiary. This assignment, and bank's acceptance hereof, if accepted, is not a transfer of the L/C, does not give any interest therein, and does not affect Beneficiary's or Bank's right to agree to amendments thereon thereof, or any substitution therefor. Beneficiary warrants that it has not, and will not (i) revoke or modify this irrevocable Assignment or (ii) assign or otherwise, any of the said proceeds assigned hereunder to any person or entity other than Bank.

Beneficiary request Bank to advise Assignee of Bank's acceptance, if any, of this Assignment. Beneficiary acknowledges receipt of, and transmits to Bank herewith the original letter of advice for said L/C, with any amendments, all of which documents are satisfactory to Beneficiary, for Bank's use within Assignment thereon.

Beneficiary encloses its check to Bank in the amount of \$ _____ (minimum \$50.00) representing commission at the rate of 1/4 of 1% of the aggregate amount designated above to be transferred.

I HEREBY AUTHORIZE TO DEBIT MY ACCOUNT FOR USD1,000.00 BEING ASSIGNMENT OF PROCEEDS OF
MURA INTERNATIONAL S.A.

Name of Beneficiary

By: _____
 Print Name and Title Beneath

SIGNATURE AUTHENTICATED

 (Bank)

By: _____
 Authorized Signature

Date: _____ CC

CHRONOLOGICAL SUMMARY OF BILBEISI'S ILICIT INTERNATIONAL ARMS TRANSACTIONS**1. Sale of small arms to Honduras and El Salvador**

During the 1989 "Soccer War" between Honduras and El Salvador, Bilbeisi sold light armaments (i.e., machine guns) to El Salvador and reportedly attempted to sell armaments to Honduras as well.

2. Centurion Tanks from Jordan to South Africa

In 1974, Bilbeisi through his wholly-owned company, M.B. Associates, sold British manufactured Centurion tanks and anti-missile systems from Jordan to South Africa and Rhodesia. When the sale became public knowledge, the British foreign office intervened and stopped the sale of Hawker Hunter jets to South Africa and Rhodesia.

3. F-86 Safrat jet fighters to Honduras

In 1975, Bilbeisi sold United States manufactured F-86 Safrat jet fighters from Yugoslavia to Honduras.

4. Commission for retrofitting weaponry and engines on Jordanian Centurion Tanks

During 1978, Bilbeisi's wholly-owned corporation Interstra retrofit the entire corps of Centurion tanks of the Royal Jordanian army with diesel engines, infrared gun sites and 105 mm. guns.

5. Attempted sale of small arms to El Salvador, Guatemala and Honduras

During 1984, Bilbeisi attempted to sell Turkish and North Korean manufactured small armaments to these 3 Central American countries using retired United States General James Vaught as an intermediary.

6. Attempted sale of small arms to Nicaraguan Contras

During 1985, Bilbeisi attempted to sell small arms to the Nicaraguan Contras through Aldolfo Calero, one of the heads of the Contra movement in the United States.

7. Attempted sale of F-5 jet fighters and Sikorsky S-76 helicopter gunships from Jordan to Guatemala

During 1988, Bilbeisi attempted to sell 10 F-5 jet fighters and 18 Sikorsky S-76 helicopter gunships from the Royal Jordanian Air Force to Guatemala. The helicopter gunships were to be sold in their civilian configuration and retrofit as gunships upon their arrival in Guatemala. Because of lack of financing, only the sale of 3 civilian helicopters was consummated.

MEMORANDUM

TO: James F. Dougherty, II

FROM: Richard Alan Lehrman

DATE: June 4, 1991

RE: Fraudulent insurance claims against certain Syndicates of Underwriters at Lloyd's of London by Munther Bilbeisi et al. and participatory role of Bank of Credit and Commerce International (Overseas) Ltd.

I. Bilbeisi's Micht International Arms Transactions

A. *Status as a International Arms Dealer*

1. "There is no doubt that Bilbeisi's affidavit and testimony are false regarding his identify as an arms dealer. The Defendant [certain underwriters at Lloyd's of London] has proven beyond a reasonable doubt that Plaintiff is an arms dealer."¹
2. Bilbeisi's admission that he "... was awarded the sale of all the surplus military equipment by the Jordanian armed forces".²
3. "Mura International, a Jordanian company ... specializes in defense equipment, trading with countries such as Jordan, Nigeria, Kuwait, the United Arabs Emirates, El Salvador, Peru, Ecuador, Honduras and South Africa ...
We are the exclusive representatives of the Jordanian Armed Forces for the sale of military equipment, and we all represent companies specializing in the manufacture of arms in eastern and western Europe, especially Yugoslavia and Czechoslovakia."
[Signature of Munther Bilbeisi]
Mura International³
4. The entire basis for Mauricio Coronado's relationship with Munther Bilbeisi since 5/16/87 was to sell weapons, including fighter planes, helicopters, bombs and equipment to the Guatemalan government.⁴ Coronado made numerous trips to Guatemala to sell jet fighters and

¹ See 1/17/91 Order of Dismissal and Final Judgment in *Bilbeisi v. Richard Warwick Fielder*, 16th Judicial Circuit, Case No. 87-4486 AJ, ¶18, p.7 (Exhibit 6 to Plaintiff's Renewed Motion for Sanctions file dated 3/12/91; DE 990).

² 12/20/83 deposition of Munther Bilbeisi in *Intestore v. Tatarfys*, U.S.D.C. (W.D. Mich. No. 083-379), p.18.

³ 5/27/87 translated letter from Munther Bilbeisi, Mura International, to Brigadier General Cesar Augusto Coarroz Rojas, Palacio Nacional, Guatemala. (Exhibit 7 to Plaintiff's Renewed Motion for Sanctions file dated 3/12/91; DE 990).

⁴ Coronado deposition, p.304-6.

MEMORANDUM

TO: James F. Dougherty, II
 FROM: Richard Alan Lehrman
 DATE: June 4, 1991
 RE: Fraudulent insurance claims against certain Syndicates of Underwriters at Lloyd's of London by Munther Bilbeisi et al. and participatory role of Bank of Credit and Commerce International (Overseas) Ltd.

helicopters on behalf of Munther Bilbeisi and Mura International, S.A.⁶ During one of Munther Bilbeisi's trips to Guatemala, he told Louis Alterner to return Bilbeisi's briefcase with a computer list of Royal Jordanian Air Force spare parts for jet fighters and helicopters, catalogs of military equipment and brochures with artillery pictures.⁷ In a 2/22/88 letter to the President of Guatemala, Bilbeisi proposed to provide \$11,000,000 in spare parts at no cost if the President purchased a squadron of F-5, F-5A and F-5B jet fighters.⁸

5. Munther Bilbeisi attempted to broker the sale of military helicopters, F-5 jet fighters and Sidewinder air-to-air missiles from the Royal Jordanian Air Force to the Republic of Guatemala and Sikorsky helicopters purchased in their "civilian" configuration were to be retrofit with air-to-air rockets and pylons which would mount M-60 machine guns.⁹

⁶ Coronado deposition, pp.282-3.

⁷ Coronado deposition, pp.284-88.

⁸ Exhibit 72 to Coronado deposition.

⁹ Affidavit of Theodore F. Berg attached as Exhibit 1 to Supplement to Plaintiff's Appeal of the Objections to Magistrate's Orders Dated March 12, 1990 (file dated 2/23/90; DE 997).

MEMORANDUM

TO: James F. Dougherty, II
 FROM: Richard Alan Lehrman
 DATE: June 4, 1991
 RE: Fraudulent insurance claims against certain Syndicates of Underwriters at Lloyd's of London by Munther Bilbeisi et al. and participatory role of Bank of Credit and Commerce International (Overseas) Ltd.

B. S-76 Helicopter Gunships from Jordan to Guatemala⁹

During 1987 and 1988, Bilbeisi attempted to sell 10 F-5 jet fighters and 18 Sikorsky S-76 helicopter gunships from the Royal Jordanian Air Force to Guatemala. The helicopter gunships were to be sold in their civilian configuration and retrofit as gunships upon their arrival in Guatemala. Because of lack of financing, only the sale of 3 civilian helicopters was consummated.

1. "We have been asked by the Jordanian government to assist them in the sale of eighteen (18) Sikorsky helicopters, model S-76A. When fitted with weapons systems, the aircraft is called the H-76 Eagle multi-mission helicopter (gunship) under separate cover. All of the above aircraft can be fitted with armament kits, consisting of spare support beams, upon which you can hang armaments to carry .50 cal machine guns, 7.62 mm twin machine guns, or 2.75 inch aerial rockets as described in enclosure #6.¹⁰
2. "DURING OUR TELECON ON 5-26, THE SUBJECT OF S-76 WEAPON SYSTEMS WAS DISCUSSED. SIKORSKY HAS DELIVERED ARMED S-76 HELICOPTERS TO FOREIGN CUSTOMERS. THESE HELICOPTERS ARE FORMIDABLE, ARMED, MULTI-ROLE MACHINES THAT CAN BE EASILY CONFIGURED TO PERFORM A VARIETY OF MISSIONS.

⁹ 3/8/88 memorandum from Alberto Coppe to Munther Bilbeisi re: "business trip to Guatemala," produced on 8/3/80 by Munther Bilbeisi pursuant to Court Order in *Bilbeisi v. Richard Warwick Fielder*, 15th Judicial Circuit, Case No. 87-4488 AJ.

¹⁰ 6/27/87 letter from Munther Bilbeisi, Mure International, S.A. to Guatemalan Brigadier General Cesar Augusto Casares Rojas, produced on 8/3/80 by Munther Bilbeisi pursuant to Court Order in *Bilbeisi v. Richard Warwick Fielder*, 15th Judicial Circuit, Case No. 87-4488 AJ. When the first two pages (i.e., not containing Bilbeisi's signature) of this four page letter was produced by Maurice Coronado at his 12/18/88 deposition, former counsel expressly disavowed it.

3/8/88 memorandum from Alberto Coppe to Munther Bilbeisi re: "business trip to Guatemala," produced on 8/3/80 by Munther Bilbeisi pursuant to Court Order in *Bilbeisi v. Richard Warwick Fielder*, 15th Judicial Circuit, Case No. 87-4488 AJ.

¹⁰ 6/27/87 letter from Munther Bilbeisi, Mure International, S.A. to Guatemalan Brigadier General Cesar Augusto Casares Rojas, produced on 8/3/80 by Munther Bilbeisi pursuant to Court Order in *Bilbeisi v. Richard Warwick Fielder*, 15th Judicial Circuit, Case No. 87-4488 AJ. (Exhibit 9 to Plaintiff's Motion for Sanctions file dated 3/12/91; DE 8899).

MEMORANDUM

TO: James F. Dougherty, II
 FROM: Richard Alan Lehman
 DATE: June 4, 1991
 RE: Fraudulent insurance claims against certain Syndicates of Underwriters at Lloyd's of London by Munther Bilbeisi et al. and participatory role of Bank of Credit and Commerce International (Overseas) Ltd.

IN AN ATTACH CONFIGURATION WITH A WEAPONS SUPPORT PYLON. THE S-76 CAN CARRY A WIDE VARIETY OF PODDED GUNS, CANNON, OR ROCKETS. THE S-76 HAS PROVEN TO BE AN EFFECTIVE AND STABLE WEAPONS PLATFORM WHEN EQUIPPED WITH .50 CAL MACHINE GUNS. 7.62 MM TWIN MACHINE GUNS, OR 2.75 INCH AERIAL ROCKETS.

IN ORDER TO DETERMINE THE COST TO RETROFIT THE WEAPONS SUPPORT PYLON INTO THE S-76 HELICOPTERS, WE ARE DISCUSSING AN ENGINEERING STUDY WOULD HAVE TO BE ACCOMPLISHED. THIS RETROFIT MAY NOT PROVE COST EFFECTIVE; HOWEVER, THE MODIFICATION IS POSSIBLE.

I WILL SEND YOU BROCHURES WHICH DESCRIBE THE H-78 EAGLE MULTI-MISSION HELICOPTER (GUN SHIP) UNDER SEPARATE COVER.¹¹

3. Subsequent to his resignation as Consul-General for the Government of Guatemala to the United States of America on May 15, 1987, Coronado Immediately met with Munther Bilbeisi at his home at the Sanctuary with a Guatemalan Air Force officer and members of the Presidential staff of Guatemala after being contacted by Louis Altermar on behalf of Munther Bilbeisi in an effort to sell both jet fighters and helicopters which could be configured for a combat function to the Government of Guatemala.¹²

Coronado was offered a 50 percent participation in the net profits of the sale of jet fighters and helicopters.¹³

¹¹ 5/27/87 letter from W. O'Malley to Coffey, Inc., Attn: Mr. Bilbeisi, produced on 9/3/90 by Munther Bilbeisi pursuant to Court Order in *Bilbeisi v. Richard Wernick Flaster*, 19th Judicial Circuit, Case No. 87-4498 A.J. (Exhibit 10 to Plaintiff's Renewed Motion for Sanctions file dated 3/12/91; DE 999).

¹² 12/19/88 Marcelo Coronado deposition, pp.15-16, 21-29.

¹³ 12/19/88 Coronado deposition, pp.31-34.

MEMORANDUM

TO: James F. Dougherty, II
 FROM: Richard Alan Lehman
 DATE: June 4, 1991
 RE: Fraudulent insurance claims against certain Syndicates of Underwriters at Lloyd's of London by Munther Bilbeisi et al. and participatory role of Bank of Credit and Commerce International (Overseas) Ltd.

4. The S-76s described in the 5/27/87 Mura letter (see __ above) can be converted to fighter helicopters "anytime"¹⁴, and Bilbeisi so represented to a delegation of Guatemalan government officials interested in procuring the jet fighters and helicopters.¹⁵
5. The S-76A helicopters were to be converted for military use by a conversion kit to be supplied by Bilbeisi as head of Mura International, S.A. once the helicopters with a civilian configuration had been obtained from Sikorsky.¹⁶
6. Contrary to Bilbeisi's assertion, the Sikorsky Model S-76A helicopter can be adapted to military use through a conversion kit, and Bilbeisi specifically proposed to perform such a conversion in Guatemala once the helicopters had been obtained in their civilian configuration.¹⁷ Although the H-76 Eagle is not the same helicopter as the Sikorsky S-76A, Bilbeisi himself affirmatively represented to a delegation of Guatemalan Air Force officials interested in procuring fighter helicopters that the S-76A helicopters could be configured substantially the same as the H-76 Eagle helicopter.

C. F-5 Jet Fighters from Guatemala to Jordan

1. Signed memorandum from Alberto Coppo, detailing the progress of his trip to Guatemala on behalf of Mura International, S.A. and Munther

¹⁴ Caronade deposition, p.308.

¹⁵ Caronade deposition, pp.332, 339.

¹⁶ Caronade deposition, pp.339-40.

¹⁷ Caronade deposition, pp.241-42.

MEMORANDUM

TO: James F. Dougherty, II
 FROM: Richard Alan Lehrman
 DATE: June 4, 1991
 RE: Fraudulent insurance claims against certain Syndicates of Underwriters at Lloyd's of London by Munther Bilbeisi et al. and participatory role of Bank of Credit and Commerce International (Overseas) Ltd.

Bilbeisi to sell F-5 jet fighters and S-76 helicopter gun ships. Mr. Coppo states that the "reason for the trip" was:

"To get an official confirmation from the Guatemalan [sic] Authorities for the purchase of five S-76 and sixteen F-5" and concludes that "the sale of the five S-76 is a fact".¹⁸

2. Munther Bilbeisi letters confirming "the purchase of five (5) Sikorsky S-76A helicopters and for sixteen (16) F-5As and F-5Bs" to his Washington attorney¹⁹, Ismail Bilbeisi & Co., Ltd. in Amman, Jordan,²⁰ and to "His Majesty King Hussein".²¹
3. Munther Bilbeisi's signed list of F-5A and F-5B aircraft "available for sale" sent to the Guatemalan Minister of Defense²²

¹⁸ 3/5/88 memorandum from Alberto Coppo to Munther Bilbeisi re: "business trip to Guatemala", and produced on 9/3/90 by Munther Bilbeisi pursuant to Court Order in *Bilbeisi v. Richard Wurudat Fleider*, 15th Judicial Circuit, Case No. 87-4486 AJ. (Exhibit 8 to Plaintiff's Renewed Motion for Sanctions file dated 3/12/91; DE 909).

¹⁹ 1/29/88 letter from Munther Bilbeisi, president Mura International, S.A. to John O'Connell, Esq., produced on 9/3/90 by Munther Bilbeisi pursuant to Court Order in *Bilbeisi v. Richard Wurudat Fleider*, 15th Judicial Circuit, Case No. 87-4486 AJ. (Exhibit 11 to Plaintiff's Renewed Motion for Sanctions file dated 3/12/91; DE 909).

²⁰ Undated letter from Munther Bilbeisi to H.E. Mutazim Bilbeisi, Amman, Jordan, enclosing letter to John O'Connell, Esq. and purchase orders for five (5) Sikorsky S-76A helicopters and for sixteen (16) F-5As and F-5Bs, produced on 9/3/90 by Munther Bilbeisi pursuant to Court Order in *Bilbeisi v. Richard Wurudat Fleider*, 15th Judicial Circuit, Case No. 87-4486 AJ. (Exhibit 12 to Plaintiff's Renewed Motion for Sanctions file dated 3/12/91; DE 909).

²¹ See O'Connell letter above, Exhibit 12 to Plaintiff's Renewed Motion for Sanctions file dated 3/12/91; DE 909.

²² 5/12/87 letter from Munther Bilbeisi, Mura International, S.A. to His Excellency General Hector Gramajo, Minister of Defense, National Palace, Guatemala City, Guatemala, produced on 9/3/90 by Munther Bilbeisi pursuant to Court Order in *Bilbeisi v. Richard Wurudat Fleider*, 15th Judicial Circuit, Case No. 87-4486 AJ. (Exhibit 13 to Plaintiff's Renewed Motion for Sanctions file dated 3/12/91; DE 909).

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4. Bilbeisi's signed confirmation to "Colonel Yusef Mukalmer" that the "Guatemalan government . . . have committed for a minimum of TEN -- S-76A, EIGHT -- F5A, and TWO -- F5B".²³
5. Guatemalan Brigadier General Gramajo's reply confirming the Guatemalan government's interests in:
 Sixteen airplanes F-5(A/B) with armaments and ammunition.²⁴
6. Signed agreement between Munther Bilbeisi as president of Mura International, S.A. and "Vice Presidents" Louis C. Altamar and Mauricio E. Coronado providing the latter with 50% of the net profits from the:
 "Sale of the F5-A and F5-B tactical fighters, which are owned by the Royal Jordanian Air Force, to the Republic of Guatemala".²⁵
7. Mr. Coronado repeatedly emphasized during his lengthy deposition that it as Munther Bilbeisi's intention as President of Mura International, S.A. on May 16, 1987, to sell both combat jet fighters and S-76 helicopters to be modified for the conversion to gunships, with Mura selling the conversion kits and installing them in Guatemala²⁶; and accordingly

²³ 7/22/87 signed memo from Munther Bilbeisi, Mura International, S.A. "for the attention of: Col. Yusef Mukalmer" Re: Guatemalan government commitment for minimum of ten S-76A, eight F5A and two F5B, produced on 8/3/90 by Munther Bilbeisi pursuant to Court Order in *Bilbeisi v. Richard Warwick Fielder*, 15th Judicial Circuit, Case No. 87-4496 AJ. (Emphasis in original). (Exhibit 14 to Plaintiff's Renewed Motion for Sanctions file dated 3/12/91, DE 999).

²⁴ 8/4/87 letter from Gen. Brig Hector Alejandro Gramajo Morales, Guatemalan Minister of National Defense to Mura International, S.A., produced on 8/3/90 by Munther Bilbeisi pursuant to Court Order *Bilbeisi v. Richard Warwick Fielder*, 15th Judicial Circuit, Case No. 87-4496 AJ. (Exhibit 15 to Plaintiff's Renewed Motion for Sanctions file dated 3/12/91, DE 999).

²⁵ 7/23/87 letter agreement between Munther Bilbeisi, President Mura International, S.A. and Louis C. Altamar, Vice President Mura International, S.A. and Mauricio Coronado, Vice President Mura International, S.A. for payment of 50% of the "sale of F5-A and F5-B tactical fighters owned by the Royal Jordanian Air Force to the Republic of Guatemala", produced on 8/3/90 by Munther Bilbeisi pursuant to Court Order in *Bilbeisi v. Richard Warwick Fielder*, 15th Judicial Circuit, Case No. 87-4496 AJ. (Exhibit 16 to Plaintiff's Motion for Sanctions file dated 3/12/91, DE 999). This agreement was notarized by Susan Anderson, Munther Bilbeisi's secretary who has denied, under oath, any knowledge of Bilbeisi's arms dealings.

²⁶ Coronado deposition, p.241-421.

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Bilbeisi only needed end-user certifications for the F-5 jet fighters not the S-76 helicopters.²⁷

Mura International, S.A. ultimately purchased 3 helicopters in civilian configuration but it originally sought and made a commitment to sell military conversion kits for an additional 7 helicopters; however, the deal fell through because of Munther Bilbeisi's failure to obtain adequate financing.²⁸ The F-5 deal fell through for the same reason.²⁹

D. Centurion Tanks from Jordan to South Africa

In 1974, Bilbeisi through his wholly-owned company, M.B. Associates, sold British manufactured Centurion tanks and anti-missile systems from Jordan to South Africa and Rhodesia. When the sale became public knowledge, the British foreign office intervened and stopped the sale of Hawker Hunter jets to South Africa and Rhodesia.

1. Affidavit of Martin Walker, The Guardian reporter who authored a series of articles detailing Munther Bilbeisi's arms transactions verifies that the very sale of the missile systems and tanks from Jordan to South Africa and Rhodesia denied by Bilbeisi "... was confirmed by the foreign office of Great Britain" and states that Bilbeisi "... has neither challenged nor contested the contents or statements contained in any of these articles ...".³⁰ Walker identified Munther Bilbeisi as the "Jordanian arms dealer" who engineered the sale of British-manufactured Centurion

²⁷ Coronado deposition, pp. 243-44.

²⁸ Coronado deposition, pp. 308-71.

²⁹ Coronado deposition, p. 308.

³⁰ Affidavit of Martin Walker dated 9/18/90, p. 3. (Filed 10/2/90; DE 881); Manchester Guardian, "Open File" Series, "A Tiger in Mr. Smith's Tank - Martin Walker reveals how British missiles and tanks reached South Africa with the Rhodesians waiting in the wings" 9/10/74. Attached as exhibit to Plaintiff's Supplement to Motion for Sanctions dated 9/10/90; DE 833.

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tanks and anti-missiles systems from Jordan to South Africa and Rhodesia. Mr. Walker stands ready to confirm the subject of his articles in open court.

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E. Commission for Retrofitting Weaponry and Engines on Jordanian Centurion Tanks

During 1978, Bilbeisi's wholly-owned corporation Interstra retrofit the entire corps of British-manufactured Centurion tanks of the Royal Jordanian army with diesel engines, infrared gun sites and 105 mm. guns.

1. Bilbeisi admission that retrofit was for "laser tank fire control system ... weapon turret control system ... chemical bacteriological/radiological protection."³¹
2. Teledyne statement that retrofit was for "... weapons/turret control ... laser tank fire control systems, gunner passive night vision, chemical/bacteriological/radiological equipment."³²
3. Bilbeisi's witness' statement that retrofit was to replace 90mm guns with 105mm guns (p.25) and that Munther Bilbeisi was "well known" in the Jordanian army as an "arms dealer" (p.79).³³

F. F-86 Safrs Jet Fighters to Honduras

In 1975, Bilbeisi sold United States manufactured F-86 Safrs jet fighters from Yugoslavia to Honduras.

G. Attempted Sale of Small Arms to El Salvador, Guatemala and Honduras

During 1984, Bilbeisi attempted to sell Turkish and North Korean manufactured small armaments to these 3 Central American countries using retired United States General James Vaught as an intermediary.

³¹ 8/21/84 Plaintiff's Mediation Statement (p.37) in *Interstra v. Teledyne*, U.S.D.C. (W.D. Mich. No. 883-378).

³² 8/22/84 Defendant's mediation brief (p.12) in *Interstra v. Teledyne*, U.S.D.C. (W.D. Mich. No. 883-378).

³³ 7/22/84 deposition of General Mahom Khadra, former head of the Department of Planning and Organization, Royal Jordanian Armed Forces in *Interstra v. Teledyne*, U.S.D.C. (W.D. Mich. No. 883-378).

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H. Attempted Sale of Small Arms to Nicaraguan Contras

During 1985, Bilbeisi attempted to sell small arms to the Nicaraguan Contras through Aldulfo Calero, one of the heads of the Contra movement in the United States.

I. Sale of Small Arms to Honduras and El Salvador

During the 1969 "Soccer War" between Honduras and El Salvador, Bilbeisi sold light armaments (i.e., machine guns) to El Salvador and reportedly attempted to sell armaments to Honduras as well.

II. Fine Arts Claim

On October 27, 1986, Munther Bilbeisi filed an insurance claim based on alleged theft of a "Sung Dynasty" vase and about 20 Arab prayer rugs occurring 2 days previously. The insurers, certain syndicates of underwriters at Lloyd's of London³⁴ successfully defended Bilbeisi's 1987 lawsuit on the bases of fraud in the application and continued fraud swearing in support of the insurance claim.

A. False and Forged Appraisals

Bilbeisi submitted an appraisal of the vase in which the appraiser states that "I certify that I have personally inspected the subject property . . ." without revealing that the appraiser had not even seen the subject vase for 3 years.³⁵

On February 28, 1983, Bilbeisi attempted to insure the very same "Sung Dynasty" vase accompanied by a \$750,000 appraisal purported made by William Winick. When Lloyd's underwriters refused to insure the vase without an independent appraisal and responses to certain inquiries, Bilbeisi never responded and simply dropped the matter. In

³⁴ Led by the Richard Warwick Fielder Syndicate.

³⁵ 6/30/88 deposition of Milton Losen, pp. 89, 93 and 113.

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his 1986 proposal to cover the "Sung Dynasty" vase, Bilbeisi not only concealed the tremendous disparity between the alleged valuations of the vase (from \$125,000 to \$750,000³⁶), Bilbeisi concealed that his prior (February 1983) attempt to insure the vase was based on a forged and false appraisal.³⁷

B. October 24, 1986 -- Financial Incentives for the Fraudulent Claim

Various factors converged on Munther Bilbeisi to form the financial incentive for filing a fraudulent insurance claim on October 24, 1986:

1. **Precipitous Drop in Coffee Prices** -- by 10/24/86, the resale price of approximately 1,800,000 pounds of coffee purchased by Bilbeisi in Guatemala during March 1986 had fallen from approximately \$2.20 per lb. to \$0.85 per lb. Accordingly, on 10/24/86, Bilbeisi unsuccessfully attempted to insure all 1,800,000 pounds of the Guatemalan coffee (although 135,000 pounds had already been resold) in the United States for well over the amount Bilbeisi initially paid and several times the by then diminished market value.

2. **BCCI-Miami Call Up of \$3.5 Million Loan** -- as early as June 12, 1986, Bilbeisi was attempting to reassure BCCI-Miami that Bilbeisi's \$3.5 million line of credit used to purchase the Guatemalan coffee was fully collateralized by fraudulently misrepresenting that a large portion had been resold. By 10/24/86, BCCI-Miami was insisting on further assurances beyond a \$2,000,000 guarantee by BCCI-Amman, Jordan.

3. **Coffee Litigation Judgment Due** -- on 10/24/86, a judgment against Bilbeisi's corporation, Coffee, Inc., became due after 2 years of acrimonious litigation in the trial and appellate courts in New York and Florida. The \$250,000 judgment arose from an

³⁶ Bilbeisi never disclosed that his \$196,000.00 appraisal by Milton Lazenby transmitted to Lloyd's in February 1986 were merely an "update" of a \$125,000.00 appraisal based on Mr. Lazenby's physical inspection on 1/19/83 -- only 2 weeks before the vase was allegedly "appraised" by William Winkler for \$750,000.00.

³⁷ 8/11/88 Affidavit of Bernard Winkler and exhibits attached thereto (filed 8/26/88).

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affirmation of an arbitration award in favor of a New York coffee roaster, J.W. Phyfe, which was damaged as a result of Bilbeisi's refusal to produce an agreed upon quantity of coffee during 1984 when prices were rising. Bilbeisi was ordered to pay the judgment by 10/24/86.

C. Order of Dismissal and Award of Attorneys' Fees

On January 17, 1991, Judge Mary Lupo³⁸ dismissed Bilbeisi's lawsuit, stating in part: "There is no doubt that Bilbeisi's affidavit and testimony are false regarding his identity as an arms dealer. [Lloyd's underwriters] has proven beyond a reasonable doubt that [Bilbeisi] is an arms dealer. To permit Bilbeisi to take a voluntary dismissal of this action merely to pursue it anew in another jurisdiction would be an abuse of our system of justice. . . This Court has never in 7 years stricken pleadings and entered a default for non-compliance with an Order compelling discovery. Bilbeisi's deliberate, contumacious disregard of this Court's authority, his bad faith, willful disregard and gross indifference to court discovery orders evince his deliberate callousness that justifies, and mandates, this severest of sanctions."

On February 4, 1991, the Court entered an Order awarding attorneys' fees in excess of \$100,000 to Lloyd's and reserved jurisdiction to assess approximately \$25,000 in costs against Bilbeisi.

III. Coffee Claim

In the course of Bilbeisi's February 1987 sworn statement in support of his fraudulent fine arts claim, Bilbeisi stated he sustained a corporate loss consisting of a \$4 million "coffee switch" several months earlier (in May 1986), and formally filed the claim against

³⁸ Currently presiding over the criminal action against William Kennedy Smith.

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certain Lloyd's underwriters³⁹ on February 18, 1987. On September 10, 1987, following a several month's long investigation, Lloyd's underwriters declined the claim for, among other reasons, non-disclosure of facts material to the risk, fraud and false swearing in support of claim, illegality of the risk and lack of insurable interest, and in January 1988, filed a declaratory action⁴⁰ to void the insurance policy for these same reasons. Still pending, the *Sturge v. Coffee, Inc.* action has consumed more than 1,100 docket entries over the last 3½ years and has seen 4 successive sets of attorneys appear on behalf Munther Bilbeisi's wholly-owned corporation, Coffee, Inc.

A. Non-Disclosure of Facts Material to the Risk
of Non-Disclosed After-~~Feb. 15, 1987~~ Establishment of Mural
Extensive Loss History and Other Facts Material to the Risk

Munther Bilbeisi is and was the sole shareholder of named assureds Orion Systems, Inc. and Coffee, Inc. under the 1983 annually renewal marine insurance policy (for ocean transit of coffee from Central America to the Middle East), as well as the non-disclosed corporation Mura International, S.A. In 1980, Mura filed a \$37 million bad faith claim against the same lead Lloyd's of underwriter syndicate⁴¹ which in 1983 insured Orion Systems, Inc. and Coffee, Inc. Mura settled for \$850,000 on December 29, 1980. Bilbeisi used Mura to conduct illicit international arms transactions and export Central American coffee ostensible to Jordan financed by BCCI (the same risk Bilbeisi sought to insure on behalf of Orion Systems, Inc. and Coffee, Inc.).

³⁹ Led by the Nicholas Colwyn Sturge Syndicate.

⁴⁰ Styled *Nicholas Colwyn Sturge v. Coffee, Inc.*, No. 88-0126-Civ-Marcus (S.D. Fla.)

⁴¹ Nicholas Colwyn Sturge.

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In 1983, Bilbeisi sought coverage under the Orion Systems, Inc. as a "new venture" precisely to conceal Mura (i.e., the bad faith lawsuit and control by an international arms dealer) from Lloyd's underwriters.

- a. Mura, Orion and Coffee were wholly-owned and controlled by Munther Bilbeisi since their respective inceptions and maintained accounts with same Miami, Florida branch of BCCI.⁴²
- b. 1980 Mura \$37 million bad faith civil action against "Lloyd's of London underwriters" spawned three (3) civil actions from 1/14/80 through 8/___/87. Settled for \$850,000 on 12/29/80.⁴³
- c. Concealment during 1983 application and annual renewals (named assured: Orion Systems, Inc. "New Venture"; Coffee, Inc.) of ownership of Mura.⁴⁴ Applied for BCCI letter of credit to buy Central American coffee for shipment to Jordan under the name "Mura" on same date as application for cover of same risk under name "Orion".⁴⁵

⁴² 5/4/87 Gloria Calloway deposition, pp.37-38 and 44-45; 5/2/89 Kenneth Grushoff deposition, pp.44-46 and 54-55.

⁴³ The 3 civil actions, including *Mura International S.A. v. the vessel Rhaki, et al.*, *Mura International, S.A. v. Lloyd's of London Underwriters, et al.* and *Diffores and Thompson v. Mura International S.A., et al.*, are summarized in pp.7-10 and 17 of Appendix 2 to Plaintiff's Motion for Summary Judgment (file dated 1/17/90; DE 440) and the entire court files are reproduced in Appendix 3.

⁴⁴ Bishop deposition, pp.24-39; Brown deposition, pp.50-57; Harding deposition, pp.129-129 and 158-160; Mabey deposition, pp.69-70, 90-92 and 162-163; Vogt deposition pp.254-270. (Bilbeisi does not deny this non-disclosure but rather asserts he "had no duty" to disclose these facts -- 3/31/90 Response, p.9). Telecons to MOAC and Clarkson Puckle seeking cover for Orion Systems identical except for "Bilbeisi owner" deleted from Clarkson Puckle telex. (Exhibit 2 to Plaintiff's Reply Brief, 7/30/90; DE 778.)

⁴⁵ 3/14/83 Bank of Credit and Commerce International Application to issue irrevocable documentary credit to Mura International S.A. for purchase of 6,800 Mize Honduran coffee for shipment to Jordan (\$81,000 - FOB Honduras).

3/14/83 Bank of Credit and Commerce International Application to issue irrevocable documentary credit to Mura International S.A. for purchase of 4,800 Mize Honduran coffee for shipment to Jordan (\$54,000 - FOB Honduras).

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- d. Bilbeisi 5/15/90 admission that Coffee, Inc. and Mura both opened LCs with BCCI to import Central American coffee ostensibly to Jordan⁴⁶ and that substantial coffee business was conducted by Mura.⁴⁷

2. Non-Disclosure of Status as an International Arms Dealer

The moral hazard of Munther Bilbeisi's continuous longstanding and ongoing activities as an international arms dealer was purposefully concealed from underwriters at Lloyd's of London in Bilbeisi's application for insurance under the name "Orion Systems, Inc." (and later "Coffee, Inc.") and at no time was Bilbeisi disclosed as the sole owner of these corporations. These activities are outlined in Section 1 above.

3. Non-Disclosure of Insurance Claims and Civil Actions

As further evidence that Bilbeisi's marine and all risk insurance policies with Lloyd's were nothing more than an opportunity to file fraudulent claims, Bilbeisi failed to disclose no less than 17 other insurance claims and civil actions involving his wholly-owned corporations or Bilbeisi individually, including:

- a. *Mura International, S.A. v. Lloyd's of London Underwriters* -- the \$37 million bad faith claim discussed in §III.A.1. above, involving what was recently discovered to be a fraudulent insurance claim,⁴⁸ out of which 2 other civil actions arose.

⁴⁶ 3/14/83 transmittal letter from Munther Bilbeisi to BCCI enclosing two letter of credit applications. (Exhibit "1" to Plaintiff's Reply Brief 7/30/80; DE 778).

⁴⁷ 5/15/90 Bilbeisi deposition, pp. 513-18; 522-23; and 530-32.

⁴⁸ 5/16/90 deposition of Munther Bilbeisi, p. 623.

⁴⁹ IM.D.3 below, p. 23.

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b. *J.W. Phyfe v. Coffee, Inc.* -- a dispute over the very type of risk Bilbeisi sought to insure under the names Orion Systems, Inc. and Coffee, Inc.⁴⁹

c. *Interstra v. Teledyne* -- a \$1 billion lawsuit filed by Bilbeisi's wholly-owned corporation in order to recover a commission for retrofitting the entire Royal Jordanian army tank corps with diesel engines, infra-red gun sites and 110 mm. guns.

B. Legality -- The Micht International Coffee Smuggling Conspiracy

Although Bilbeisi (without disclosing his name) sought insurance coverage under the guise of a "new venture" involved in the lawful importation of coffee from Central America to the Middle East, Bilbeisi actually directed an international conspiracy to smuggle the coffee into the United States in order to generate millions in illicit profits. The legal effect of the smuggling operation is to void the policy since the law will not permit insuring an illegal venture. Uncontroverted deposition testimony taken in the *Sturge v. Coffee, Inc.* action revealed that:

1. All Covered Coffee Shipments were Illegal

- a. Non-ICO coffee was smuggled into the United States under the direction of Munther Bilbeisi.⁵⁰
- b. Coffee smuggled into New Orleans, Louisiana under Munther Bilbeisi's direction through falsely manifested "short-shipped" and "empty" containers owned by Coordinated Caribbean Transport, Inc.⁵¹

⁴⁹ See 11.B.3. above.

⁵⁰ 8/6/90 deposition of Fernando Montes, pp.79-83; and 11/16/89 deposition of Jay Anthony Aramburo, pp.80-83.

⁵¹ 11/16/89 deposition of Jay Anthony Aramburo, pp.15-16.

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- c. Coffee smuggled into Miami, Florida under Munther Bilbeisi's direction through falsely manifested "short-shipped" and "empty" CCT containers.⁵²
 - d. Smuggled coffee was rebagged at Twin Terminals Warehouse, Miami, Florida under the direction of Munther Bilbeisi.⁵³
 - e. Bilbeisi directed CCT in Central America to ship coffee actually intended to be smuggled into the United States under bills of lading and other documents falsely labeling the cargo as "transshipped" to Jordan via Miami, Florida or New Orleans, Louisiana.⁵⁴
2. Several Persons Admitted Personal Participation in Bilbeisi's Coffee Smuggling Scheme
- a. Under Munther Bilbeisi's direction and in exchange for "commissions" or kickbacks in excess of \$4 million, CCT officers, Steve Calderon, Joseph Villalba and Jose Antonio Otano directed the creation of false or fraudulent documents and otherwise assisted in the smuggling of Central American coffee purchased by Bilbeisi into the Port of Miami, Florida during 1983 through 1985.⁵⁵

⁵² Affidavits of Steve Calderon, Joseph Villalba and Jose Antonio Otano filed as Exhibits 1-3 to Plaintiff's Motion for Sanctions filed dated 3/12/91; DE 898.

⁵³ 11/3/88 deposition of Carlos Duben, pp. 44-53.

⁵⁴ 7/6/90 deposition of Hoytal Ordoñez, pp. 24-26 and 8/21/90 deposition of Humberto Hernandez, pp. 31-34.

⁵⁵ Affidavits of Steve Calderon, Joseph Villalba and Jose Antonio Otano filed as Exhibits 1-3 to Plaintiff's Motion for Sanctions filed dated 3/12/91; DE 898.

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- b. Under Munther Bilbeisi's direction and in exchange for "commissions" or kickbacks in excess of \$400,000, CCT employee Jay Anthony Aramburo directed the creation of false or fraudulent documents and otherwise assisted in the smuggling of Central American coffee purchased by Bilbeisi into the Port of New Orleans, Louisiana during 1985 and early 1986.⁶⁶
 - c. According to Coffee, Inc.'s own books and records, CCT employee Alberto Rivas was paid \$347,750 in Coffee, Inc. account checks exactly coinciding with the arrival of Munther Bilbeisi's coffee shipments in the United States and in amounts mathematically correlative to the number of bags shipped by Bilbeisi.⁶⁷
 - d. Several CCT officers and employees in the United States and Central America including Steve Calderon, Joseph Villalba, Jose Antonio Otano, Alberto Rivas, Humberto Hernandez, Heylei Ordonez, Tony Aramburo and Lisandro Flores admit receiving "commissions" or kickbacks in amounts related to the quantity of coffee smuggled under the direction of Munther Bilbeisi.⁶⁸
3. **Contraband Coffee was Shipped Using Forged and Fraudulent Documents**

⁶⁶ 11/18/89 deposition of Jay Anthony Aramburo.

⁶⁷ Exhibit 4 to Plaintiff's Motion for Summary Judgment Based on Illegality (file dated 11/18/90; DE 906-911).

⁶⁸ See, depositions of Hayfal Ordonez (7/5/90, pp.42-43, 46, 48 and 50); Jay Anthony Aramburo (11/18/89, pp.14-18, 26, 42-43, 46-47, 103); Lisandro Flores Guillen (8/20/90); Humberto Hernandez (9/21/90, pp.12-13); and Wallace Papadopolis (8/10/90, pp.53-54).

Messrs. Otano, Calderon and Villalba have asserted their Fifth Amendment privilege against self-incrimination rather than testify to these kickbacks, as has their accountant, James Puente.

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- a. Bilbeisi directed CCT officers and employees to prepare manifests falsely listing trailers containing smuggled coffee as "short-shipped" or "empty".⁶⁰
 - b. Bilbeisi directed CCT officers in various Central American countries to prepare phoney supplemental manifests listing the trailers containing the smuggled coffee as "empty" or "short-shipped"; the phoney manifests were given to the ship's master in a sealed enveloped labelled "Attn: Tony Aramburo"; upon arrival in New Orleans, Louisiana, Tony Aramburo replaced the true manifest with the phoney manifest in the sealed enveloped for preparation to United States Customs.
4. **Bilbeisi Paid Substantial Kickbacks or Commissions for Smuggling**
- a. Heylei Ordonez delivered to Carlos Dubon⁶¹ a list of Central American customs officials to be bribed at the direction of Munther Bilbeisi in connection with smuggling coffee to the United States.⁶¹
 - b. Tony Aramburo received kickbacks or commissions for smuggling coffee into the New Orleans, Louisiana at the direction of Munther Bilbeisi.⁶²

⁶⁰ Affidavits of Steve Calderon, Joseph Villalba and Jose Antonio Otano filed as Exhibits 1-3 to Plaintiff's Motion for Sanctions filed dated 3/12/91; DE 899.

⁶¹ A former top assistant in Anastasio Somoza's Nicaraguan government.

⁶² 11/3/89 deposition of Carlos Dubon, pp.148-154 and 161-2.

⁶³ 11/16/89 deposition of Jay Anthony Aramburo, pp. 88-72; pp.88-104 and 126-129.

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- c. Tony Aramburo received seven checks for \$9,000 each totalling \$63,000 for coffee smuggled into the United States on 5/1/86. Amount broken down into seven checks by agreement that payments would be in checks of \$9,000 or less. Bilbeisi told Aramburo checks would show as coffee purchases in Coffee, Inc.'s records so that Aramburo would not have to pay income tax on payments.⁶³

C. Attempted Bribery, Subornation of Perjury and Obstruction of Justice

1. Admissions as to Insurance Fraud

- a. Munther Bilbeisi admitted to his personal yacht captain that the subject insurance claim was a fraud and the employees of Coffee, Inc. were fully aware of the fraudulent nature of the claims.⁶⁴
- b. Munther Bilbeisi admitted to the three CCT officers he used to smuggled coffee that the subject claim was fraudulent and that if they testified falsely in support of the claim, "there would be enough money in it for everyone".⁶⁵

2. Bribes to Coffee, Inc.'s Accountant

⁶³ Aramburo deposition, 11/17/89, pp. 58-60.

⁶⁴ Affidavit of Theodore F. Berg attached as Exhibit 1 to Supplement to Plaintiff's Appeal of the Objections to Magistrate's Orders Dated March 12, 1990 (file dated 3/23/90; DE 567).

⁶⁵ Affidavits of Steve Calderon, Joseph Villalba and Jose Antonio Otano filed as Exhibits 1-3 to Plaintiff's Motion for Sanctions file dated 3/12/91; DE 989.

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- a. Bilbeisi paid Kenneth Grushoff \$50,000 in cash to falsify the books and records of Coffee, Inc. prior to an audit by the Internal Revenue Service.⁶⁶

3. *Bribes to "Expert" Witnesses*

- a. Bilbeisi offered Victor Hinijsa 10% of any sums paid by "Lloyd's of London" to falsely testify under oath that Hinijsa had personal knowledge of "coffee switch" in Guatemala.⁶⁷

D. Affidavits of Steve Calderon, Joseph Villalba and Jose Antonio Otano

Virtually all of the witnesses and participants in Bilbeisi's coffee smuggling scheme identified 3 men -- Steve Calderon, Joseph Villalba and Jose Antonio Otano, dubbed by Bilbeisi as the "boys" -- as having the most central role in smuggling Bilbeisi's coffee out of Central America into the United States. After 2 years of unsuccessful attempts by attorneys for Lloyd's to depose the "boys", Calderon, Villalba and Otano recently waived their Fifth Amendment privilege against self-incrimination and provided statements outlining their participation in the coffee smuggling scheme.

1. Bilbeisi's Coffee Smuggling Scheme

The "boys" essentially confirmed Tony Aramburo's testimony as to how Bilbeisi smuggled the coffee from Central America into the United States (i.e., through phoney transshipments and manifests showing containers falsely labeled as "short-shipped" or "empty") using containers owned by the company they worked for, Coordinated

⁶⁶ Affidavit of Theodore F. Borg attached as Exhibit 1 to Supplement to Plaintiff's Appeal of the Objections to Magistrate's Orders Dated March 12, 1990 (file dated 3/23/90; DE 587).

⁶⁷ Mr. Hinijsa is the "expert" witness identified by Coffee, Inc. who purportedly inspected samples of the "switched" coffee but has avoided service of all deposition subpoenas served by Plaintiff. Affidavit of Theodore F. Borg attached as Exhibit 1 to Supplement to Plaintiff's Appeal of the Objections to Magistrate's Orders Dated March 12, 1990 (file dated 3/23/90; DE 587).

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Caribbean Transport, Inc. During most of 1983, the "boys" imported non-quota coffee purportedly for transshipment to Aqaba, Jordan which was actually unloaded at the Port of Miami, Florida. Most of the CCT employees were under the impression the shipments were legitimate since the ocean freight was pre-paid to Jordan by Coffee, Inc.

For their participation in the scheme, the "boys" were paid commissions of \$12.00 per bag while the CCT contact in the origin country (Honduras, El Salvador or Guatemala) were paid \$5.00 per bag and were advanced expenses to bribe truckers, trucking check point officials and port officials in the origin countries. The largest cut went to the suppliers in the origin countries who always knew the coffee was to smuggled.

During last 1983 and 1984, Bilbeisi relied more heavily on the short-shipment and empty trailer methods. As time progressed, Bilbeisi's commission payments to the "boys" lagged further and further until they were no longer willing to smuggle coffee for him. After repeated demands for Bilbeisi to pay \$375,000 he owed them, Bilbeisi procured a copy of Tony Otano's foreign bank account with BCCI-London and showed it to Steve Calderon, explaining that Otano "had better be careful with his money". This apparent display of power and access to BCCI (see also immediately below) impressed the "boys" sufficiently for them to drop their claim.

2. Involvement of Bank of Credit and Commerce International

The "boys" accompanied Bilbeisi to several meetings with BCCI bank officers but were rarely present during the actually meetings. They identified Hamid Khan, Grace Perez and Nadim Hassan as the officials Bilbeisi dealt with most frequently.

Nadim Hassan was the manager of the Boca Raton branch, which Bilbeisi boasted was opened almost solely to service his business. Bilbeisi also boasted of his power and influence with BCCI, claiming to have many of its officers "in my pocket". Transfers of money or gifts by Bilbeisi to the BCCI officers were rarely witnessed by the

M E M O R A N D U M

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"boys"; their actual knowledge of such transfers was limited to instances in which Bilbeisi gave them televisions, videocassette recorders and the like. However, Tony Otano recalls handing Bilbeisi approximately \$1,000 in cash at his request which Bilbeisi combined with an undetermined of his own cash to give to Nadim Hassan as a gift.

On several occasions, Bilbeisi met with Nadim Hassan in the presence of one or more of the "boys" and discussed arrivals of shipments in a manner leaving no doubt as to the illicit nature of the operation. This made the "boys" so uncomfortable that Tony Otano ultimately protested to Munther Bilbeisi, who replied that Hassan "knows about the operation".

Nadim Hassan was also present at the "final settlement" conference between the "boys" and Bilbeisi in which the latter sought to withdraw his stake in the trailer companies set up by Calderon.⁶⁸ Nadim Hassan structured the cash-out of Bilbeisi's interests (approximately \$700,000 by establishing a "loan" from BCCI to the "boys" (in the amount of \$233,000 each) to assume Bilbeisi's share and to explained that the bank examiners would never know the true collateral. Hassan structured the transaction to appear as if BCCI's security consisted of UCC-1 notes on all of the equipment when in fact it consisted of funds frozen in three (3) foreign bank accounts set up at BCCI-London, England.

Nadim Hassan set up the BCCI-London accounts for the "boys" in the name of three (3) foreign corporations, Labaro, S.A., Chevere, S.A., and Franjull, S.A. [this explains the Coffee, Inc. payments to those accounts ultimately endorsed by the "boys"]. This arrangement permitted Bilbeisi to expense under-the-table payments to the "boys" as "coffee purchases" to three (3) foreign corporations sounding like Central American coffee suppliers.

⁶⁸ Calderon stated that because Bilbeisi trusted him the least, Bilbeisi was uncomfortable having his capital tied up in an operation under Calderon's control.

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3. Bilbeisi's Admissions and Solicitations of Insurance Fraud

Bilbeisi often discussed insurance fraud schemes with each of the "boys" such as having a container laden with inferior quality coffee driven off a cliff and filing an insurance claim for the value of superior quality coffee purportedly in the container. Bilbeisi considered false insurance claims to be a "hedge" against economic downturns and constantly pointed out that insurance fraud was "easy to do" because "he got away with it" several years ago. Bilbeisi stated he had pallets of bricks imported from South Africa deliberately broken but gave no further details. Bilbeisi stated that "Lloyd's" paid him "lots of money" only a few months after filing the claim.

Bilbeisi did not directly inform them of a plan to burn the Twin Terminals warehouse⁶⁶ in late 1985 [they had broken up with Bilbeisi by this point] but they recall hearing of such a plan through Frank Aravelo, operator of Twin Terminals. When the "boys" finally found out about the subject claim through a subpoena served by counsel for Lloyd's in April 1989, they agreed that Bilbeisi "finally did it", speculating that the precipitous drop in the price of coffee would have caused a man who consistently boasted about committing insurance fraud to file a fraudulent claim.

4. Bilbeisi's attempts to suborn perjury

The "boys" avoided Bilbeisi following their acrimonious split in early 1985 for about four (4) years until they needed his cooperation in a collateral matter in February 1989.⁶⁷ Because Bilbeisi never mentioned the coffee claim in any of their meeting during early 1989, the "boys" were unaware of the lawsuit until they were served with deposition in April 1989.

⁶⁶ A Miami, Florida warehouse where Bilbeisi rebagged and stored the smuggled coffee beans pending resale of New York roasters.

⁶⁷ The "boys" needed an affidavit from Bilbeisi because he was the only witness to a meeting in which they were advised by a tax attorney to set up foreign corporations to receive "entertainment" funds from Bilbeisi in order to restore their tax liability, since the advising attorney later refused to continue his advice during a 1989 tax audit.

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Soon thereafter the "boys" contacted Bilbeisi in Jordan to find out why they were involved in a claim concerning a 1986 shipment occurring long after they had parted ways with Bilbeisi. The "boys" protested that Bilbeisi's claim was costing them substantial attorneys fees to avoid giving their depositions and incriminating themselves as well as hurting other innocent people while Bilbeisi remained above the fray in Jordan. Bilbeisi replied that he would "share Lloyd's money" if they would cooperate because the case was "well in hand" and an impending discovery cutoff would "force Lloyd's to settle". Bilbeisi offered to pay their attorneys' fees to avoid testifying, stating that "there's money in here for everyone" and "you don't have to work for the rest of your lives" if they cooperated.

Following Tony Aramburo's deposition,⁷¹ the "boys" received facsimiles from Jordan describing two (2) versions of a possible Bilbeisi response to the Aramburo testimony and inquiring as to which version Bilbeisi should use. Both versions, equally false, described a scenario wherein the "boys" would purchase coffee in Central America and Bilbeisi would purchase it spot Miami. The "boys" were astonished that both versions fully exonerated Bilbeisi while in effect hanging them out to dry (since they were allegedly responsible for all coffee purchases).

The "boys" contacted Bilbeisi in Jordan immediately thereafter to express their unwillingness to perpetuate his fraud. Bilbeisi replied that "if I get hurt, you will get hurt" since Aramburo's testimony would incriminate all of them. Bilbeisi stated that if the "boys" lied, it would be Aramburo's (described by Bilbeisi as a "cheat") word against everyone else's. Bilbeisi added "my attorneys will get you off the hook".⁷²

5. Knowledge of Insurance Fraud by Bilbeisi's Michigan Counsel

⁷¹ In which he described his participation in Bilbeisi's coffee smuggling operation and threatened himself as well as Bilbeisi.

⁷² Like all of Bilbeisi's promises, this one was broken too. Bilbeisi's attorney, Richard P. Patten, advised that Bilbeisi never authorized Coffin, Inc. to pay the "boys" legal fees and when they subsequently contacted Bilbeisi's Michigan attorney, Richard Patten, Patten advised them that it wouldn't be right for him or for Coffin, Inc. to directly pay their legal expenses. In the end, none of their legal expenses were paid, directly or indirectly by Bilbeisi.

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The "boys" first contacted Richard Postma after discussing the subject coffee claim with Gloria Calloway upon receipt of the subpoena in April 1989. Postma advised the "boys" that they "have nothing to worry about" since the suit was proceeding well for Bilbeisi and Bilbeisi had a bad faith claim pending against Lloyd's. Postma explained that Lloyd's attorneys were making a desperate move to attempt to "get Bilbeisi indirectly" by threatening witnesses with Internal Revenue Service investigations.

Tony Otano advised Postma in a "roundabout way" that it would not be in Bilbeisi's best interests for him to testify truthfully since Bilbeisi was not being truthful to Postma. The "boys" struggled with what they could tell Postma without incriminating themselves and still convey the notion that Bilbeisi's claim was fraudulent. Postma repeatedly contacted them by telephone, especially after Tony Aramburo's deposition in July 1989, in an attempt to find out what the "boys" knew. They repeatedly told Postma that Aramburo's testimony about the smuggling scheme was true and correct and advised Postma to ask Bilbeisi about the smuggling scheme.

Immediately after the receipt of the two (2) telexes from Bilbeisi in Amman, Jordan in which he attempted to direct their testimony, the "boys" advised Postma that they were unwilling to lie for Bilbeisi. Although they did not "in so many words" explicitly tell Postma or Gass that the subject claim was fraudulent or that Bilbeisi had been smuggling the covered coffee for several years (because they were unwilling to incriminate themselves), they have no doubt that Postma clearly understood both to be true. All of their contact with Postma and Gass took place during 1989 (i.e., prior to the entry of a protective order as to the depositions of the "boys") -- more than nine (9) months before the Michigan law firm moved to withdraw from the case in September 1990.

E. Participation of Bank of Credit and Commerce International

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The coffee smuggling scheme would not have been possible without the participation of a bank institution willing to underwrite the venture in exchange for a share of the profits in order to facilitate the transfer of millions of dollars across international borders. All of the smuggled coffee purchased by Bilbeisi's wholly-owned corporations was financed through BCCI international letters of credit and cashiers checks under the name of any of the accounts comprising the "Bilbeisi Group" of accounts -- Coffee, Inc., Orion Systems, Inc., Mura International, S.A. and of course Munther Bilbeisi. The condition for issuance of the international letters of credit -- over 30 have been discovered to date -- was for Bilbeisi to obtain insurance for the smuggled coffee in case anything went wrong. Bilbeisi obtained that insurance without disclosing his name through Lloyd's of London.

1. BCCI's Partnership with Bilbeisi: 1983 through 1987

Between 1983 and 1985, in excess of \$105 million in international letters of credit were issued by the BCCI-Miami agency for the purchase of Central American coffee by one of Munther Bilbeisi's companies, purportedly bound for the Middle East. In fact, none of the coffee ever reached the Middle East but was instead smuggled into the United States -- with the knowledge of BCCI officers. All of the letters of credit were structured to resemble legitimate transactions, expressly providing for stringent adherence to certification requirements concerning confirmation that the coffee was for export to the Middle East. On the eve of the consummation of each deal, however, Bilbeisi mysteriously "waived" his requirements that these documents show conformance with these regulations.

The purchase of smuggled coffee was also facilitated by the use of cashiers checks issued by the BCCI-Miami and BCCI-Boca Raton agencies. In one instance, 31 cashiers checks totalling \$765,000 were issued on the same day by BCCI-Miami at Bilbeisi's request in the name of a Bilbeisi employee, who in turn endorsed several of the checks to Central American suppliers of smuggled coffee. Some of the other checks were

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endorsed back to Bilbeisi himself.⁷³ In addition, BCCI facilitated the transfer of millions of dollars to offshore accounts at BCCI's branches in Nassau, Bahamas, and Panama City, Panama.

In exchange for their assistance in coffee smuggling and money laundering, Bilbeisi made kickbacks and gifts to several BCCI bank officers, including the head of a special Boca Raton agency specifically set up to "service" certain "high net worth" customers.

Many of the kickbacks consisted of "gifts" such as payment for houses, prayer rugs and even prostitutes.

2. Complicity in Insurance Claim

When Bilbeisi filed his fraudulent insurance claim, he supported the claim with documentation he could have received only from BCCI (e.g., the front sides of cashiers checks allegedly constituting the payment for the "switched" coffee). Despite repeated demands to produce the endorsement side of the cashiers checks constituting the claim, BCCI withheld or concealed the endorsement side of all the cashiers checks provided to Bilbeisi, with the sole exception of the few checks consistent with Bilbeisi's claim.

Moreover, a "file" containing documents in support of Bilbeisi's that 12,000 150-lb. bags of his coffee were "switched" in Guatemala miraculously appeared when BCCI responded to a subpoena for documents in the late 1989, although the files from which it came were all supposedly produced in their entirety more than a year earlier. Lloyd's claims the documents were "inserted" into BCCI's files long after the fact as part of an agreement with Bilbeisi to corroborate his insurance claim because they were not date-stamped. In addition, Lloyd's contends, if the documents corroborating an insurance loss in May 1986

⁷³ Nevertheless, all of the checks were submitted as part of Bilbeisi's coffee claim as "proof" he purchased the coffee in Central America.

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were actually received in the ordinary course of business, they would have triggered an immediate inquiry by the bank into the integrity of its collateral for a \$3,500,000 loan.

3. Deposition of Marcelle Walters and Kickbacks to BCCI Employees

In the cashiers checks of the BCCI-Boca Raton agency seized by the Internal Revenue Service together with the rest of that branch's records, a series of 12 cashiers checks totalling \$70,807 were found dated between May and August of 1984 and payable to a bank employee named Marcelle Walters. The corresponding tissue copies indicated the checks had been issued to generate "cash for Munther Bilbeisi".

In her deposition taken in the presence of BCCI's investigators, Ms. Walters testified that although the checks were ostensibly payable to her, she received none of the proceeds. Rather, Ms. Walters was acting at the direction of bank officers, Nadim Hassan, Hamid Khan and/or Sadiq Hamidani, who instructed her to withdraw the cash from another bank across the street and turn the cash over so that these bank officers could turn the funds over to Munther Bilbeisi. Many of the checks contained no account number against which they were debited.

Ms. Walters also testified that she never actually saw the cash in question handed over to Mr. Bilbeisi. In fact, she did not know whether the bank officers kept the cash under Mr. Bilbeisi's direction.

4. Financing of Bilbeisi's Sale of Helicopters to Guatemala and Bribery of Public Officials to Block Investigation

Lloyd's contends that Bilbeisi's attempted sale of S-76 helicopter gun ships from Jordan to Guatemala⁷⁴ and completed sale of 3 civilian helicopters financed through BCCI was also an attempt to bribe Guatemalan public officials connected with the sale in

⁷⁴ See 11.B. above.

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order to block Lloyd's investigation of the coffee smuggling scheme. The armed and civilian helicopter sales were financed by international letters of credit issued by BCCI-Miami for \$34 million and \$5 million, respectively, in 1987. Lloyd's investigation uncovered documents showing evidence of payoffs to Guatemalan government officials, generals and even then-president's brother by Bilbeisi. The helicopter transaction was handled in Guatemala by Bilbeisi's employee, Louis Altermar, whose name appeared on several checks produced by Bilbeisi in support of his coffee claim. During 1987 and 1988, while Altermar was in Guatemala handling the proposed arms transactions, Bilbeisi indicated he thought Altermar "switched" his coffee while Lloyd's investigators futilely attempted to find Altermar in Florida. Altermar ultimately admitted his role in the coffee smuggling scheme when it became apparent that Bilbeisi was blaming him for the loss at the same time Bilbeisi was attempting to hide Altermar in Guatemala.

Ironically, when the BCCI-Miami agency applied a \$400,000 guarantee out of the \$5 million letter of credit in favor of Bilbeisi's company, Mura, to the overdraft in the name of Bilbeisi's other company Coffee, Inc., Mura sued BCCI for fraud and theft. During his deposition in the course of the lawsuit, Bilbeisi identified BCCI as standing for "Bank of Crooks and Criminals International". The relatively insignificant settlement of the suit (less than \$50,000) is cited by Lloyd's as evidence that the entire lawsuit was a sham to disguise the conspiracy between Bilbeisi and the bank.

5. Guatemalan Extradition Order for Munther Bilbeisi and Removal of Appellate Judges for Bribery

After conducting its own coffee smuggling investigation, the Republic of Guatemala issued an arrest warrant and request to the United States Department of State for the extradition of Munther Bilbeisi to Guatemala. Immediately after Lloyd's cited these Guatemalan judgments of criminal wrongdoing in support of its civil case against Bilbeisi in

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Florida at the end of 1990, attorneys for Bilbeisi unveiled an appeal which purportedly "overturned" the arrest warrant and request for extradition. Unfortunately for Bilbeisi, the wrong appellate court (i.e., one without jurisdiction over the trial court) entered the purported "reversals" and the appellate court judges were dismissed from their posts for acceptance of bribes. The current Guatemalan administration has reaffirmed the judgments and extradition orders entered against Bilbeisi during the prior administration of Vinicio Cerezo.

F. Lloyd's Racketeering Claim Against BCCI and the Other Participants in Bilbeisi's Coffee Smuggling Conspiracy

The various syndicates of underwriters at Lloyd's of London have expended substantial sums to investigate and dispute Bilbeisi's fine arts and coffee insurance claims for "losses" supposedly totalling in excess of \$6 million in addition to treble bad faith damages. After uncovering evidence of the international coffee smuggling coffee conspiracy and BCCI's participation, certain Lloyd's underwriters filed a racketeering suit in federal court in Miami against the members of the conspiracy in order to recover their damages -- attorneys fees and investigative costs -- attributable to the fraudulent claims. BCCI has strenuously denied its involvement in the scheme and has engaged the well-connected Washington, D.C. law firm of Patton, Boggs & Blow to defend the suit.

United States Magistrate Linnea R. Johnson, a former assistant United States attorney, has presided over the case with a firm hand. On March 26, 1991, she entered an Order prohibiting BCCI from removing or destroying records as it attempts to close down its banking operations and withdraw from the United States. Over BCCI's strenuous objections, the Court also entered Orders on May 22 and June 3, 1991 requiring BCCI to show its original logs and registers to Lloyd's, which has alleged that BCCI has concealed or destroyed records.

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G. Bilbeisi and Grushoff Indictments

Although Lloyd's has charged Bilbeisi and his co-conspirators with a laundry list of illegal acts including coffee smuggling, arms dealing, bribery, subornation of perjury, customs violations and money laundering, the easiest charge to prove from the criminal point of view is tax evasion. Following a multi-year grand jury investigation, the United States government is expected to charge Bilbeisi and several of his co-conspirators with exactly that -- knowingly filing false or fraudulent tax returns.

H. Related Racketeering Actions Against BCCI

In a related action, the Republic of Panama filed a racketeering lawsuit against BCCI based on the bank's alleged money laundering on behalf of General Manuel Noriega.⁷⁵ The illegal methods allegedly employed by BCCI to move substantial sums of money across international borders on behalf of drug smugglers and arms dealers are similar to those which Lloyd's contends BCCI used on behalf of Munther Bilbeisi.

7530ral/bsaty-tl.mss

⁷⁵ *Republic of Panama v. BCCI Holdings (Luxembourg), S.A.*, No. 90-2013-Civ-Rythcum.

MEMORANDUM

TO: Richard Alan Lehrman

FROM: James F. Dougherty, II

DATE: September 16, 1991

RE: Failure of United States Customs to indict Munther Bilbeisi and BCCI for Customs violations as of June 15, 1983

PRIVILEGED & CONFIDENTIAL
ATTORNEY-CLIENT COMMUNICATION

1. Exhibit "1" - List of Jordanian officials;
2. Exhibit "2" - August 11, 1991 *New York Post* report which confirms F.B.I. memorandum from Special Agent Walter Stowe of a scheduled meeting in Atlantic City on December 21, 1982 between Tommy Vostolla with Munther Bilbeisi, including a telex dated December 21, 1982 from Munther Bilbeisi to mob company in Atlantic City - Alan & Company;

In short, Bilbeisi and BCCI are in the FBI-NCIC computer on December 20, 1982.

3. Exhibit "3" - January 26, 1983 internal letter from Bilbeisi to BCCI listing occupations as "arms dealer" and "coffee merchant;"
4. Exhibit "4" - June 15, 1983 internal memorandum confirming coffee smuggling notice given by United States Customs to all branches - Tampa, New York and Jacksonville - of illegal introduction of coffee into the United States involving Bilbeisi, Otano and Villalba
5. Exhibit "5" - June 22, 1983 internal memorandum of "technical smuggling" of green coffee in violation of the ICO-Counterfeit of false certificates of origin are used - (per se violation of the United States Code);
6. Exhibit "6" - Internal documents of United States Customs reflecting violation of United States Code involving taking out \$50,000

**PRIVILEGED & CONFIDENTIAL
ATTORNEY-CLIENT COMMUNICATION**

on September 13, 1983 by Munther Bilbeisi at BCCI bank (6 pages);

7. Exhibit "7" - May 27, 1987 letter of Munther Bilbeisi to Guatemalan military for sale of S-76 Sikorsky helicopters to be converted to gunships;
8. Exhibit "8" - August 28, 1987 internal memorandum of Munther Bilbeisi boasting of gift of over \$15,000 general purpose bonds;
9. Exhibit "9" - January 29, 1988 letter from Munther Bilbeisi to Washington DC lawyer John O'Connell on the purchase of F-5 and F-5B Northrop Jet fighters;
10. Exhibit "10" - October 17, 1988 payoff sheet on bribes to the President of Guatemala's brother and military staff from Bilbeisi to Alberto Coppo;
11. Exhibit "11"- July 20, 1989 letter from William Rosenblatt, United States Customs Washington in which a meeting is scheduled for July 27, 1989

"The Commissioner has requested that I speak to you concerning the ongoing investigation of Coffee, Inc. I have been informed by my Tampa and West Palm Beach, Florida, offices that you have provided significant investigative assistance relative to the nefarious activities of Muenther [sic] Bilbeisi d.b.a Coffee, Inc. The issues you have raised are currently under investigation by the United States Customs Service and respective United States Attorney's Office.

I would be pleased to meet with you to discuss matters of mutual concern. Please contact Ms. Lorraine A. Lasch, at (202) 566-2416 to arrange a meeting."

Rosenblatt states at the conference that this is a paper case and United States Customs will not be interested in pursuing either illegal coffee smuggling or arms transactions.

**PRIVILEGED & CONFIDENTIAL
ATTORNEY-CLIENT COMMUNICATION**

12. Exhibit "12" - February 6, 1991 letter from John E. Hensley to James F. Dougherty, II wherein Mr. Hensley states:

"It has come to my attention that you have provided significant assistance to the Customs Service in its efforts to curtail the flow of illicit drugs into the United States. Your efforts and those of other concerned citizens are a source of great satisfaction and pride to the Customs Service. It is though [sic] mutual trust and support, between Law Enforcement and the private sector, that the drug epidemic will be curtailed and eventually extinguished.

Your unselfish contributions serve as an example of that can be achieved through teamwork. Congratulations on a job well done. I wish you continued success in your personal endeavors and look forward to your continued support of the Customs Service and its mission."

WE HAD GIVEN THE UNITED STATES CUSTOMS OVER 25 TIMES ALL OF THE VARIOUS METHODS OF COFFEE SMUGGLING DURING THE YEARS 1987 THROUGH 1991 WHICH PERMITTED UNITED STATES CUSTOMS AS OF JANUARY, 1991 TO FINALLY INDICT AND ARREST INDIVIDUALS FOR COCAINE SMUGGLING WHO WERE USING THE SAME METHODOLOGY FOR COCAINE SMUGGLING THAT WAS USED BY OTANO, CALDERON AND VILLALBA FOR COFFEE SMUGGLING AS OF JUNE, 1983!

United States Customs has documented as of June 15, 1983 knew of an ongoing coffee smuggling operation:

1. Involving Munther Bilbeisi, BCCI bank, Tony Otano, Joe Villalba that involved six (6) cities - Miami, Jacksonville, Port Everglades, Houston, New Orleans and New York.
2. No attempt was made by United States Customs to either indict, arrest or seize Munther Bilbeisi for violations of United States Code, Sections 541 through 553 - copies of United States Customs violations are enclosed including entry of goods falsely classified, §541 - smuggling of goods and other clear customs violations.

**PRIVILEGED & CONFIDENTIAL
ATTORNEY-CLIENT COMMUNICATION**

CONCLUSION:

The sole correct inference to be drawn from the failure of United States Customs to indict Munther Bilbeisi and the bank - BCCI - and to permit millions of dollars in illegally imported coffee come into the United States, was subsequent diversion of the money for income tax purposes was to protect General Manuel Noreiga by virtue of the clear relationship between Noriega and Geraldo Harris and BCCI bank and Munther Bilbeisi.

Uncovering the coffee smuggling operation would have caused revelation of the ongoing relationship between the CIA and General Noriega.

Allowing coffee smuggling and cocaine shipments into the United States was still one further form of improper conduct by the United States Treasury and the United States Justice Department.

If the Justice Department and United States Customs had indicted Munther Bilbeisi in the first instance in June, 1983, there never would have been a \$20 million dollar insurance claim made by Bilbeisi in January, 1987.

To compound this, if United States Customs had indicted Bilbeisi in 1988, the loss of Lloyd's would have been prevented to proceed at enormous costs to the Underwriters at Lloyd's because it would have been established by the United States Government the defense of illegality.

Allowing an ongoing criminal conspiracy to flourish between 1983 and 1987 and then allowing the statute of limitations for criminal indictment on customs violations to expire in 1990 is not criminal negligence, but criminal connivance.

13. Exhibit "13" - Affidavits of Steve Calderone, Joe Villalba and Tony Otano.
14. Exhibit "14" - BCCI-Nassau account confirming Munther Bilbeisi's hidden account in Nassau which as of March, 1984 reflects a balance of \$986,250.00.
15. Exhibit "15" - Sections of the United States Code, Customs Violations, 18 U.S.C. §541 through §547.

**PRIVILEGED & CONFIDENTIAL
ATTORNEY-CLIENT COMMUNICATION**

BRIBERY AND PAYOFFS:

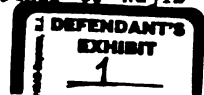
Given the history of Bilbeisi boasting that he is the official representative of the Royal Jordanian Army with documentation of arms transactions from South Africa, Honduras, El Salvador and then Guatemala, how could the United States Customs fail to prosecute him in 1989 for the sale of the S-76 helicopters with the low frequency radios as recommended by Special Agent Jeffrey Martin, United States Customs, West Palm Beach, Florida when it is clear that Bilbeisi bribed BOTH members of the Royal Jordanian Air Force and the military of Guatemala with over \$3 million dollar net profit.

How can the Congress of the United States permit continued foreign aid to Jordan when:

1. Bilbeisi is indicted and declared a U.S. fugitive for income tax evasion;
2. Bilbeisi has smuggled millions of dollars of coffee and is wanted by the governments of Guatemala and Honduras;
3. Bilbeisi brokers American-made weapons systems - Sikorski helicopters, Northrop F5 jet fighters with huge commissions without the slightest protest by the United States State Department using BCCI to broker these deals.
4. Why does not the United States Senate demand explanations of these payoffs from the government of Jordan and require that Bilbeisi be returned to the United States to face criminal proceedings when Jordan is seeking over \$150 million in U.S. aid independent of its violations of United Nations Resolution 210.

DRAMATIS PERSONAE**MUNTHER BILBEISI**

- NAJIB BILBEISI** - Brother of Munther. Involved in Toyota distributorship in Jordan.
- MUNTHSEN BILBEISI** - Brother of Najib and Munther. Under Secretary at Ministry of Foreign Affairs in Jordan.
- FAKHRI BILBEISI** - First cousin of the above. Manager of BCCI in Jordan and hopes to buy the BCCI operation there. His photograph accompanying an article about BCCI appeared in a Jordanian Newspaper alongside an article about Lloyd's alleged involvement in intelligence operations. Has two sons who work with Prince Abdullah, son of King Hussein.
- NADIR SARTI** - Brother-in-law of Fakhri Bilbeisi. Well known arms dealer.
- SHARIF ZEID BIN SERKA** - Another brother-in-law of Fakhri Bilbeisi. Nadir Sarti and Sharif Zeid have worked together and with the sons of Fakhri Bilbeisi. Sharif Zeid has also worked with Najib Bilbeisi and Munther Bilbeisi. Nadir Sarti and Sharif Zeid have money deposited in BCCI in Jordan.
- AHMAD SHARAR** - Munther Bilbeisi's attorney in the proceedings. Has been disciplined several times by the Bar Association.
- AMBASSADOR WALEED M. SADI** - Another legal advisor to Munther Bilbeisi. Registered as an advocate but has never practised. Former Editor in Chief of the Jordan Times.
- OMAR NARUTSI** - Lawyer to Nadir Sarti and Sharif Zeid. Declined to advise Jim Dougherty because of conflict of interest.
- FUAD MALIK** - Engineer in Amman. Used by Munther Bilbeisi as an intermediary to approach Sami Habayeb. Business partner of Najib Bilbeisi.



8/11/91

'82 Atlantic City scheme is bared

By TOM WOODS

Daily News Staff Writer

The Mob had a friend at BCCI.

Secret FBI documents reveal that as early as 1982, mob leaders in Philadelphia and New Jersey were using the scandal-scarred Bank of Credit and Commerce International in a multi-million-dollar Atlantic City real estate deal.

Although international outlaws like Palestinian terrorist Abu Nidal and Manuel Noriega reportedly regularly used BCCI, the Atlantic City deal is the first known instance involving major mob figures and the bank. Law enforcement sources say they are currently searching for other possible BCCI-mob connections.

The documents show that Thomas (Corky) Vastola, a reputed leader of New Jersey's DeCavalcante family, and a businessman the FBI believed was fronting for Philadelphia mob boss Nicodemus (Little Nicky) Scarfo hatched a plan to transfer a huge downtown parking lot between them using BCCI money.

Teamed up with Vastola to buy the property from the Scarfo agent was Munther Bilbeisi, a Jordanian businessman who has been linked to money-laundering and smuggling in connection with BCCI, according to the FBI records.

Bilbeisi was indicted on Friday by a federal grand jury in Miami on charges of conspiracy and tax evasion. The case is the first federal criminal indictment related to BCCI since the worldwide banking scandal exploded last month.

The Pakistan-based bank, which allegedly built up a multi-billion-dollar empire through fraud, bribery, illegal arms sales and money laundering, is the target of four separate federal grand jury investigations. In addition, Manhattan District Attorney Robert Morgenthau has filed grand larceny and criminal fraud charges against the bank and two top



executives.

The attempted sale, which was never completed, involved a 152,000-square-foot parcel located in downtown Atlantic City. At the time, the lot was especially valuable because casino developers were scrambling to find patron parking space to satisfy local zoning regulations.

Ownership of the parcel was held by MMRT Associates, a partnership that included Kenneth Shapiro, a businessman identified by federal authorities as Scarfo's front for Atlantic City real estate deals.

According to the FBI records, agents were alerted by an informant that Vastola and Shapiro planned a Dec. 31, 1982, meeting to discuss the sale at the Atlantic City offices of Sea-Tax Ltd., a company in which Shapiro was a partner.

The records include a telegram, dated Dec. 21, from Bilbeisi to MMRT, in which Bilbeisi makes an \$18 million offer to buy the parking lot with financing from the Amman, Jordan, branch of BCCI, headed by Bilbeisi's brother, and three other foreign banks.

In the telegram, Bilbeisi, who signed himself as president of Orion Systems Inc. of Boca Raton, Fla., cited the BCCI financing "as evidence of our financial capability to

consummate the proposal."

According to a source familiar with the deal, FBI agents observed the meeting and photographed Bilbeisi and Vastola entering Shapiro's office. Since the FBI's focus at the time was on mob dealings in Atlantic City, neither Bilbeisi nor BCCI were targeted for investigation, the source said.

Bilbeisi and BCCI's brief involvement in the deal resurfaced this year after the bank became a major Justice Department target.

The property was sold in January 1983 to a partnership that included Penthouse publisher Bob Goeckione, MMRT and other partners to be used for a parking lot for a hotel-casino Goeckione planned nearby.

Shapiro was later named in a 1984 case on having paid \$65,000 in bribes to former Atlantic City Mayor Michael Matthews related to zoning variances for the parking lot and other sites. He was not charged and could not be reached for comment.

Vastola, currently in prison for racketeering, made news last year when it was revealed that the FBI had warned him he had been targeted for execution by reputed Gambino godfather John Gotti.

Bilbeisi is reportedly living in Jordan.



FD-209 (Rev. 7/9/79)

UNITED STATES GOVERNMENT

M E M O R A N D U M

Date: 12/23/82

TO : SAC (137A-22152) (INV)

FROM : SA WALTER D. STONE, JR. (M-6)

SUBJECT : NY 6962-OC

Date of Contact
12/20/82

File #s on which contacted (Use Title if File is not available)

Purpose and Results of Contact

☐ NEGATIVE
☒ POSITIVE
☐ STATISTIC

"SEE ATTACHED INSERT."

THIS FD-209 SERVES AS A CHANNELIZATION COVER SHEET ONLY. IT IS NOT TO BE FILED IN ANY SUBSTANTIVE CASE FILE AND IS NOT TO BE INCLUDED IN ANY REPORT. REMOVE PRIOR TO FILING ATTACHED INSERT.

137-22152-A-215

SEARCHED	INDEXED
SERIALIZED	FILED
JAN 6 1983	
FBI - NEW YORK	


NY 137A-22132

WBS:pg

1

On December 20, 1982, NY 6962-OC provided the following information to Special Agent WALTER B. STONE, JR.:

There is a meeting scheduled on December 21, 1982, at Senter, Ltd., in Atlantic City involving a proposed parking lot project. THOMAS "Corky" VASTOLLA is to be present along with some investors he is introducing into the project. The investors are from Florida and supposedly have connections to "Arab money".



2-11 MOD ATL

On March 16, 1982, NY 6962-OC furnished the following to Special Agents (SAs) WALTER B. STONE, JR. and STANLEY T. NYE, JR.:

CORKY VASTOLA, a New Jersey LCN figure with cross-family ties between the GENOVESE and LUCHESE LCN Families, has widespread influence in the entertainment industry, especially in New York City, Atlantic City, Las Vegas, and Chicago. In particular, VASTOLA handles arrangements regarding the booking of night club acts in Atlantic City and New York City. Because of his influence, VASTOLA deals frequently with FRANK GERACE, head of Local Union 54, Hotel, Restaurant Workers, and Bartenders, and RON BARTA from Atlantic City. BARTA has interests in the Tropicana and the Golden Nugget.

One device used by VASTOLA in the entertainment industry to generate and launder money lies in factor financing of performances, expositions, and boxing matches. VASTOLA controls Allen and Company, an investment firm in both New York City and Chicago, which performs factor financing among other functions. Money to be moved to entertainment recipients from LCN sources, like VASTOLA, is given to the factor by the LCN source with the factor designating a specific recipient for the funds. The LCN source receives a return on his money and an interest in the entertainment recipient; the recipient receives financing, albeit at a stiff rate of return, and the factor receives a kickback to sweeten the deal.

Another entertainment interest of VASTOLA is in the recording industry. VASTOLA has influence in both the legitimate and pirate record and tape industry. With VASTOLA's controlled record distributors moving both legitimate and pirated tapes and records, VASTOLA can effectively derive profits from all angles and record production.

NY 137A-22132

WBS:pg

1

On December 20, 1962, NY 6962-OC provided the following information to Special Agent WALTER D. STONE, JR.:

There is a meeting scheduled on December 21, 1962, at Senter, Ltd., in Atlantic City involving a proposed parking lot project. THOMAS "Corky" VASTOLLA is to be present along with some investors he is introducing into the project. The investors are from Florida and supposedly have connections to "Arab money".

ORIGINAL
MUNTER BILBEISI

955 So. Federal Highway, Suite 204
Doca Bay, Florida 33432 U.S.A.

TELEPHONE: (305) 368-3085
TELEX: 354889 MIRA US

January 26, 1983

The Manager
Bank of Credit and Commerce
International
1200 Brickell Avenue
Miami, FL 33131

Dear Sirs:

Attached please find a summary of my assets and holdings here in the United States and in Europe and Jordan. These documents should serve to validate my financial stability.

In October 1967, I left the services of my father, at which time I began business on my own with a capital of \$1,500.00. My contracts in military and defense equipment with Qatar, East, West, Central and South Africa, Central America, South America, Caribbean and other countries proved to be very successful. I then diversified to commodities and supplied the Jordanian government with twenty thousand tons of sugar, and was also the major supplier of cement clinker to the Kuwait Cement Company.

In December 1977, my father passed away, leaving myself and my brothers heir to his estates and various companies. As I became more involved in the family businesses, which are well known to your establishment, I dropped my private interests to devote more time to the administration of our family holdings.

I came to the United States in 1976, where I purchased a home in Florida with the intention of spending the winter months here in semi-retirement. I recently sold my home in Geneva, Switzerland, and maintain only my residences in England, Spain, Jordan and the United States.

I have decided to enter into a business relationship with my long-time friend and former business partner from El Salvador, Mr. Mauricio Salavarría. Mr. Salavarría, whose entire family background has been in the coffee business for generations, is involved in a locally successful coffee roasting operation called "Himalaya."



Page Two
 January 26, 1983
 Bank of Credit and Commerce Int'l

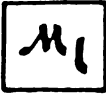
He and I recently decided to become partners in this venture as we are both convinced that the long term possibilities are exceptionally inviting and profitable in the coffee industry. Also, with Mr. Salavarría's connections he has managed to obtain a semi-concession from Honduras to purchase raw coffee beans which we intend to export abroad. This side of the coffee business will prove to be very profitable, with very little risk.

I trust the above information will be satisfactory to you and will serve to give you an idea of my background and my goals in business for the future.

Respectfully yours,

Munther Bilbeisi
 Munther Bilbeisi

mag
 encs


MURA INTERNATIONAL, S.A.
August 28, 1987
**Attn: Mr. Altemar - Mr. Coronado
Camino Real Hotel**

In addition to my previous Fax, this spare parts list is included without cost for the following items:

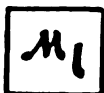
<u>Quantity</u>	<u>Description</u>
392	B, General Purpose
48	B, General Purpose
465	B, General Purpose
305	B, General Purpose
37	B, General Purpose
13,490	B, Practice

Plus Pin assembly, Shaft and Drive Fuse.

M. J. [Signature]
Regard,


Offices:

AMMAN, JORDAN • GENEVA, SWITZERLAND • HOLLYWOOD, FLORIDA, U.S.A. • LONDON, ENGLAND • PALMA DE MAJORCA, SPAIN



MURA INTERNATIONAL, S.A.

c/o 4710 N.W. 2ND. AVENUE, BOCA RATON, FL. 33431
TEL: (305) 994 3005 TLX: 568663 FAX: (305) 994 2777

JANUARY 29, 1988

JOHN O'CONNEL, ESQ.,
#400
900 17TH ST. N.W.,
WASHINGTON D.C. 20006

DEAR JACK:

I AM ENCLOSING HERewith, A COPY OF THE PURCHASE ORDERS, WHICH HAVE BEEN SIGNED BY HIS EXCELLENCY THE PRESIDENT OF GUATEMALA, FOR THE PURCHASE OF FIVE SIKORSKY S-76A HELICOPTERS AND FOR SIXTEEN F-5A AND F-5B.

ALSO ENCLOSED, PLEASE FIND A COPY OF A LETTER ADDRESSED TO HIS MAJESTY KING HUSSEIN.

I AM PLANNING TO GO THROUGH WASHINGTON, D.C., SOMETIME NEXT WEEK, SO AT THAT TIME WE CAN FURTHER DISCUSS THE ABOVE MATTER. I WOULD APPRECIATE IT VERY MUCH IF YOU COULD PLEASE CHECK TO SEE IF OUR EFFORTS WOULD NOT BE IN VAIN, SO THAT I WOULD NOT WASTE ANY MORE TIME AND MONEY IN THIS ENDEAVOUR.

I AM LOOKING FORWARD TO SEEING YOU AGAIN AFTER SO MANY YEARS, AND AM HOPING THAT THIS BUSINESS WILL BE BENEFICIAL TO US BOTH.

SINCERELY,

HUNTER DILBEISI
PRESIDENT.



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AMMAN, JORDAN • GENEVA, SWITZERLAND • HOLLYWOOD, FLORIDA, U.S.A. • LONDON, ENGLAND • PALM BEACH, FLORIDA, U.S.A.



DEPARTMENT OF THE TREASURY

U.S. CUSTOMS SERVICE

WASHINGTON, D.C.

JUL 20 1969



ENF 1 E:EO:SD:G:I JFF

Mr. James F. Dougherty, II
 Attorney at Law
 1301 Dade Boulevard
 Miami Beach, Florida 33139

Dear Mr. Dougherty:

The Commissioner has requested that I speak to you concerning the ongoing investigation of Coffee, Inc. I have been informed by my Tampa and West Palm Beach, Florida, offices that you have provided significant investigative assistance relative to the nefarious activities of Muenther Bilbeisi d.b.a. Coffee, Inc. The issues you have raised are currently under investigation by the United States Customs Service and respective United States Attorney's Office.

I would be pleased to meet with you to discuss matters of mutual concern. Please contact Ms. Lorraine A. Lasch, at (202) 566-2416 to arrange a meeting.

Sincerely,

Wm. Rosenblatt
 Wm. Rosenblatt
 Assistant Commissioner
 Office of Enforcement

301 AL
 Conf. AL
 3-4
 DC
 307



IN THE UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 90-2976-CIV-MORENO

NICHOLAS COLLWYN STURGE, an
underwriter at Lloyd's, London, on
behalf of himself and all those other
Lloyd's Underwriters subscribing to
Policy No: CM8610275,

Plaintiff,

v.

AFFIDAVIT OF STEVE CALDERON

MUNTER BILBEISI, ORION SYSTEMS,
INC., a Panamanian corporation;
COFFEE, INC., a Florida corporation;
MURA INTERNATIONAL, S.A., a
Panamanian corporation;
BANK OF CREDIT AND COMMERCE
INTERNATIONAL (OVERSEAS)
LTD., a foreign chartered corporation;
COORDINATED CARIBBEAN
TRANSPORT, INC. n/k/a CROWLEY
CARIBBEAN TRANSPORT, INC., a
Florida corporation; TWIN TERMINALS
SERVICES, INC., a Florida corporation;
KENNETH GRUSHOFF; STEVE
CALDERON; JOSEPH VILLALBA;
JOSE ANTONIO OTANO; and
ARTHUR BERMAN,

Defendants.

STATE OF FLORIDA)

) ss:

COUNTY OF DADE)

BEFORE ME, the undersigned authority, personally appeared Steve Calderon,
who after being duly sworn by me, deposes and says:



1. I have personal knowledge of facts stated in this affidavit and if sworn as a witness, could testify competently to them.

2. I began employment at Coordinated Caribbean Transport ("CCT") in 1975. Between 1983 and September 1986, I was Vice President of Operations of Coordinated Caribbean Transport, an ocean freight carrier for various commodities shipped between ports in Central America and the Southeast United States.

3. I have reviewed affidavits submitted by Munther Bilbeisi in support of Defendant's Response to Plaintiff's Motion for Summary Judgment filed 4/2/90. I have also reviewed the portions of Mr. Bilbeisi's deposition taken in this action during 5/14-17, 1990, in which he discusses the purchase and importation of coffee from Central America to the United States through his wholly-owned and controlled corporations, Coffee, Inc., Orion Systems, Inc. and Mura International, S.A.

4. I met Munther Bilbeisi in late 1982. Shortly thereafter, Mr. Bilbeisi approached me with a scheme to import non-quota coffee from Central America into the United States, at a substantial profit. The substantial profits were to be generated through some or all of the following methods, depending on the requirements of a particular shipment: (1) reselling coffee obtained at non-quota prices in the United States (a quota country); (2) avoiding currency restrictions and customs duties within Central America by misrepresenting the country of origin of the coffee; (3) reselling in the United States coffee which was limited by the law of the origin country as being solely for consumption within that origin country; and (4) avoiding ocean transit fees by under-manifesting the amount of coffee in a particular container.

5. I was impressed with Bilbeisi's wealth and apparent government connections, as well as his apparent contacts in importing commodities, particularly coffee, from Central America. Bilbeisi said that he had the contacts to obtain the coffee but needed the equipment (i.e., inland transportation, containers and ships) to move it. I agreed to participate because Munther Bilbeisi led me to believe that we did not have exposure with United States customs, because coffee was a non-dutiable item.

6. In order to implement the scheme, the cooperation of Joe Villalba and Tony Otano was required, together with at least one contact in each country of origin (i.e., El Salvador, Guatemala and Honduras). When Bilbeisi would locate either directly or indirectly through his primary coffee supplier, Fernando Montes, a supplier willing to provide him with non-quota or domestic-consumption-only coffee to be smuggled, he would tell Tony Otano or Joe Villalba to advise the contact in the origin country (i.e., Haylei Ordonez in Honduras, and Humberto Hernandez in Guatemala) to obtain the coffee from the supplier. Bilbeisi advanced the particular contact in the origin country a "commission" of \$5.00 per bag, as well as expenses to pay truckers in the origin country. Our contacts in the origin countries were then responsible for advising me or Joe Villalba or Tony Otano of the departure of a shipment.

7. The initial smuggled shipments in early 1983 involved shipments of legitimate (i.e., non-quota coffee being legitimately transshipped to a non-quota country) and contraband coffee in the same overstuffed/under-manifested containers. For example, the first consignment was shipped in containers consisting of 200 bags of "legitimate" coffee to be transhipped to the Port of Aqaba, Jordan, in addition to

200 bags of unmanifested non-quota coffee. This 400 bag container was manifested as containing only the 200 bags of the transshipped coffee. Bilbeisi decided the shipments should be sent in this manner (i.e., necessitating the payment of "full price" for shipping coffee comprising half the shipment) as a "test run", to see how closely the containers would be monitored by United States customs officials.

8. We encountered no problems with the "test run"; the containers purporting to hold the 200 bags of coffee to be transshipped, and actually containing an additional 200 bags of contraband coffee, were never inspected by United States customs officials at the Port of Miami, Florida. The contraband coffee was immediately separated from the coffee for transshipment and was trucked to a warehouse at Himalaya Coffee in Miami, Florida.

9. With the success of the initial shipments, Bilbeisi told me, Tony Otano and Joe Villalba that he no longer needed to waste money paying for freight costs for "legal" shipments to combine with and thus conceal the illicit shipments. Accordingly, from mid-1983 through the end of 1984, Joe Villalba, Tony Otano and I assisted in importing the coffee using the following three (3) methods: (1) false transshipments; (2) short-shipments and (3) the use of empty trailers.

10. In all three (3) methods, coffee brokers such as Fernando Montes advised Munther Bilbeisi where he could purchase non-quota coffee or coffee restricted by law for the internal consumption of the origin country. After Bilbeisi purchased the coffee, the CCT contact in the origin country (e.g., Heylel Ordonez or Humberto Hernandez) arranged for the inland transport to the CCT terminal at the origin port (i.e., Puerto Cortez or Santo Tomas de Castilla).

11. In the false transshipment method, the CCT contact manifested the cargo as ultimately destined for Aqaba, Jordan, which were submitted in order to conform with CCT bills of lading also showing an ultimate destination of Aqaba, Jordan for submission to Bank of Credit and Commerce International ("BCCI").

12. When the containers manifested for Aqaba, Jordan reached the United States, the "legitimate" portion of the coffee (i.e., purportedly still destined for Jordan) was separated from the illegal overstuffed portion of the shipment at the Twin Terminals warehouse in Miami, Florida. The legitimate portion of the coffee remained at Twin Terminals, and the illegal overstuffed portion was removed from the warehouse and delivered to Himalaya Coffee's warehouse in Miami, Florida.

13. Munther Bilbeisi then told us that he did not have an ultimate purchaser for the "legitimate" coffee that was to have been transshipped to Aqaba, Jordan, and asked us if there was a way that we could pretend to return the remaining "legitimate" coffee to the country of origin. Together with Munther Bilbeisi, we then devised a method whereby the portion of the coffee that was to have been transshipped to Aqaba would allegedly be returned to the country of origin. In fact, the trailers returning to the country of origin were empty, and the coffee was illegally retained in the United States, and would be diverted to one of Bilbeisi's purchasers.

14. The second method was the short-shipment method. "Short-shipment" refers to a situation where containers appear on a ship's manifest, but for a variety of reasons, these containers did not actually get shipped on that voyage, e.g. a container arrived late at the origin port, or with improper documentation. When a particular container is designated "short-shipped", as far as United States Customs

was concerned, that container was never on board the ship and remained in the country of origin.

15. In the ordinary course of business, the manifest prepared in the country of origin which accompanies a departing ship is either incomplete or over inclusive. For example, the original manifest may have included containers which arrived at the port too late to be loaded on board the ship. Accordingly, after the ship departs from the origin port, an additional manifest would be prepared in the port of origin indicating the containers on the original manifest which were not in fact on board the ship. These are the "short-shipped" items.

16. For example, if ten (10) trailers, numbered one (1) through ten (10) were slated to be shipped from Honduras to Miami, the original manifest on board the ship would indicate that trailers one through ten were on the ship. If, however, trailers nine (9) and ten (10) did not arrive at the port in time for the voyage, when the additional manifest was sent from Honduras to Miami, it would be stamped indicating that trailers nine (9) and ten (10) were short-shipped, i.e., that there were not on board the vessel, and had remained in the country of origin.

17. In addition to the other legitimate short-shipped items belonging to other consignees, the additional manifest prepared by our contact in the foreign port falsely listed our containers as "short-shipped". The additional manifest was sent by courier to Miami, prior to the ship's arrival. If not already indicated on the additional manifest sent from the country of origin, Joe Villalba marked the specific manifest page listing the containers containing our coffee as "short-shipped". When the ship arrived, the additional manifest would be presented to the Customs boarding agent as

the complete manifest. As far as Customs was concerned, our containers were "short-shipped" (i.e., not on the ship).

18. In order to prevent any potential problems with Customs, we devised a method to protect ourselves from discovery. While the ship was en route, our contact in the country of origin sent us a telex stating that the containers marked "short-shipped" had been sent in error, and that they should be returned to the country of origin. Accordingly, if Customs ever discovered that the purportedly "short-shipped" containers were actually on board, we were prepared to give them the telex and tell them that the containers were going to be returned to the country of origin.

19. The third method involved allegedly empty trailers. The manifest prepared in the port of origin listed all of the trailers that were supposedly traveling empty on a separate piece of paper. In fact, we would load these trailers with coffee, and transport them on board the ship. When the trailers arrived in the port, they would be moved to the pre-staging area, and would then be moved by truckers to our designated warehouse.

20. As in the short-shipment method, we protected ourselves by having a telex sent in advance indicating that the "empty" trailers had been shipped in error, and that they should be returned to the port of origin.

21. I am aware that during his May 14, 1990 deposition, Munther Bilbeisi testified that all of the coffee imported by Coffee, Inc. during 1983 through 1987 was quota coffee shipped to the United States, and that he used Mura International, S.A. and Orion Systems, Inc. solely to ship non-quota coffee to Aqaba, Jordan and other non-quota countries. During 1983 through mid-1985 -- the time during which I was

paid by Bilbeisi to smuggle the shipments of his coffee into the United States -- no such distinction existed. During the initial stages of my involvement with Munther Bilbeisi, a small proportion (never more than one-half, and usually much less) of any consignment consisted of legitimate shipments of non-quota coffee transshipped to a non-quota country. Only a very small portion of the coffee I handled, purchased by Bilbeisi and listed as bound for Aqaba, Jordan, or any other non-quota country, in fact reached that country. The overwhelming majority of these consignments had always been intended to, and in fact always remained in the United States. These illegal shipments were performed at Munther Bilbeisi's directions to avoid lawful detection by Customs authorities in Central America and the United States.

22. Initially, for our participation in the scheme, Joe Villalba, Tony Otano and I were paid commissions of approximately \$36.00 per bag (\$12.00 each). Some of our payments were distributed to us in the form of alleged "coffee purchases" from Coffee, Inc.'s bank accounts. During 1983 and 1984, we attended periodic meetings with Munther Bilbeisi where we discussed our commissions from the coffee smuggling operation. At these meetings we also discussed the distribution of profits from our various equipment partnerships with Munther Bilbeisi, including International Chassis Services, Consolidated Trailers and International Equipment Services.

23. Later, Bilbeisi told Tony Otano and Joe Villalba that we were all partners in the business, and that our payments would be calculated as an equal share of the profits, after expenses, to be split 25% to Munther Bilbeisi and 25% to each of us. Munther Bilbeisi later told all of us that the split was going to be 50% for him and the remaining 50% to be split among the three of us. At no time did we ever have

complete access to all of Mr. Bilbeisi's books and records or an accurate analysis of the amounts of commissions that we were being paid on an ongoing basis.

24. Munther Bilbeisi always delayed paying me my commissions for my participation in the importation of coffee. Bilbeisi often told me that the delays in obtaining payment from his United States brokers, roasters and other purchasers were responsible for his delay in paying me my commissions.

25. In mid-1984, however, Bilbeisi's "commissions" became tardier and tardier because he advised us that he wanted to utilize our funds to equally share the financial risk in case a coffee shipment was confiscated. Bilbeisi continued to use the substantial commissions still owed to all three of us as leverage to force our continued participation in the smuggling operation. After the summer of 1984, we participated in the first of a series of meetings with Bilbeisi in an attempt to disengage our financial interests so as to withdraw from the smuggling scheme. At that meeting, we demanded our overdue commissions and Bilbeisi demanded that we assume his bank debt with respect to the equipment partnerships.

26. The negotiations culminated in a final settlement meeting on December 3, 1984 with Bilbeisi, his attorney Jay Green, our attorney Glen Goldberg and Nadim Hassan of BCCI. Bilbeisi insisted that we buy out his interests in the equipment partnerships in the approximate amount of \$700,000.00. Nadim Hassan structured three (3) equivalent loans to us of approximately \$234,000.00 to assume Bilbeisi's share of the equipment partnerships and explained that the bank examiners would never know the true collateral. Hassan structured the transaction to appear as if BCCI's security consisted of UCC-1 financing statements on all of the equipment,

notes and personal guarantees, when in fact it consisted of funds frozen in three (3) foreign bank accounts set up for us at BCCI-London, England, which accounts contained our proceeds from the settlement.

27. During mid-1984, Nadim Hassan set up the BCCI-London accounts for each of us in the name of three (3) foreign corporations, Labaro, S.A., Chevers, S.A. and Franjull, S.A. Bilbeisi preferred this arrangement because it permitted Bilbeisi to characterize our overdue "commission" payments as "coffee purchases" to three (3) foreign corporations sounding like Central American coffee suppliers. Our attorney advised us that this arrangement was legitimate since it would permit us to pay United States taxes on the distributions on a delayed basis; i.e., not until we repatriated the funds into the United States.

28. The December "settlement" failed to resolve approximately \$375,000.00 in "commissions" still owed to us by Bilbeisi. On several occasions during early 1985 we contacted Bilbeisi, both individually and as a group, to make repeated demands for the commissions owed us. In mid-1986, when I met with Bilbeisi to attempt to resolve the matter, Bilbeisi showed me a copy of a statement from Tony Otano's foreign bank account with BCCI, making it clear that he had information and access to any of our accounts with BCCI. As a result, Joe Villalba, Tony Otano and I mutually agreed to let the matter drop.

29. I have reviewed the depositions of Anthony Jay Aramburo, Heylal Ordenez and Fernando Montes in which the above-described coffee smuggling scheme is attested to in detail. Insofar as the general description of the mechanics of the scheme (i.e., Bilbeisi purchasing non-quota coffee from suppliers in Central America

and paying "commissions" to various CCT personnel to ship the coffee in containers falsely labeled as empty, short-shipped or for transshipment to a non-quota country), I affirm their testimony as consistent with both my recollection of the events I experienced and my knowledge of Munther Bilbeisi's method of operation.

30. At no time did I personally sell coffee to Munther Bilbeisi or to any of his corporations or representatives. To my knowledge, neither did Tony Otano or Joe Villalba during the years that I have known and conducted business with each of them. During the years that I participated in the smuggling of coffee with Munther Bilbeisi, to the best of my recollection, all of the coffee purchased by Munther Bilbeisi during those years was purchased FOB country of origin, directly from suppliers in Costa Rica, El Salvador, Guatemala or Honduras. With possibly one or two exceptions, at no time, to my knowledge, did Bilbeisi ever buy coffee "spot-Miami".

31. Bilbeisi's payments to me either directly or through his corporations consisted entirely of "commissions" for my handling of the coffee he purchased in Central America in the above-described manner. I am aware that most of these payments were characterized by Bilbeisi as "coffee purchases". These "commission" payments were in excess of \$500,000.00 and none of these payments were in return for the purchase of coffee.

32. On or about January 1991, I was advised by Frank Aravelo of Twin Terminals warehouse of Bilbeisi's proposed schema to blow up the warehouse in order to file a fraudulent insurance claim as to his coffee in the warehouse. Aravelo told me he refused to go along with the plan because, among other reasons, it encompassed the destruction of everything in the warehouse, not just Bilbeisi's coffee.

33. Shortly after receiving the deposition subpoena, Tony Otano, Joe Villalba and I met and decided to contact Bilbeisi to determine why we were involved in a claim concerning a 1986 coffee shipment, occurring long after we had parted ways with Bilbeisi.

34. Shortly after we were first served with the subpoenae in this case, we contacted Bilbeisi in Europe by conference call. Bilbeisi advised us that he had several insurance claims pending against Lloyd's of London, involving coffee switched in Central America by Tony Aramburo and Louis Altamar, and that Louis Altamar had also stolen personal effects from his home. Bilbeisi advised us that we had no problems, that everything was going his way, and that a settlement of the case was imminent. Munther Bilbeisi then advised us to call his attorney in Michigan, Richard Postma, who would tell us what to do. We advised Munther that we did not want to have to pay attorneys' fees for this matter, and asked him for reimbursement. Bilbeisi agreed to reimburse us and told us to call him back with the amounts of the legal fees.

35. I was present during at least one (1) conference call with Richard Postma and David Gass, along with Tony Otano and Joe Villalba, where we asked them if we could talk "off the record" and we repeatedly and emphatically advised them, in no uncertain terms, that they did not want us to testify in this case, and that if we were forced to testify, our testimony would be fatal to Mr. Bilbeisi's claims. We advised them to question their client regarding his background, and to discuss other insurance claims that Bilbeisi had filed in the past.

36. After Tony Aramburo's deposition in November 1989, Tony Otano received a facsimile from Munther Bilbeisi from Amman, Jordan, consisting of two (2) versions of a possible Bilbeisi response to Aramburo's testimony, and inquiring as to which version he should use. Both of the versions, which are equally false, described scenarios in which we allegedly purchased coffee in Central America and resold it to Bilbeisi "spot-Miami".

37. Immediately thereafter, we contacted Bilbeisi in Jordan to express our unwillingness to cooperate with this proposed fraud. Bilbeisi threatened us by stating that "if I get hurt, you'll get hurt", since Tony Aramburo's testimony would incriminate all of us. Bilbeisi again stated that if we corroborated his story, the result would be Aramburo's word against everyone else's.

38. After Aramburo's deposition, we again had contact with Bilbeisi's attorneys, Richard Postma and David Gass. Mr. Postma and Mr. Gass repeatedly questioned us as to whether or not Mr. Aramburo's testimony (i.e., describing Bilbeisi's coffee smuggling operation) was correct. We clearly and strongly stated to Mr. Postma and Mr. Gass that if we were forced to testify, that we would be required to either confirm or corroborate the majority of Mr. Aramburo's testimony.

39. I am personally aware that Tony Otano accompanied retired general James T. Vaught to Guatemala in an effort to interest the Guatemalan government in, among other things, "civilian" planes from Canada which could be retrofitted for military purposes upon arrival in Guatemala.

40. I have reviewed the affidavits of Joseph Villalbe and Jose Antonio Otano in which many of the above-described events are attested to. I affirm their statements are true and correct representations of those events to the best of my knowledge.

FURTHER AFFIANT SAYETH NAUGHT.

Steve Calderon
STEVE CALDERON

SWORN TO and subscribed before me this 28 day of February, 1991.

Charles E. Pugh II
NOTARY PUBLIC
State of Florida at Large

My Commission Expires: _____

NOTARY PUBLIC STATE OF FLORIDA
MY COMMISSION EXPIRES 02/28/1991
NOTED BY GENERAL REG. DIV.

IN THE UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 90-2976-CIV-MORENO

NICHOLAS COLLWYN STURGE, an
underwriter at Lloyd's, London, on
behalf of himself and all those other
Lloyd's Underwriters subscribing to
Policy No: CM8610275,

Plaintiff,

v.

AFFIDAVIT OF JOSEPH VILLALBA

MUNTER BILBEISI, ORION SYSTEMS,
INC., a Panamanian corporation;
COFFEE, INC., a Florida corporation;
MURA INTERNATIONAL, S.A., a
Panamanian corporation;
BANK OF CREDIT AND COMMERCE
INTERNATIONAL (OVERSEAS)
LTD., a foreign chartered corporation;
COORDINATED CARIBBEAN
TRANSPORT, INC. n/k/a CROWLEY
CARIBBEAN TRANSPORT, INC., a
Florida corporation; TWIN TERMINALS
SERVICES, INC., a Florida corporation;
KENNETH GRUSHOFF; STEVE
CALDERON; JOSEPH VILLALBA;
JOSE ANTONIO OTANO; and
ARTHUR BERMAN,

Defendants.

STATE OF FLORIDA)

COUNTY OF DADE)

) ss:

BEFORE ME, the undersigned authority, personally appeared Joseph Villalba,
who after being duly sworn by me, deposes and says:

1. I have personal knowledge of facts stated in this affidavit and if sworn as a witness, could testify competently to them.

2. I began employment at Coordinated Caribbean Transport ("CCT") in 1978. Between 1980 until October 1983, I was the In-bound Traffic Manager of Coordinated Caribbean Transport, an ocean freight carrier for various commodities shipped between ports in Central America and the Southeast United States. From the time I left CCT up through and including the middle of 1985, I worked for Coffee, Inc. and its president, Munther Bilbeisi.

3. I have reviewed affidavits submitted by Munther Bilbeisi in support of Defendant's Response to Plaintiff's Motion for Summary Judgment filed 4/2/90. I have also reviewed the portions of Mr. Bilbeisi's deposition taken in this action during 5/14-17, 1990, in which he discusses the purchase and importation of coffee from Central America to the United States through his wholly-owned and controlled corporations, Coffee, Inc., Orion Systems, Inc. and Mura International, S.A.

4. I met Munther Bilbeisi in late 1982 or early 1983. Shortly thereafter, Mr. Bilbeisi approached me with a scheme to import non-quota coffee from Central America into the United States, at a substantial profit. The substantial profits were to be generated through some or all of the following methods, depending on the requirements of a particular shipment: (1) reselling coffee obtained at non-quota prices in the United States (a quota country); (2) avoiding currency restrictions and customs duties within Central America by misrepresenting the country of origin of the coffee; (3) reselling in the United States coffee which was limited by the law of the origin country

as being solely for consumption within that origin country; and (4) avoiding ocean transit fees by under-manifesting the amount of coffee in a particular container.

5. I was impressed with Bilbeisi's wealth and apparent government connections, as well as his apparent contacts in importing commodities, particularly coffee, from Central America. Bilbeisi said that he had the contacts to obtain the coffee but needed the equipment (i.e., inland transportation, containers and ships) to move it. I agreed to participate because Munther Bilbeisi led me to believe that we did not have exposure with United States customs, because coffee was a non-dutiable item.

6. In order to implement the scheme, the cooperation of Tony Otano and Steve Calderon was required, together with at least one contact in each country of origin (i.e., El Salvador, Guatemala and Honduras). When Bilbeisi would locate either directly or indirectly through his primary coffee supplier, Fernando Montes, a supplier willing to provide him with non-quota or domestic-consumption-only coffee to be smuggled, he would tell Tony Otano or me to advise the contact in the origin country (i.e., Heytel Ordonez in Honduras, and Humberto Hernandez in Guatemala) to obtain the coffee from the supplier. Bilbeisi advanced the particular contact in the origin country a "commission" of \$5.00 per bag, as well as expenses to pay truckers and bribe trucking check point officials, port officials and customs officials in the origin country. Our contacts in the origin countries were then responsible for advising me or Tony Otano or Steve Calderon of the departure of a shipment.

7. The initial smuggled shipments in early 1983 involved shipments of legitimate (i.e., non-quota coffee being legitimately transhipped to a non-quota

country) and contraband coffee in the same overstuffed/under-manifested containers. For example, the first consignment was shipped in containers consisting of 200 bags of "legitimate" coffee to be transhipped to the Port of Aqaba, Jordan, in addition to 200 bags of unmanifested non-quota coffee. This 400 bag container was manifested as containing only the 200 bags of the transhipped coffee. Bilbeisi decided the shipments should be sent in this manner (i.e., necessitating the payment of "full price" for shipping coffee comprising half the shipment) as a "test run", to see how closely the containers would be monitored by United States customs officials.

8. We encountered no problems with the "test run"; the containers purporting to hold the 200 bags of coffee to be transhipped, and actually containing an additional 200 bags of contraband coffee, were never inspected by United States customs officials at the Port of Miami, Florida. The contraband coffee was immediately separated from the coffee for transshipment and was trucked to a warehouse at Himalaya Coffee in Miami, Florida.

9. With the success of the initial shipments, Bilbeisi told me, Steve Calderon and Tony Otano that he no longer needed to waste money paying the shipping costs for "legal" shipments to combine with and thus conceal the illicit shipments. Accordingly, from mid-1983 through the end of 1984, Tony Otano, Steve Calderon and I assisted in importing the coffee using the following three (3) methods: (1) false transshipments; (2) short-shipments and (3) the use of empty trailers.

10. In all three (3) methods, coffee brokers such as Fernando Montes advised Munther Bilbeisi where he could purchase non-quota coffee or coffee restricted by law for the internal consumption of the origin country. After Bilbeisi purchased the coffee,

the CCT contact in the origin country (e.g., Heylei Ordonez or Humberto Hernandez) arranged for the inland transport to the CCT terminal at the origin port (i.e., Puerto Cortez or Santo Tomas de Castilla).

11. In the false transshipment method, the CCT contact manifested the cargo as ultimately destined for Aqaba, Jordan, in order to conform with CCT bills of lading also showing an ultimate destination of Aqaba, Jordan which were submitted to Bank of Credit and Commerce International ("BCCI"). BCCI funded the letters of credit which were payable to the original seller, such as Compania de Cafe Creole S.A. de C.V., and listed one of Bilbeisi's companies (i.e., Orion Systems, Inc., Coffee, Inc. or Mura International, S.A.) as the consignee.

12. When the containers manifested for Aqaba, Jordan reached the United States, the "legitimate" portion of the coffee (i.e., purportedly still destined for Jordan) was separated from the illegal overstuffed portion of the shipment at the Twin Terminals warehouse in Miami, Florida. The legitimate portion of the coffee remained at Twin Terminals, and the illegal overstuffed portion was removed from the warehouse and delivered to Himalaya Coffee's warehouse in Miami, Florida.

13. Munther Bilbeisi then told us that he did not have an ultimate purchaser for the "legitimate" coffee that was to have been transshipped to Aqaba, Jordan, and asked us if there was a way that we could pretend to return the remaining "legitimate" coffee to the country of origin. Together with Munther Bilbeisi, we then devised a method whereby the portion of the coffee that was to have been transshipped to Aqaba would allegedly be returned to the country of origin. In fact, the trailers

returning to the country of origin were empty, and the coffee was illegally retained in the United States, and would be diverted to one of Bilbeisi's purchasers.

14. The second method was the short-shipment method. "Short-shipment" refers to a situation where containers appear on a ship's manifest, but for a variety of reasons, these containers did not actually get shipped on that voyage; e.g. a container arrived late at the origin port, or with improper documentation. When a particular container is designated "short-shipped", as far as United States Customs was concerned, that container was never on board the ship and remained in the country of origin.

15. In the ordinary course of business, the manifest prepared in the country of origin which accompanies a departing ship is either incomplete or over inclusive. For example, the original manifest may have included containers which arrived at the port too late to be loaded on board the ship. Accordingly, after the ship departs from the origin port, an additional manifest would be prepared in the port of origin indicating the containers on the original manifest which were not in fact on board the ship. These are the "short-shipped" items.

16. For example, if ten (10) trailers, numbered one (1) through ten (10) were slated to be shipped from Honduras to Miami, the original manifest on board the ship would indicate that trailers one through ten were on the ship. If, however, trailers nine (9) and ten (10) did not arrive at the port in time for the voyage, when the additional manifest was sent from Honduras to Miami, it would be stamped indicating that trailers nine (9) and ten (10) were short-shipped, i.e., that there were not on board the vessel, and had remained in the country of origin.

17. In addition to the other legitimate short-shipped items belonging to other consignees, the additional manifest prepared by our contact in the foreign port falsely listed our containers as "short-shipped". The additional manifest was sent by courier to Miami, prior to the ship's arrival. If not already indicated on the additional manifest sent from the country of origin, I marked the specific manifest page listing the containers containing Bilbeis's coffee as "short-shipped". When the ship arrived, the additional manifest would be presented to the Customs boarding agent as the complete manifest. As far as Customs was concerned, our containers were "short-shipped" (i.e., not on the ship).

18. In order to prevent any potential problems with Customs, we devised a method to protect ourselves from discovery. While the ship was en route, our contact in the country of origin sent us a telex stating that the containers marked "short-shipped" had been "sent in error" and should be returned to the country of origin. Accordingly, if Customs ever discovered that the purportedly "short-shipped" containers were actually on board, we were prepared to give them the telex and tell them that the containers were going to be returned to the country of origin.

19. The third method involved allegedly empty trailers. The manifest prepared in the port of origin listed all of the trailers that were supposedly traveling empty on a separate piece of paper. In fact, we would load these trailers with coffee, and transport them on board the ship. When the trailers arrived in the port, they would be moved to the pre-staging area, and would then be moved by truckers to our designated warehouse.

20. As in the short-shipment method, we protected ourselves by having a telex sent in advance indicating that the "empty" trailers had been shipped in error, and that they should be returned to the port of origin.

21. I am aware that during his May 14, 1990 deposition, Munther Bilbeisi testified that all of the coffee imported by Coffee, Inc. during 1983 through 1987 was quota coffee shipped to the United States, and that he used Mura International, S.A. and Orion Systems, Inc. solely to ship non-quota coffee to Aqaba, Jordan and other non-quota countries. During 1983 through mid-1985 -- the time during which I was paid by Bilbeisi to smuggle the shipments of his coffee into the United States -- no such distinction existed. During the initial stages of my involvement with Munther Bilbeisi, a small proportion (never more than one-half, and usually much less) of any consignment consisted of legitimate shipments of non-quota coffee transhipped to a non-quota country. Only a very small portion of the coffee I handled, purchased by Bilbeisi and listed as bound for Aqaba, Jordan, or any other non-quota country, in fact reached that country. The overwhelming majority of these consignments had always been intended to, and in fact always remained in the United States. These illegal shipments were performed at Munther Bilbeisi's directions to avoid lawful detection by Customs authorities in Central America and the United States.

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with Munther Bilbeisi where we discussed our commissions from the coffee smuggling operation.

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26. The negotiations culminated in a final settlement meeting on December 3, 1984 with Bilbeisi, his attorney Jay Green, our attorney Glen Goldberg and Nadim Hassan of BCCI. Bilbeisi insisted that we buy out his interests in the equipment partnerships in the approximate amount of \$700,000.00. Nadim Hassan structured three (3) equivalent loans to us of approximately \$234,000.00 to assume Bilbeisi's share of the equipment partnerships and explained that the bank examiners would never know the true collateral. Hassan structured the transaction to appear as if BCCI's security consisted of UCC-1 financing statements on all of the equipment, notes and personal guarantees, when in fact it consisted of funds frozen in three (3) foreign bank accounts set up for us at BCCI-London, England, which accounts contained our proceeds from the settlement.

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attempt to resolve the matter, Bilbeisi showed him a copy of a statement from Tony Otano's foreign bank account with BCCI, making it clear that he had information and access to any of our accounts with BCCI. As a result, Tony Otano, Steve Calderon and I mutually agreed to let the matter drop.

29. I have reviewed the depositions of Anthony Jay Aramburo, Hayiel Ordonez and Fernando Montes in which the above-described coffee smuggling scheme is attested to in detail. Insofar as the general description of the mechanics of the scheme (i.e., Bilbeisi purchasing non-quota coffee from suppliers in Central America and paying "commissions" to various CCT personnel to ship the coffee in containers falsely labeled as empty, short-shipped or for transshipment to a non-quota country), I affirm their testimony as consistent with both my recollection of the events I experienced and my knowledge of Munther Bilbeisi's method of operation.

30. At no time did I personally sell coffee to Munther Bilbeisi or to any of his corporations or representatives. To my knowledge, neither did Steve Calderon or Tony Otano during the years that I have known and conducted business with each of them. During the years that I participated in the smuggling of coffee with Munther Bilbeisi, to the best of my recollection, all of the coffee purchased by Munther Bilbeisi during those years was purchased FOB country of origin, directly from suppliers in Costa Rica, El Salvador, Guatemala or Honduras. With possibly one or two exceptions, at no time, to my knowledge, did Bilbeisi ever buy coffee "spot-Miami".

31. Bilbeisi's payments to me either directly or through his corporations consisted entirely of "commissions" for my handling of the coffee he purchased in Central America in the above-described manner. I am aware that most of these

payments were characterized by Bilbeisi as "coffee purchases", to permit Bilbeisi to expense them as business deductions on his corporate tax returns. These "commission" payments were in excess of \$500,000.00 and none of these payments were in return for the purchase of coffee.

32. During 1983 and 1984, Munther Bilbeisi discussed various potential insurance fraud schemes with me individually or together with Tony Otano. One proposed scheme was to charter a barge, load it with 30-40 empty containers manifested as containing coffee, have it blown up and to file an insurance claim for the non-existent coffee. In addition, he proposed a scheme to have several containers laden with inferior quality coffee driven off a cliff, and to file an insurance claim for the value of superior quality coffee purportedly in the containers. Bilbeisi told me he considered false insurance claims to be an easy and safe way to make a lot of money.

33. When we refused to participate in his proposed insurance frauds, Bilbeisi pointed out that insurance fraud was "easy to do" because "he got away with it" several years ago. Bilbeisi told me individually, and in the presence Tony Otano, that he had pallets of bricks imported from South Africa to California deliberately broken in order to file a fraudulent insurance claim. Bilbeisi stated that "Lloyd's" paid him "lots of money" after filing the claim, without much complication or inquiry.

34. Shortly after receiving the deposition subpoena, Steve Calderon, Tony Otano and I met and decided to contact Bilbeisi to determine why we were involved in a claim concerning a 1986 coffee shipment, occurring long after we had parted ways with Bilbeisi.

35. Shortly after we were first served with the subpoenae in this case, we contacted Bilbeisi in Europe by conference call. Bilbeisi advised us that he had several insurance claims pending against Lloyd's of London, involving coffee switched in Central America by Tony Aramburo and Louis Alterner, and that Louis Alterner had also stolen personal effects from his home. Bilbeisi advised us that we had no problems, that everything was going his way, and that a settlement of the case was imminent. Munther Bilbeisi then advised us to call his attorney in Michigan, Richard Postma, who would tell us what to do. We advised Munther that we did not want to have to pay attorneys' fees for this matter, and asked him for reimbursement. Bilbeisi agreed to reimburse us and told us to call him back with the amounts of the legal fees.

36. During the next several months, there were numerous telephone calls between us and Munther Bilbeisi in which Bilbeisi continued to insist that Aramburo was lying, that Bilbeisi would prevail in the case and that Lloyd's was going to settle the claim.

37. During the same period of time, we had numerous conversations with Bilbeisi's attorneys in Michigan, Richard Postma and David Gass. Mr. Postma told us that "Lloyd's" attorneys were making a desperate move to "get Bilbeisi indirectly" by turning witnesses over to the Internal Revenue Service for investigation. Mr. Postma and Mr. Gass repeatedly questioned us concerning our knowledge of the subject claim, and of other background facts concerning Munther Bilbeisi. We repeatedly and emphatically advised them, in no uncertain terms, that they did not want us to testify in this case, and that if we were forced to testify, our testimony would be fatal to Mr.

Bilbeisi's claims. We advised them to question their client regarding his background, and to discuss other insurance claims that Bilbeisi had filed in the past.

38. After Tony Aramburo's deposition in November 1989, Tony Otano received a facsimile from Munther Bilbeisi from Amman, Jordan, consisting of two (2) versions of a possible Bilbeisi response to Aramburo's testimony, and inquiring as to which version he should use. Both of the versions, which are equally false, described scenarios in which we allegedly purchased coffee in Central America and resold it to Bilbeisi "spot-Miami".

39. Immediately thereafter, we contacted Bilbeisi in Jordan to express our unwillingness to cooperate with this proposed fraud. Bilbeisi threatened us by stating that "If I get hurt, you'll get hurt", since Tony Aramburo's testimony would incriminate all of us. Bilbeisi again stated that if we corroborated his story, the result would be Aramburo's word against everyone else's.

40. After Aramburo's deposition, we again had contact with Bilbeisi's attorneys, Richard Postma and David Gass. Mr. Postma and Mr. Gass repeatedly questioned us as to whether or not Mr. Aramburo's testimony (i.e., describing Bilbeisi's coffee smuggling operation) was correct. We clearly and strongly stated to Mr. Postma and Mr. Gass that if we were forced to testify, that we would be required to either confirm or corroborate the majority of Mr. Aramburo's testimony.

41. On numerous occasions, Bilbeisi boasted of his longstanding continuous and ongoing activities in the sale or brokerage of military hardware and weaponry. Mr. Bilbeisi stated to me on several occasions that he had sold tanks and military hardware to South Africa and another unnamed African country. I am also personally aware that


Tony Otano accompanied retired general James T. Vaught to Guatemala in an effort to interest the Guatemalan government in, among other things, "civilian" planes from Canada which could be retrofitted for military purposes upon arrival in Guatemala.

42. I have reviewed the affidavits of Steve Calderon and Jose Antonio Otano in which many of the above-described events are attested to. I affirm their statements are true and correct representations of those events to the best of my knowledge.

FURTHER AFFIANT SAYETH NAUGHT.


JOSEPH VILLALBA

SWORN TO and subscribed before me this 21st day of Feb., 1991.


NOTARY PUBLIC
State of Florida at Large

My Commission Expires:
NOTARY PUBLIC STATE OF FLORIDA
COMMISSION EXPIRES 04/01/1992
NOTARY PUBLIC STATE OF FLORIDA

IN THE UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 90-2976-CIV-MORENO

NICHOLAS COLLWYN STURGE, an
underwriter at Lloyd's, London, on
behalf of himself and all those other
Lloyd's Underwriters subscribing to
Policy No: CM8610275,

Plaintiff,

v.

MUNTER BILBEISI, ORION SYSTEMS,
INC., a Panamanian corporation;
COFFEE, INC., a Florida corporation;
MURA INTERNATIONAL, S.A., a
Panamanian corporation;
BANK OF CREDIT AND COMMERCE
INTERNATIONAL (OVERSEAS)
LTD., a foreign chartered corporation;
COORDINATED CARIBBEAN
TRANSPORT, INC. n/k/a CROWLEY
CARIBBEAN TRANSPORT, INC., a
Florida corporation; TWIN TERMINALS
SERVICES, INC., a Florida corporation;
KENNETH GRUSHOFF; STEVE
CALDERON; JOSEPH VILLALBA;
JOSE ANTONIO OTANO; and
ARTHUR BERMAN,

Defendants.

AFFIDAVIT OF JOSE ANTONIO OTANO

STATE OF FLORIDA)
) ss:
COUNTY OF DADE)

BEFORE ME, the undersigned authority, personally appeared Jose Antonio
Otano, who after being duly sworn by me, deposes and says:

1. I have personal knowledge of facts stated in this affidavit and if sworn as
a witness, could testify competently to them.

2. I began employment at Coordinated Caribbean Transport ("CCT") in 1979. Between 1982 and September 1983, I was Zone Coordinator and then became Director of Operations of Coordinated Caribbean Transport, an ocean freight carrier for various commodities shipped between ports in Central America and the Southeast United States.

3. I have reviewed affidavits submitted by Munther Bilbeisi in support of Defendant's Response to Plaintiff's Motion for Summary Judgment filed 4/2/90. I have also reviewed the portions of Mr. Bilbeisi's deposition taken in this action during 5/14-17, 1990, in which he discusses the purchase and importation of coffee from Central America to the United States through his wholly-owned and controlled corporations, Coffee, Inc., Orion Systems, Inc. and Mura International, S.A.

4. I met Munther Bilbeisi in late 1982. Shortly thereafter, Mr. Bilbeisi approached me with a scheme to import non-quota coffee from Central America into the United States, at a substantial profit. The substantial profits were to be generated through some or all of the following methods, depending on the requirements of a particular shipment: (1) reselling coffee obtained at non-quota prices in the United States (a quota country); (2) avoiding currency restrictions and customs duties within Central America by misrepresenting the country of origin of the coffee; (3) reselling in the United States coffee which was limited by the law of the origin country as being solely for consumption within that origin country; and (4) avoiding ocean transit fees by under-manifesting the amount of coffee in a particular container.

5. I was impressed with Bilbeisi's wealth and apparent government connections, as well as his apparent contacts in importing commodities, particularly coffee,

from Central America. Bilbeisi said that he had the contacts to obtain the coffee but needed the equipment (i.e., inland transportation, containers and ships) to move it. I agreed to participate because Munther Bilbeisi led me to believe that we did not have exposure with United States customs, because coffee was a non-dutiable item.

6. In order to implement the scheme, the cooperation of Joe Villalba and Steve Calderon was required, together with at least one contact in each country of origin (i.e., El Salvador, Guatemala and Honduras). When Bilbeisi would locate either directly or indirectly through his primary coffee supplier, Fernando Montes, a supplier willing to provide him with non-quota or domestic-consumption-only coffee to be smuggled, he would tell Joe Villalba or me to advise the contact in the origin country (i.e., Heylel Ordonez in Honduras, and Humberto Hernandez in Guatemala) to obtain the coffee from the supplier. Bilbeisi advanced the particular contact in the origin country a "commission" of \$5.00 per bag, as well as expenses to pay truckers and bribe trucking check point officials, port officials and customs officials in the origin country. Our contacts in the origin countries were then responsible for advising me or Joe Villalba or Steve Calderon of the departure of a shipment.

7. The initial smuggled shipments in early 1983 involved shipments of legitimate (i.e., non-quota coffee being legitimately transshipped to a non-quota country) and contraband coffee in the same overstuffed/under-manifested containers. For example, the first consignment was shipped in containers consisting of 200 bags of "legitimate" coffee to be transshipped to the Port of Aqaba, Jordan, in addition to 200 bags of unmanifested non-quota coffee. This 400 bag container was manifested

as containing only the 200 bags of the transshipped coffee. Bilbeisi decided the shipments should be sent in this manner (i.e., necessitating the payment of "full price" for shipping coffee comprising half the shipment) as a "test run", to see how closely the containers would be monitored by United States customs officials.

8. We encountered no problems with the "test run"; the containers purporting to hold the 200 bags of coffee to be transshipped, and actually containing an additional 200 bags of contraband coffee, were never inspected by United States customs officials at the Port of Miami, Florida. The contraband coffee was immediately separated from the coffee for transshipment and was trucked to a warehouse at Himalaya Coffee in Miami, Florida.

9. With the success of the initial shipments, Bilbeisi told me, Steve Calderon and Joe Villalba that he no longer needed to waste money paying the shipping costs for "legal" shipments to combine with and thus conceal the illicit shipments. Accordingly, from mid-1983 through the end of 1984, Joe Villalba, Steve Calderon and I assisted in importing the coffee using the following three (3) methods: (1) false transshipments; (2) short-shipments and (3) the use of empty trailers.

10. In all three (3) methods, coffee brokers such as Fernando Montes advised Munther Bilbeisi where he could purchase non-quota coffee or coffee restricted by law for the internal consumption of the origin country. After Bilbeisi purchased the coffee, the CCT contact in the origin country (e.g., Heyl Ordóñez or Humberto Hernández) arranged for the inland transport to the CCT terminal at the origin port (i.e., Puerto Cortez or Santo Tomás de Castilla).

11. In the false transshipment method, the CCT contact manifested the cargo as ultimately destined for Aqaba, Jordan, in order to conform with CCT bills of lading also showing an ultimate destination of Aqaba, Jordan which were submitted to Bank of Credit and Commerce International ("BCCI").

12. When the containers manifested for Aqaba, Jordan reached the United States, the "legitimate" portion of the coffee (i.e., purportedly still destined for Jordan) was separated from the illegal overstuffed portion of the shipment at the Twin Terminals warehouse in Miami, Florida. The legitimate portion of the coffee remained at Twin Terminals, and the illegal overstuffed portion was removed from the warehouse and delivered to Himalaya Coffee's warehouse in Miami, Florida.

13. Munther Bilbeisi then told us that he did not have an ultimate purchaser for the "legitimate" coffee in Aqaba, Jordan, and asked us if there was a way that we could pretend to return the remaining "legitimate" coffee to the country of origin. Together with Munther Bilbeisi, we then devised a method whereby the portion of the coffee that was to have been transhipped to Aqaba would allegedly be returned to the country of origin. In fact, the trailers returning to the country of origin were empty, and the coffee was illegally retained in the United States, and would be diverted to one of Bilbeisi's purchasers.

14. The second method was the short-shipment method. "Short-shipment" refers to a situation where containers appear on a ship's manifest, but for a variety of reasons, these containers did not actually get shipped on that voyage, e.g. a container arrived late at the origin port, or with improper documentation. When a particular container is designated "short-shipped", as far as United States Customs

was concerned, that container was never on board the ship and remained in the country of origin.

15. In the ordinary course of business, the manifest prepared in the country of origin which accompanies a departing ship is either incomplete or over inclusive. For example, the original manifest may have included containers which arrived at the port too late to be loaded on board the ship. Accordingly, after the ship departs from the origin port, an additional manifest would be prepared in the port of origin indicating the containers on the original manifest which were not in fact on board the ship. These are the "short-shipped" items.

16. For example, if ten (10) trailers, numbered one (1) through ten (10) were slated to be shipped from Honduras to Miami, the original manifest on board the ship would indicate that trailers one through ten were on the ship. If, however, trailers nine (9) and ten (10) did not arrive at the port in time for the voyage, when the additional manifest was sent from Honduras to Miami, it would be stamped indicating that trailers nine (9) and ten (10) were short-shipped, i.e., that there were not on board the vessel, and had remained in the country of origin.

17. In addition to the other legitimate short-shipped items belonging to other consignees, the additional manifest prepared by our contact in the foreign port falsely listed our containers as "short-shipped". The additional manifest was sent by courier to Miami, prior to the ship's arrival. If not already indicated on the additional manifest sent from the country of origin, Joe Villalba marked the specific manifest page listing the containers containing our coffee as "short-shipped". When the ship arrived, the additional manifest would be presented to the Customs boarding agent as

the complete manifest. As far as Customs was concerned, our containers were "short-shipped" (i.e., not on the ship).

18. In order to prevent any potential problems with Customs, we devised a method to protect ourselves from discovery. While the ship was en route, our contact in the country of origin sent us a telex stating that the containers marked "short-shipped" had been sent in error, and that they should be returned to the country of origin. Accordingly, if Customs ever discovered that the purportedly "short-shipped" containers were actually on board, we were prepared to give them the telex and tell them that the containers were going to be returned to the country of origin.

19. The third method involved allegedly empty trailers. The manifest prepared in the port of origin listed all of the trailers that were supposedly traveling empty on a separate piece of paper. In fact, we would load these trailers with coffee, and transport them on board the ship. When the trailers arrived in the port, they would be moved to the pre-staging area, and would then be moved by truckers to our designated warehouse.

20. As in the short-shipment method, we protected ourselves by having a telex sent in advance indicating that the "empty" trailers had been shipped in error, and that they should be returned to the port of origin.

21. I am aware that during his May 14, 1990 deposition, Munther Bilbeisi testified that all of the coffee imported by Coffee, Inc. during 1983 through 1987 was quota coffee shipped to the United States, and that he used Mura International, S.A. and Orion Systems, Inc. solely to ship non-quota coffee to Aqaba, Jordan and other non-quota countries. During 1983 through mid-1985 -- the time during which I was

paid by Bilbeisi to smuggle the shipments of his coffee into the United States -- no such distinction existed. During the initial stages of my involvement with Munther Bilbeisi, a small proportion (never more than one-half, and usually much less) of any consignment consisted of legitimate shipments of non-quota coffee transhipped to a non-quota country. Only a very small portion of the coffee I handled, purchased by Bilbeisi and listed as bound for Aqaba, Jordan, or any other non-quota country, in fact reached that country. The overwhelming majority of these consignments had always been intended to, and in fact always remained in the United States. These illegal shipments were performed at Munther Bilbeisi's directions to avoid lawful detection by Customs authorities in Central America and the United States.

22. Initially, for our participation in the scheme, Joe Villalba, Steve Calderon and I were paid commissions of approximately \$36.00 per bag (\$12.00 each). Some of our payments were distributed to us in the form of alleged "coffee purchases" from Coffee, Inc.'s bank accounts. During 1983 and 1984, we attended periodic meetings with Munther Bilbeisi where we discussed our commissions from the coffee smuggling operation. At these meetings we also discussed the distribution of profits from our various equipment partnerships with Munther Bilbeisi, including International Chassis Services, Consolidated Trailers and International Equipment Services.

23. Later, Bilbeisi told Joe Villalba and me that we were all partners in the business, and that our payments would be calculated as an equal share of the profits, after expenses, to be split 25% to Munther Bilbeisi and 25% to each of us. Munther Bilbeisi later told us that the split was going to be 50% for him and the remaining 50% to be split among the three of us. At no time did we ever have

complete access to all of Mr. Bilbeisi's books and records or an accurate analysis of the amounts of commissions that we were being paid on an ongoing basis.

24. Munther Bilbeisi always delayed paying me my commissions for my participation in the importation of coffee. Bilbeisi often told me that the delays in obtaining payment from his United States brokers, roasters and other purchasers were responsible for his delay in paying me my commissions.

25. In mid-1984, however, Bilbeisi's "commissions" became tardier and tardier because he advised us that he wanted to utilize our funds to equally share the financial risk in case a coffee shipment was confiscated. Bilbeisi continued to use the substantial commissions still owed to all three of us as leverage to force our continued participation in the smuggling operation. After the summer of 1984, we participated in the first of a series of meetings with Bilbeisi in an attempt to disengage our financial interests so as to withdraw from the smuggling scheme. At that meeting, we demanded our overdue commissions and Bilbeisi demanded that we assume his bank debt with respect to the equipment partnerships.

26. The negotiations culminated in a final settlement meeting on December 3, 1984 with Bilbeisi, his attorney Jay Green, our attorney Glen Goldberg and Nadim Hassan of BCCI. Bilbeisi insisted that we buy out his interests in the equipment partnerships in the approximate amount of \$700,000.00. Nadim Hassan structured three (3) equivalent loans to us of approximately \$234,000.00 to assume Bilbeisi's share of the equipment partnerships and explained that the bank examiners would never know the true collateral. Hassan structured the transaction to appear as if BCCI's security consisted of UCC-1 financing statements on all of the equipment,

notes and personal guarantees, when in fact it consisted of funds frozen in three (3) foreign bank accounts set up for us at BCCI-London, England, which accounts contained our proceeds from the settlement.

27. During mid-1984, Nadim Hassan set up the BCCI-London accounts for each of us in the name of three (3) foreign corporations, Labaro, S.A., Chevere, S.A. and Franjuli, S.A. Bilbeisi preferred this arrangement because it permitted Bilbeisi to characterize our overdue "commission" payments as "coffee purchases" from three (3) foreign corporations sounding like Central American coffee suppliers. Our attorney advised us that this arrangement was legitimate since it would permit us to pay United States taxes on the distributions on a delayed basis; i.e., not until we repatriated the funds into the United States.

28. The December "settlement" failed to resolve approximately \$375,000.00 in "commissions" still owed to us by Bilbeisi. On several occasions during early 1985 we contacted Bilbeisi, both individually and as a group, to make repeated demands for the commissions owed us. In mid-1986, when Steve Calderon met with Bilbeisi to attempt to resolve the matter, Bilbeisi showed him a copy of a statement from my foreign bank account with BCCI, making it clear that he had information and access to any of our accounts with BCCI. As a result, Joe Villalba, Steve Calderon and I mutually agreed to let the matter drop.

29. I have reviewed the depositions of Anthony Jay Aramburo, Haylei Ordonez and Fernando Montes in which the above-described coffee smuggling scheme is attested to in detail. Insofar as the general description of the mechanics of the scheme (i.e., Bilbeisi purchasing non-quota coffee from suppliers in Central America

and paying "commissions" to various CCT personnel to ship the coffee in containers falsely labeled as empty, short-shipped or for transshipment to a non-quota country), I affirm their testimony as consistent with both my recollection of the events I experienced and my knowledge of Munther Bilbeisi's method of operation.

30. At no time did I personally sell coffee to Munther Bilbeisi or to any of his corporations or representatives. To my knowledge, neither did Steve Calderon or Joe Villalba during the years that I have known and conducted business with each of them. During the years that I participated in the smuggling of coffee with Munther Bilbeisi, to the best of my recollection, all of the coffee purchased by Munther Bilbeisi during those years was purchased FOB country of origin, directly from suppliers in Costa Rica, El Salvador, Guatemala or Honduras. With possibly one or two exceptions, at no time, to my knowledge, did Bilbeisi ever buy coffee "spot-Miami".

31. Bilbeisi's payments to me either directly or through his corporations consisted entirely of "commissions" for my handling of the coffee he purchased in Central America in the above-described manner. I am aware that most of these payments were characterized by Bilbeisi as "coffee purchases" or other labels designed to disguise their true nature, and to permit Bilbeisi to expense them as business deductions on his corporate tax returns. These "commission" payments were in excess of \$500,000.00 and none of these payments were in return for the purchase of coffee.

32. During 1983 and 1984, Munther Bilbeisi discussed various potential insurance fraud schemes with me individually or together with Joe Villalba. Bilbeisi proposed a scheme to have several containers laden with inferior quality coffee

driven off a cliff, and to file an insurance claim for the value of superior quality coffee purportedly in the containers. Bilbeisi told me he considered false insurance claims to be an easy and safe way to make a lot of money.

33. When we refused to participate in his proposed insurance frauds, Bilbeisi pointed out that insurance fraud was "easy to do" because "he got away with it" several years ago. Bilbeisi told me individually, and in the presence of Joe Villalba, that he had pallets of bricks imported from South Africa to California deliberately broken in order to file a fraudulent insurance claim. Bilbeisi stated that "Lloyd's" paid him "lots of money" after filing the claim, without much complication or inquiry.

34. Shortly after receiving the deposition subpoena, Steve Calderon, Joe Villalba and I met and decided to contact Bilbeisi to determine why we were involved in a claim concerning a 1986 coffee shipment, occurring long after we had parted ways with Bilbeisi.

35. Shortly after we were first served with the subpoenas in this case, we contacted Bilbeisi in Europe by conference call. Bilbeisi advised us that he had several insurance claims pending against Lloyd's of London, involving coffee switched in Central America by Tony Aramburo and Louis Altamar, and that Louis Altamar had also stolen personal effects from his home. Bilbeisi advised us that we had no problems, that everything was going his way, and that a settlement of the case was imminent. Munther Bilbeisi then advised us to call his attorney in Michigan, Richard Postma, who would tell us what to do. We advised Munther that we did not want to have to pay attorneys' fees for this matter, and asked him for reimbursement.

Bilbeisi agreed to reimburse us and told us to call him back with the amounts of the legal fees.

36. During the next several months, there were numerous telephone calls between us and Munther Bilbeisi in which Bilbeisi continued to insist that Aramburo was lying, that Bilbeisi would prevail in the case and that Lloyd's was going to settle the claim.

37. During the same period of time, we had numerous conversations with Bilbeisi's attorneys in Michigan, Richard Postma and David Gass. Mr. Postma told us that "Lloyd's" attorneys were making a desperate move to "get Bilbeisi indirectly" by turning witnesses over to the Internal Revenue Service for investigation. Mr. Postma and Mr. Gass repeatedly questioned us concerning our knowledge of the subject claim, and of other background facts concerning Munther Bilbeisi. We repeatedly and emphatically advised them, in no uncertain terms, that they did not want us to testify in this case, and that if we were forced to testify, our testimony would be fatal to Mr. Bilbeisi's claims. We advised them to question their client regarding his background, and to discuss other insurance claims that Bilbeisi had filed in the past.

38. After Tony Aramburo's deposition in November 1989, I received a facsimile from Munther Bilbeisi from Amman, Jordan, consisting of two (2) versions of a possible Bilbeisi response to Aramburo's testimony, and inquiring as to which version he should use. Both of the versions, which are equally false, described scenarios in which we allegedly purchased coffee in Central America and resold it to Bilbeisi "spot-Miami".

39. Immediately thereafter, we contacted Bilbeisi in Jordan to express our unwillingness to cooperate with this proposed fraud. Bilbeisi threatened us by stating that "if I get hurt, you'll get hurt", since Tony Aramburo's testimony would incriminate all of us. Bilbeisi again stated that if we corroborated his story, the result would be Aramburo's word against everyone else's.

40. On at least two (2) occasions, I had telephone conversations with Munther Bilbeisi where he stated that if we refused to testify for Lloyd's, or testified in accordance with false versions of the events that he had created, that there would be "money in the case for everyone" and that we "would not have to work for the rest of our lives".

41. After Aramburo's deposition, we were also contacted again by Bilbeisi's attorneys, Richard Postma and David Gass. Mr. Postma and Mr. Gass repeatedly questioned us as to whether or not Mr. Aramburo's testimony (i.e., describing Bilbeisi's coffee smuggling operation) was correct. We clearly and strongly stated to Mr. Postma and Mr. Gass that if we were forced to testify, that we would be required to either confirm or corroborate the majority of Mr. Aramburo's testimony.

42. On numerous occasions, Bilbeisi boasted of his longstanding continuous and ongoing activities in the sale or brokerage of military hardware and weaponry. Bilbeisi stated that he armed both sides of the El Salvadorian - Honduran war, sold British-manufactured missiles and Centurion tanks from Jordan to South Africa and sold F-76 jet fighters to Honduras. I also accompanied retired general James T. Vaught to Guatemala in an effort to interest the Guatemalan government in, among


other things, "civilian" planes from Canada which could be retrofitted for military purposes upon arrival in Guatemala.

43. I have reviewed the affidavits of Steve Calderon and Joseph Villalba in which many of the above-described events are attested to. I affirm their statements are true and correct representations of those events to the best of my knowledge.

FURTHER AFFIANT SAYETH NAUGHT.


JOSE ANTONIO OTANO

SWORN TO and subscribed before me this 28 day of February, 1991.


NOTARY PUBLIC
State of Florida at Large

My Commission Expires:

NOTARY PUBLIC STATE OF FLORIDA
COMMISSION EXPIRES FEB 27, 1992
NOTARY # 7044, SECC 1004

(2) the term "forged" means a document that purports to be genuine but is not because it has been falsely altered, completed, signed, or adorned, or contains a false addition thereto or insertion therein, or is a combination of parts of two or more genuine documents;

(3) the term "security" means—

(A) a note, stock certificate, treasury stock certificate, bond, treasury bond, debenture, certificate of deposit, interest coupon, bill, check, draft, warrant, debit instrument as defined in section 916(c) of the Electronic Fund Transfer Act, money order, traveler's check, letter of credit, warehouse receipt, negotiable bill of lading, evidence of indebtedness, certificate of interest in or participation in any profit-sharing agreement, collateral-trust certificate, pre-organization certificate of subscription, transferable share, investment contract, voting trust certificate, or certificate of interest in tangible or intangible property;

(B) an instrument evidencing ownership of goods, wares, or merchandise;

(C) any other written instrument commonly known as a security;

(D) a certificate of interest in, certificate of participation in, certificate for, receipt for, or warrant or option or other right to subscribe to or purchase, any of the foregoing; or

(E) a blank form of any of the foregoing;

(4) the term "organization" means a legal entity, other than a government, established or organized for any purpose, and includes a corporation, company, association, firm, partnership, joint stock company, foundation, institution, society, union, or any other association or persons which operates in or the activities of which affect interstate or foreign commerce; and

(5) the term "State" includes a State of the United States, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, and any other territory or possession of the United States.

(Added Pub.L. 98-473, Title II, § 1186(a), Oct. 12, 1984, 98 Stat. 2144, § 511, redesignated § 512, Pub.L. 98-544, § 31(a), Nov. 18, 1984, 100 Stat. 3298 and amended Pub.L. 101-647, Title XXX, § 3615, Nov. 28, 1990, 104 Stat. 4939.)

CHAPTER 37—CUSTOMS

See.

541. Entry of goods falsely classified.

542. Entry of goods by means of false statements.

543. Entry of goods for less than legal duty.

544. Relandring of goods.

545. Smuggling goods into the United States.

546. Smuggling goods into foreign countries.

547. Depositing goods in buildings on boundaries.

See.

548. Removing or repacking goods in warehouses.

549. Removing goods from customs custody; breaking seals.

550. False claim for refund of duties.

551. Concealing or destroying invoices or other papers.

552. Officers aiding importation of obscene or treasonous books and articles.

553. Importation or exportation of stolen motor vehicles, off-highway mobile equipment, vessels, or aircraft.

EDITORIAL NOTES

Savings Provisions of Pub.L. 98-473, Title II, c. II. See section 235 of Pub.L. 98-473, Title II, c. II, Oct. 12, 1984, 98 Stat. 2031, as amended, set out as a note under section 3551 of this title.

§ 541. Entry of goods falsely classified

Whoever knowingly effects any entry of goods, wares, or merchandise, at less than the true weight or measure thereof, or upon a false classification as to quality or value, or by the payment of less than the amount of duty legally due, shall be fined not more than \$5,000 or imprisoned not more than two years, or both.

REVISION NOTES

Based on title 18, U.S.C., 1940 ed., § 126 (Mar. 4, 1909, ch. 321, § 69, 35 Stat. 1101).

Reference to persons aiding, contained in words "or aid in effecting," was omitted as unnecessary as such persons are made principals by section 2 of this title.

Changes were made in phraseology.

§ 542. Entry of goods by means of false statements

Whoever enters or introduces, or attempts to enter or introduce, into the commerce of the United States any imported merchandise by means of any fraudulent or false invoice, declaration, affidavit, letter, paper, or by means of any false statement, written or verbal, or by means of any false or fraudulent practice or appliance, or makes any false statement in any declaration without reasonable cause to believe the truth of such statement, or procures the making of any such false statement as to any matter material thereto without reasonable cause to believe the truth of such statement, whether or not the United States shall or may be deprived of any lawful duties; or

Whoever is guilty of any wilful act or omission whereby the United States shall or may be deprived of any lawful duties accruing upon merchandise embraced or referred to in such invoice, declaration, affidavit, letter, paper, or statement, or affected by such act or omission—

Complete Annotation Materials, see Title 18 U.S.C.A.

Shall be fined for each offense not more than \$5,000 or imprisoned not more than two years, or both.

Nothing in this section shall be construed to relieve imported merchandise from forfeiture under other provisions of law.

The term "commerce of the United States", as used in this section, shall not include commerce with the Philippine Islands, Virgin Islands, American Samoa, Wake Island, Midway Islands, Kingman Reef, Johnston Island, or Guam.
(As amended June 30, 1955, c. 252, § 2(c), 69 Stat. 242.)

REVISION NOTES

Based on section 1591 of title 19, U.S.C., 1940 ed., Customs Duties (June 17, 1930, ch. 497, title IV, § 591, 46 Stat. 750; Aug. 5, 1935, ch. 458, title III, § 304(a), 49 Stat. 527).

The reference in the first paragraph to persons aiding, contained in the phrase "or aids," was omitted as unnecessary as such persons are made principals by section 2 of this title.

Words "upon conviction" before "be fined" were omitted as surplusage since punishment cannot be imposed until conviction is secured.

Enumeration of persons at beginning of section and provision preserving forfeitures where authorized by law were omitted as surplusage.

The fourth paragraph was added to the revised section to make clear the intent of Congress that forfeiture is an additional consequence independent of the criminal punishment.

The final paragraph was added to conform with section 1709 of title 19, U.S.C., 1940 ed.

Changes in phraseology were also made.

§ 543. Entry of goods for less than legal duty

Whoever, being an officer of the revenue, knowingly admits to entry, any goods, wares, or merchandise, upon payment of less than the amount of duty legally due, shall be fined not more than \$5,000 or imprisoned not more than two years, or both; and removed from office.

REVISION NOTES

Based on title 19, U.S.C., 1940 ed., § 125 (Mar. 4, 1909, ch. 321, § 65, 35 Stat. 1101).

Reference to persons aiding, contained in words "or aid in admitting," was omitted as unnecessary as such persons are made principals by section 2 of this title.

Changes were made in phraseology.

§ 544. Relandings of goods

If any merchandise entered or withdrawn for exportation without payment of the duties thereon, or with intent to obtain a drawback of the duties paid, or of any other allowances given by law on the exportation thereof, is relanded at any place in

the United States without entry having been made, such merchandise shall be considered as having been imported into the United States contrary to law, and each person concerned shall be fined not more than \$5,000 or imprisoned not more than two years, or both; and such merchandise shall be forfeited.

The term "any place in the United States", as used in this section, shall not include the Philippine Islands, Virgin Islands, American Samoa, Wake Island, Midway Islands, Kingman Reef, Johnston Island, or Guam.
(As amended June 30, 1955, c. 252, § 2(c), 69 Stat. 242.)

HISTORICAL AND REVISION NOTES

Based on section 1599 of title 19, U.S.C., 1940 ed., Customs Duties (June 17, 1930, ch. 497, title IV, § 599, 46 Stat. 759).

The final paragraph was added to conform with section 1709 of title 19, U.S.C., 1940 ed.

Minor changes were made in phraseology.

§ 545. Smuggling goods into the United States

Whoever knowingly and willfully, with intent to defraud the United States, smuggles, or clandestinely introduces into the United States any merchandise which should have been invoiced, or makes out or passes, or attempts to pass, through the customhouse any false, forged, or fraudulent invoice, or other document or paper; or

Whoever fraudulently or knowingly imports or brings into the United States, any merchandise contrary to law, or receives, conceals, buys, sells, or in any manner facilitates the transportation, concealment, or sale of such merchandise after importation, knowing the same to have been imported or brought into the United States contrary to law—

Shall be fined not more than \$10,000 or imprisoned not more than five years, or both.

Proof of defendant's possession of such goods, unless explained to the satisfaction of the jury, shall be deemed evidence sufficient to authorize conviction for violation of this section.

Merchandise introduced into the United States in violation of this section, or the value thereof, to be recovered from any person described in the first or second paragraph of this section, shall be forfeited to the United States.

The term "United States", as used in this section, shall not include the Philippine Islands, Virgin Islands, American Samoa, Wake Island, Midway Islands, Kingman Reef, Johnston Island, or Guam.
(As amended Aug. 24, 1954, c. 388, § 1, 69 Stat. 782; Sept. 1, 1954, c. 1212, Title V, § 207, 69 Stat. 1141; June 30, 1955, c. 252, § 2(c), 69 Stat. 242.)

REVISION NOTES

Based on section 1595 of title 19, U.S.C., 1940 ed., Customs Duties (June 17, 1930, ch. 497, title IV, § 595, 46 Stat. 751).

Redundancies in first paragraph to allege, contained in words "his, her, or their aiders and abettors" was omitted as unnecessary since such persons are made principals by section 2 of this title. For the same reason words "or assist in so doing" in second paragraph were deleted.

Words "shall be deemed guilty of a misdemeanor," in first paragraph were omitted in view of definition of misdemeanor in section 1 of this title.

Conviction provision in first paragraph reading "and on conviction thereof" was deleted as surplusage since punishment cannot be imposed until a conviction is secured.

Minimum punishment provision "not less than \$50" in second paragraph was deleted.

Forfeiture provision was rephrased to make it clear that forfeiture was not dependent upon conviction.

The final paragraph was added to conform with section 1705 of title 19, U.S.C., 1940 ed.

Changes were made in phraseology.

§ 545. Smuggling goods into foreign countries

Any person owning in whole or in part any vessel of the United States who employs, or participates in, or allows the employment of, such vessel for the purpose of smuggling, or attempting to smuggle, or assisting in smuggling, any merchandise into the territory of any foreign government in violation of the laws there in force, if under the laws of such foreign government any penalty or forfeiture is provided for violation of the laws of the United States respecting the customs revenue, and any citizen of, or person domiciled in, or any corporation incorporated in, the United States, controlling or substantially participating in the control of any such vessel, directly or indirectly, whether through ownership of corporate shares or otherwise, and allowing the employment of said vessel for any such purpose, and any person found, or discovered to have been, on board of any such vessel so employed and participating or assisting in any such purpose, shall be fined not more than \$5,000 or imprisoned not more than two years, or both.

It shall constitute an offense under this section to hire out or charter a vessel if the lessor or charterer has knowledge or reasonable grounds for belief that the lessee or person chartering the vessel intends to employ such vessel for any of the purposes described in this section and if such vessel is, during the time such lease or charter is in effect, employed for any such purpose.

REVISION NOTES

Based on section 1705 of title 19, U.S.C., 1940 ed., Customs Duties (Aug. 4, 1935, ch. 492, title I, § 2, 49 Stat. 512).

Changes were made in phraseology.

§ 547. Depositing goods in buildings on boundaries

Whoever receives or deposits any merchandise in any building upon the boundary line between the United States and any foreign country, or carries any merchandise through the same, in violation of law, shall be fined not more than \$5,000 or imprisoned not more than two years, or both.

REVISION NOTES

Based on section 1596 of title 19, U.S.C., 1940 ed., Customs Duties (June 17, 1930, ch. 497, title IV, § 596, 46 Stat. 752).

Reference to persons aiding, contained in words "or aid therein," was omitted as such persons are made principals by section 2 of this title.

Changes were made in phraseology.

§ 548. Removing or repacking goods in warehouses

Whoever fraudulently conceals, removes, or repacks merchandise in any bonded warehouse or fraudulently alters, defaces or obliterates any marks or numbers placed upon packages deposited in such warehouse, shall be fined not more than \$5,000 or imprisoned not more than two years, or both.

Merchandise so concealed, removed, or repacked, or packages upon which any marks or numbers have been so altered, defaced, or obliterated, shall be forfeited to the United States.

REVISION NOTES

Based on section 1597 of title 19, U.S.C., 1940 ed., Customs Duties (June 17, 1930, ch. 497, title IV, § 597, 46 Stat. 753).

This section was rewritten to place the criminal provisions ahead of the forfeiture provisions. This did not require any substantive changes except omission of reference to persons aiding. Such persons are made principals by section 2 of this title.

The punishment prescribed by section 545 of this title was inserted to make this section complete without reference to another section. In doing so it was necessary to replace the punishment provision of section 545 of this title, as originally enacted, without change of substance. Forfeiture provision was rephrased to make it clear that forfeiture was not dependent upon conviction.

Changes were made in phraseology.

§ 549. Removing goods from customs custody; breaking seals

Whoever, without authority, affixes or attaches a customs seal, fastening, or mark, or any seal, fastening, or mark purporting to be a customs seal,

fastening, or mark to any vessel, vehicle, warehouse, or package; or

Whoever, without authority, willfully removes, breaks, injures, or defaces any customs seal or other fastening or mark placed upon any vessel, vehicle, warehouse, or package containing merchandise or baggage in bond or in customs custody; or

Whoever maliciously enters any bonded warehouse or any vessel or vehicle laden with or containing bonded merchandise with intent unlawfully to remove therefrom any merchandise or baggage therein, or unlawfully removes any merchandise or baggage in such vessel, vehicle, or bonded warehouse or otherwise in customs custody or control; or

Whoever receives or transports any merchandise or baggage unlawfully removed from any such vessel, vehicle, or warehouse, knowing the same to have been unlawfully removed—

Shall be fined not more than \$5,000 or imprisoned not more than two years, or both.

REVISION NOTES

Based on section 1596 of title 19, U.S.C., 1940 ed., Customs Duties (June 17, 1930, ch. 497, title IV, § 598, 46 Stat. 752; June 25, 1933, ch. 679, § 26, 52 Stat. 1089).

Reference to persons causing, procuring, aiding or assisting was omitted as unnecessary in view of definition of "principal" in section 2 of this title.

In view of definition of felony in section 1 of this title words "guilty of a felony" were omitted. (See reviser's note under section 550 of this title.)

The punishment prescribed by section 545 of this title was inserted to make this section complete without reference to another section. In doing so it was necessary to rephrase the punishment provision of section 545 of this title, as originally enacted, without change of substance.

Forfeiture provision was omitted to conform with current administrative practice.

Changes were made in phraseology.

§ 550. False claim for refund of duties

Whoever knowingly and willfully files any false or fraudulent entry or claim for the payment of drawback, allowance, or refund of duties upon the exportation of merchandise, or knowingly or willfully makes or files any false affidavit, abstract, record, certificate, or other document, with a view to securing the payment to himself or others of any drawback, allowance, or refund of duties, on the exportation of merchandise, greater than that legally due thereon, shall be fined not more than \$5,000 or imprisoned not more than two years, or both, and each merchandise or the value thereof shall be forfeited.

REVISION NOTES

Based on section 1590 of title 19, U.S.C., 1940 ed., Customs Duties (June 17, 1930, ch. 497, title IV, § 590, 46 Stat. 749).

Reference to felony, contained in words "such person shall be guilty of a felony" was omitted as unnecessary in view of definition of felony in section 1 of this title. This, too, was the policy adopted by the codifiers of the 1909 Criminal Code. (See S.Rept.19, pt. 1, pp. 13, 15, and 14, 60th Cong., 1st sess.)

Words "and upon conviction thereof" before "shall be punished" were also omitted as unnecessary, since punishment cannot be imposed until a conviction is secured. Changes were made in phraseology.

§ 551. Concealing or destroying invoices or other papers

Whoever willfully conceals or destroys any invoice, book, or paper relating to any merchandise imported into the United States, after an inspection thereof has been demanded by the collector of any collection district; or

Whoever conceals or destroys at any time any such invoice, book, or paper for the purpose of suppressing any evidence of fraud therein contained—

Shall be fined not more than \$5,000 or imprisoned not more than two years, or both.

REVISION NOTES

Based on title 19, U.S.C., 1940 ed., § 130 (Mar. 4, 1908, ch. 321, § 84, 35 Stat. 1100).

Minor changes were made in phraseology.

EDITORIAL NOTES

Transfer of Functions. All offices of collector of customs, comptroller of customs, surveyor of customs, and appraiser of merchandise in the Bureau of Customs of the Department of the Treasury to which appointments were required to be made by the President with the advice and consent of the Senate were ordered abolished, to be terminated not later than Dec. 31, 1904. All functions of the offices so eliminated were already vested in the Secretary of the Treasury.

§ 552. Officers aiding importation of obscene or treasonous books and articles

Whoever, being an officer, agent, or employee of the United States, knowingly aids or abets any person engaged in any violation of any of the provisions of law prohibiting importing, advertising, dealing in, exhibiting, or sending or receiving by mail obscene or indecent publications or representations, or books, pamphlets, papers, writings, advertisements, circulars, prints, pictures, or drawings containing any matter advocating or urging treason or insurrection against the United States or forcible resistance to any law of the United States,

or containing any threat to take the life of or inflict bodily harm upon any person in the United States, or means for procuring abortion, or other articles of indecent or immoral use or tendency, shall be fined not more than \$5,000 or imprisoned not more than two years, or both.

(As amended Jan. 2, 1971, Pub.L. 91-602, § 2, 84 Stat. 1972.)

REVISIONS NOTES

Based on section 1360(b) of title 18, U.S.C. 1946 ed., Customs Duties (June 17, 1930, ch. 497, title III, § 302(b)), 46 Stat. 699.

In view of definition of misdemeanor in section 1 of this title words "shall be deemed guilty of a misdemeanor, and" were omitted.

Words "at hard labor" after "imprisonment" were omitted. (See reviser's note under section 1 of this title.) Changes were made in phraseology.

§ 553. Importation or exportation of stolen motor vehicles, off-highway mobile equipment, vessels, or aircraft

(a) Whoever knowingly imports, exports, or attempts to import or export—

(1) any motor vehicle, off-highway mobile equipment, vessel, aircraft, or part of any motor vehicle, off-highway mobile equipment, vessel, or aircraft, knowing the same to have been stolen; or

(2) any motor vehicle or off-highway mobile equipment or part of any motor vehicle or off-highway mobile equipment, knowing that the identification number of such motor vehicle, equipment, or part has been removed, obliterated, tampered with, or altered;

shall be fined not more than \$15,000 or imprisoned not more than five years, or both.

(b) Subsection (a)(2) shall not apply if the removal, obliteration, tampering, or alteration—

(1) is caused by collision or fire; or

(2)(A) in the case of a motor vehicle, is not a violation of section 511 of this title (relating to altering or removing motor vehicle identification numbers); or

(B) in the case of off-highway mobile equipment, would not be a violation of section 511 of this title if such equipment were a motor vehicle.

(c) As used in this section, the term—

(1) "motor vehicle" has the meaning given that term in section 2 of the Motor Vehicle Information and Cost Savings Act;

(2) "off-highway mobile equipment" means any self-propelled agricultural equipment, self-propelled construction equipment, and self-pro-

ped special use equipment, used or designed for running on land but not on rail or highway;

(3) "vessel" has the meaning given that term in section 491 of the Tariff Act of 1930 (19 U.S.C. 1401);

(4) "aircraft" has the meaning given that term in section 101 of the Federal Aviation Act of 1958 (49 U.S.C. App. 1301); and

(5) "identification number"—

(A) in the case of a motor vehicle, has the meaning given that term in section 511 of this title; and

(B) in the case of any other vehicle or equipment covered by this section, means a number or symbol assigned to the vehicle or equipment, or part thereof, by the manufacturer primarily for the purpose of identifying such vehicle, equipment, or part.

(Added Pub.L. 90-547, Title III, § 301(a), Oct. 25, 1964, 80 Stat. 2771, and amended Pub.L. 100-690, Title VII, § 7021, Nov. 18, 1988, 102 Stat. 4394.)

EDITORIAL NOTES

References in Text. Section 2 of the Motor Vehicle Information and Cost Savings Act, referred to in subsec. (c)(1), is section 2 of Pub.L. 90-518, Oct. 20, 1978, 92 Stat. 947, which is classified to section 1901 of Title 15, Commerce and Trade.

CHAPTER 23—ELECTIONS AND POLITICAL ACTIVITIES

- 500. Repealed.]
- 501. Troops at polls.
- 502. Interference by armed forces.
- 503. Intimidation of voters.
- 504. Interference by administrative employees of Federal, State, or Territorial Governments.
- 505. Polling armed forces.
- 506. Expenditures to influence voting.
- 507. Coercion by means of relief appropriations.
- 508. Promise of appointment by candidate.
- 509. Promise of employment or other benefit for political activity.
- 510. Deprivation of employment or other benefit for political contribution.
- 511. Solicitation of political contributions.
- 512. Making political contributions.
- 513. Restrictions from persons on relief.
- 514. Disclosure of names of persons on relief.
- 515. Intimidation to secure political contributions.
- 516. Place of solicitation.
- 517. Absent uniformed services voters and overseas voters.
- 518. Use of military authority to influence vote of member of Armed Forces.
- [519 to 617. Repealed.]

Complete Annotation Materials, see Title 18 U.S.C.A.

Senator BROWN. Just to help me put a cap on this, what you have just quoted to us makes it appear that BCCI not only participated in the conspiracy to violate the U.S. Arms Export Control Act, but even participated in arranging for criminal payoffs.

Mr. DOUGHERTY. That's true. And there's one more—

Senator BROWN. This is, indeed, a full-service bank. [Laughter.]

Mr. DOUGHERTY. The third aspect of this was that the bank knew, because of the subpoenas that were served on the bank, and the requests made by Mr. Bilbeisi to produce records, that there was an investigation into the coffee smuggling in 1987. There was an investigation to determine whether or not there was an insured loss in Guatemala that was going on in October of—that was all ongoing in 1987, Senator.

And in 1988, Lloyd's was—

Senator BROWN. Excuse me, the investigation was being done by whom?

Mr. DOUGHERTY. Representatives of Lloyd's. So in 1988, we're in litigation in the southern district of Florida, in the Federal court. And Lloyd's has issued subpoenas against the bank to produce records. These records were not produced, that refer to on their face, the cashier's checks that weren't produced.

What I am saying, Senator Brown, is there was a financial motive for the bank, after the insurance claims were filed, to join with its customer, Bilbeisi, to block the investigation in Guatemala by participating and funneling the money, corruptly, to these individuals in Guatemala to secure a favor, to prevent an adequate investigation, so that not only would the coffee claim of the 1986 shipment not be uncovered, but all of the previous illegal shipments.

Senator BROWN. So the bank participated in violation of the Arms Control Act, the bank participated, apparently, in planning and delivering bribery payments. And they also participated in covering it up?

Mr. DOUGHERTY. That's what I believe occurred. And they had participated between 1983-86 in the ongoing coffee smuggling, be it in Honduras, Guatemala, or Panama. So it was of great financial interest for the bank once Mr. Bilbeisi filed the insurance claim, that all of the of the illegal shipments from 1983, 1986, and 1987 not be uncovered. And one way to do it—why would Mr. Bilbeisi pick, of all of the countries that he had previously sold weapons to—South Africa, El Salvador, Honduras—why would he pick Guatemala to sell quote "civilian helicopters" to in 1987, after the coffee claim had been filed?

And the most direct, substantive answer to that is to obstruct justice, corrupt public officials, and block and impede with the Minister of Defense of that country, with the President of Guatemala's brother, and uncovering that that claim was false, which would have led to the uncovering—which we have found—of all of the coffee smuggling.

Senator BROWN. Well, let us go back to the coffee.

Senator KERRY. Before we do, let me followup on something.

Mr. VALLS. Senator, may I explain one thing? If it wasn't for BCCI involvement in the helicopter deal, there would never have been any helicopter deal in Guatemala. And the reason was that

they needed the financing. And who supplied that financing? It was Ex-Im Bank. And how did they do it? Through using a third bank in the middle, by obtaining the financing.

And if it would have been an Ex-Im Bank Capital deal, with Capital Bank, which is the way this letter of credit first started, without the end-user certificates, nothing would have gone down to Guatemala. BCCI got involved in order to avoid the end-user certificates in this deal.

Senator KERRY. This is a point where I want to just put into the record—if there is no objection—what is known as the Philip Manual Resource Group Report, which is a report of an internal investigation of Munther Bilbeisi and the Boca Raton IRS, and so forth.

This is a report, it is a private detective report that was put together and prepared for the law firm of Holland & Knight. And the report covers BCCI's role in the smuggling operations.

This is a report which, I take it, you gentlemen have not seen previously, but which this committee has gained access to. And I am going to put the full report in the record. And I just want to ask a few, quick questions about the report.

[The information referred to follows:]

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PRIVILEGE AND WORK PRODUCT DOCTRINE**

**REPORT OF INTERNAL INVESTIGATION
(Boca Raton/IRS Investigation)
(Munther Bilbeisi, et. al.)**

Respectfully submitted,

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November, 1990

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PRIVILEGE AND WORK PRODUCT DOCTRINE**

I. INTRODUCTION

This Report is submitted pursuant to an investigation conducted by the law firm of Holland & Knight and the investigative firm of Philip Manuel Resource Group. This investigation was commissioned by the Bank of Credit & Commerce International (Overseas) Limited ("BCC") in March, 1990, and was prompted by the assertion of the United States Attorney's Office, Southern District of Florida (Miami), that the Bank was the target of an ongoing Federal criminal investigation involving: (1) Munther Bilbeisi and his related companies and associates; (2) Steven Calderon, Joseph Villalba, Jose Otano and their companies; (3) Heather Wyser-Pratte; and (4) the relation of all of these individuals and entities with the Boca Raton and Miami Agencies of BCC.

It is not known when this Federal criminal investigation commenced, but it first came to BCC's attention in May, 1989, when the Federal government executed a search warrant for numerous records located at the Bank's Boca Raton Agency. This search warrant was the product of an ongoing Internal Revenue Service ("IRS") investigation of the Bank and its customers, and at that time the Bank was told by the IRS that the Bank (and specifically, its Boca Raton Agency and the three managers of that Agency) were targets of the investigation involving allegations of money laundering and

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the alleged "smuggling" of large amounts of cash into that Agency.¹

In February, 1990, these general allegations were particularized to the extent that the Bank was orally informed by the United States Attorney's Office that the alleged illegality centered around a "Klein Conspiracy" involving the Bank and the account holders mentioned above.² Upon learning of this, the Bank management directed that an internal inquiry be conducted for the purpose of: (1) identifying present or former officers or employees who may have engaged in activity which could possibly expose the Bank to criminal liability in the United States; (2) preparing to discuss and refute any potential criminal accusations against the Bank; and (3) preparing a factual background for the

¹The Boca Raton Agency opened in December, 1983 and closed in August, 1989. Its managers were: Nadim Hasan; Sadiq Hamidani; and Tariq Jan. Nadim Hasan was terminated from the Bank in the Summer of 1990, for refusing to cooperate with this internal inquiry. Hamidani and Jan are currently employed with the Bank in Miami and Hong Kong, respectively.

²Generally, a "Klein Conspiracy" involves a conspiracy in violation of Section 371 of Title 18, United States Code, to impede, prevent or otherwise thwart the IRS in the performance of its lawful function, namely the collection of tax revenue. See, Section VII(B)(3).

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defense of the Bank in the event that formal criminal charges are returned.³

During this investigation, we have located 78 accounts connected to Munther Bilbeisi, his companies and his former business associates Calderon, Otano, Villalba and Gerardo Harris, in Boca Raton, Miami, Nassau, Panama and London. These accounts have been reviewed and analyzed in detail. In addition, over 50 interviews of employees and non-employees have been conducted, and over 150 files, including letter of credit files, cashier's checks and registers, and individual and business account files have been extensively reviewed and analyzed. The findings drawn from this effort are submitted in this report.

Throughout this report, references are made to numerous supporting documents. These are referenced by the term "Ex." followed by a number, and each such exhibit so referenced is contained in the attached Appendix 1. Exhibits have been placed in Appendix 1 according to number. These exhibits

³Throughout the investigation the Bank has repeatedly offered to cooperate with the government. In this connection, efforts were made to convince the government that the Bank is a "reformed" institution which wants culpable employees removed even more than the government. In response, the government suggested that if the Bank were serious it would begin to investigate and correct internal abuses itself. This suggestion itself prompted in part the current internal inquiry.

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include other reports and memoranda generated during the inquiry, as well as specific bank documents and interviews.

Additional pertinent information is contained in Appendices to this Report numbered 2 through 5. From time to time, reference is made to these Appendices by the term "App." followed by the appropriate number.

Appendix 2 provides information concerning letters of credit relating to Munther Bilbeisi and his companies, Coffee, Inc. and Orion Systems (Panama), S.A. The first part of this Appendix lists specific cumulative data for all of these letters of credit. The second part of this Appendix examines these transactions by each individual letter of credit according to various categories such as: letter of credit number; opening date; closing date; beneficiary; identity of merchandise and destination; opening fees; face amount; Bank payments; and so on. Reference to these portions of Appendix 2 provides pertinent letter of credit information "at a glance."

Appendix 3 provides an account summary identifying specific accounts relevant to this Report. Our investigation has identified seventy-eight separate Bilbeisi-related bank accounts. These accounts were active at various times at separate BCC branches in Miami, Boca Raton, Nassau, Panama

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and London between 1982 and 1988. A "Bilbeisi-related account" is one which is: (1) in the name of Munther Bilbeisi; (2) in the name of a company owned or controlled by Bilbeisi (e.g., Orion Systems (Panama), S.A., Coffee, Inc., Mura International, Containers International, Inc., Consolidated Trailers, Inc., and International Chassis, Inc.); (3) in the name of a Munther Bilbeisi associate (e.g., Steven Calderon, Joseph Villalba, Jose Otano, Gerardo Harris); or (4) in the name of a company owned or controlled by a Bilbeisi associate (e.g., Labaro, S.A., Franjuli, S.A., Chevere, S.A., Consolidated Brokers International, International Equipment, Ltd., Consolidated Trailers, Ltd., International Chassis, Ltd.).

Appendix 4 provides a flavor for the quantity of account activity of forty of the most significant demand, deposit and loan accounts included in Appendix 3. For these accounts, **Appendix 4** summarizes account activity for each year the account was active in terms of total deposits, total withdrawals and balance at year-end.

Appendix 5 provides a day-by-day chronology of events relating to this Report between 1982 and 1989. The chronology includes pertinent transactions from the Bilbeisi-related accounts listed in Appendix 2. These transactions

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are identified by account number, preceded by the first letter of the location of the BCC office involved. For example, "M01000662" indicates a Miami account; "N03000542" a Nassau account; "B01000520" a Boca Raton account; and so forth. An examination of Appendices 2 through 4 prior to a review of the chronology in Appendix 5 will greatly assist in understanding the significance of the events reported in the chronology.

Finally, it should be made clear that although this report contains our conclusions and analyses, it may need to be supplemented in the future. A number of key witnesses have refused thus far to speak with us, largely because they themselves are either under government investigation or have agreed to cooperate with the government. Our attempts to meet with these individuals will continue, and depending upon our success and their statements, the conclusions and analyses contained herein may have to be supplemented or changed.

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II. SUMMARY

Our investigation indicates that the Latin American Regional Office, the Miami Agency and the Boca Raton Agency essentially constituted a "bank within a bank," frequently engaging in transactions without the approval and without even the knowledge of BCC's London management. Effective supervision by BCC management in London was repeatedly thwarted by the frequent failure and refusal of the Latin American Regional Office to report its activities, and when it did report, by its failure to do so accurately.

This "bank within a bank" was controlled and operated by Latin American Regional Office manager A. R. Sakhia. He served as the highest ranking BCC officer in Miami from the opening of the Miami Agency and the Regional Office in May, 1982 until February, 1987 when he was transferred to New York. Sakhia maintained strict control over not only the Regional Office, but the Miami and Boca Raton Agencies as well. No Agency or Regional Office employee or officer, up to and including the various managers of the Miami Agency, dared to question his directives and decisions. These directives and decisions involved every aspect of every transaction involving any significant customer whom Sakhia

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decided to "accommodate," including in particular Munther Bilbeisi and his partners, Steven Calderon, Jose Otano and Joseph Villalba.

Sakhia exercised his control through employees such as M. U. Rehman in the Regional Office, Nadim Hasan at the Boca Raton Agency and Hamid Khan in the Miami Agency Letter of Credit Department. It was through these and other employees that Sakhia's orders were issued or his instructions carried out. The direct communication between these employees and Sakhia enabled him to totally ignore the normal chain of command within the Bank and to engage in transactions which were contrary to established London management policies.

The methods of operation engaged in by Sakhia and his assistants are eloquently demonstrated by the relationship with Bilbeisi and his partners. Their activities with the Bilbeisi group were so well-concealed from the Bank's management in London and so violative of the Bank's procedures and policies as to make it unfair to characterize the situation as a relationship between Bilbeisi and BCC itself. While the official relationship may technically have been with BCC, as a practical matter Bilbeisi, Calderon, Otano and Villalba were dealing with the "bank within a bank" run by Sakhia.

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Between 1982 and 1986 Munther Bilbeisi and his partners, Calderon, Otano and Villalba operated a smuggling operation. This fact has been established by the sworn admissions of two of that operation's members, Louis Altemar and Jay Anthony Aramburo. The operation was run through two companies owned by Bilbeisi: Coffee, Inc. and Orion Systems (Panama), S.A. Through these corporations Bilbeisi and his partners smuggled coffee from Central America into the United States between 1982 and 1986. This was done to avoid export restrictions, fees and taxes in Central America and to avoid U. S. coffee import quotas and sanitation inspections in the U. S. It is by no means certain that coffee was the only commodity smuggled into the U. S. by these individuals. While we have found no direct evidence of drug trafficking, the smuggling operation could easily have accommodated itself to this, and the amounts of money flowing through and between Bilbeisi, Calderon, Otano, Villalba and their corporate accounts, plus their connections to Manuel Noriega, lend a degree of circumstantial support to this possibility.

As with any smuggling operation, the operatives had several essential needs: they required a secure, safe system of financing their transactions; they needed appropriate extensions of credit in the form of loans and overdrafts

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without too much formality; and they required a flexible system of payments to their foreign associates in Central America, whether by wire transfer or cashier's check or both. Moreover, their import and shipping documents were necessarily incomplete or defective, and so the smugglers needed unquestioning acceptance of these items in order to insure prompt, safe payment to their associates in Central America. The BCC Miami and Boca Raton Agencies (or, more accurately, Sakhia's "bank within a bank") accommodated these needs.

First, in December, 1983, the Boca Raton Agency (directly through Nadim Hasan and A. R. Sakhia) issued three loans to three other recently formed Bilbeisi companies in the total amount of US\$2.5 million. This loan was made without security, the proceeds were disbursed without the knowledge or approval of the Central Credit Committee in London, and the amount was beyond the authorized loan limits of both Hasan and Sakhia. Moreover, although the stated purpose for the loan was for corporate "working capital," the proceeds were surreptitiously transferred to two Bilbeisi personal accounts in the Panama Agency (which held US\$1.5 million of the loan proceeds) and the Nassau Agency (which held US\$1 million of the loan proceeds), thereby opening the

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door to corporate money laundering and tax evasion for each of the Bilbeisi companies involved as well as for Bilbeisi himself. The Nassau Agency was, at the time, located in Miami and thus directly under Sakhia's supervision. The Panama Agency at the time was managed by Amjad Awan, whom the U. S. government has characterized as Manuel Noriega's "personal banker."

These funds - particularly the US\$1.5 million placed in the Panama Agency - may have acted as some form of security or collateral for other activities involving Gerardo Harris, an associate and a confidante of Manuel Noriega. The loan proceeds were placed in Bilbeisi's accounts in Panama and Nassau in December, 1983. Shortly thereafter, Bilbeisi applied for four letters of credit with a face value of over US\$6 million. Of this, over US\$4 million was paid, directly or indirectly, to various persons and companies identified by the U. S. government as being closely connected with or controlled by Manuel Noriega. During the same period, Bilbeisi directly paid over US\$800,000 to Gerardo Harris. Almost immediately after all these payments were made, the US\$1.5 million in Boca Raton loan proceeds were transferred back to the Boca Raton Agency, where they were held in another Bilbeisi personal account until August 1, 1984, when

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the money was used to repay the original "working capital" loan.

The timing of the payments in comparison to the movement of the loan proceeds gives rise to the distinct possibility that Bilbeisi was required by Harris or even Noriega to put up "front money" as security for some sort of business transaction, and that the Bank. That the loan proceeds were never used at all, and only sat in a Panama Agency personal account during the same time Bilbeisi was paying millions to Noriega-related businesses and persons only lends credibility to this possibility.

Second, the Miami Agency consistently extended the credit essential to the financing of the Bilbeisi smuggling operation. In fact, on a number of occasions when Bilbeisi's assets were completely encumbered by existing debt, Khan-with Sakhia's approval - gave Bilbeisi credit for hundreds of thousands of dollars worth of post-dated checks. These and other extensions of credit were over and above Bilbeisi's collateral and usually beyond any credit facility approved by the Central Credit Committee in London.

The first credit facility submitted to and approved by the Central Credit Committee in London contained misleading information which concealed the true nature of Bilbeisi's

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business and prevented any effective London management supervision of the transactions with Bilbeisi and his associates throughout 1984. In particular, the Regional Office concealed the fact that Bilbeisi was even in the coffee business, stating instead that he was involved in real estate and the import of Persian carpets. At the same time the Miami Agency had just been defrauded of US\$5 million by Alberto Duque and his General Coffee company in connection with fraudulent coffee imports. London was aware of this loss, and by hiding Bilbeisi's actual business from London the Regional Office effectively avoided unwanted attention and supervision over a series of business transactions which London would have immediately recognized as very risky. Later internal audits disclosed Bilbeisi's real business, to London's alarm and surprise. Attempts were made in February, 1985 by London, and in particular by then Internal Audit Chief Saleem Siddiqi, to more closely supervise these transactions. These efforts were thwarted by subsequent credit line proposals which, while more or less accurately describing the nature of Bilbeisi's coffee business (but, of course, never characterizing it as a smuggling operation), consistently overstated the security for the credit facility requested and understated Bilbeisi's existing indebtedness to

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the Bank. It is to the credit of the Bank's Internal Audit Chief, Saleem Siddiqi, that he was able to discover at least part of the truth about the activities in Miami and that when he did, he took immediate action. It was only through the continuing manipulations of A. R. Sakhi and his assistants that Mr. Siddiqi was thwarted in these attempts.

Third, the Miami Agency issued twenty-seven letters of credit for Bilbeisi's coffee purchases between 1982 and 1986. Although the face amount of these letters of credit was over US\$79 million, only about US\$8.5 million was ever disbursed. Seventeen letters of credit issued for Bilbeisi's companies were uniformly cancelled without any disbursements at all. Subsequently, Bilbeisi used cashier's checks to pay for his operation, and the Boca Raton and Miami Agencies obligingly issued dozens of cashier's checks at a time for Bilbeisi, all of them payable to the same persons and in the same amounts. For example, in March, 1986, the Miami Agency issued thirty-one cashier's checks at Bilbeisi's instructions, each payable to Louis Altemar, thirty of them in the amount of \$25,000 each. Although all of these were ostensibly for coffee purchases, some of them found their way back into Bilbeisi's own corporate accounts, thereby opening the door to

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allegations of Bank complicity in money laundering and income tax evasion by Bilbeisi and his companies.

It appears that Bilbeisi was using letters of credit issued by the Miami Agency not so much to pay for coffee as to provide himself and his agents with a legitimate presence in Central American countries, where coffee buyers were required to have proof of financing for purposes of exchange control. In any case, neither Hamid Khan nor any of his superiors questioned Bilbeisi about why he opened seventeen letters of credit, at a cost to himself of over US\$40,000, and then cancelled them.

Fourth, on those letters of credit involving actual disbursements by the Bank the essential documents necessary for payment were consistently and seriously defective. Essential documents were almost invariably missing, incomplete or contradictory, yet in every instance these discrepancies were "waived" by Bilbeisi and payment was unquestioningly made by the Miami Agency. Had any questions been asked, the answers might arguably have warned the Bank about Bilbeisi's smuggling activities and the perception of the Bank's involvement in them. Apparently no such questions were ever asked. More importantly, Bilbeisi's "waivers" of document discrepancies was often based on the fact that the

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coffee was already in Bilbeisi's possession. Since the merchandise could not legally clear U. S. Customs without the presence of these documents or a shipping guarantee, Bilbeisi's possession of the coffee prior to their presentation to and approval by the Bank could also arguably have put the Bank on notice that Bilbeisi was engaged in illegal smuggling activities. At the very least, this, too, ought to have raised questions, but apparently none were ever asked.

Hamid Khan was generally able to ignore the various U. S. Customs requirements relating to quotas and sanitary inspections because, according to every letter of credit, the ultimate port of destination was either Aqaba, Jordan or Latakia, Syria. Miami was only a transshipment point, and thus Khan would be able to argue that U. S. Customs regulations were inapplicable. In the two isolated instances when a letter of credit was amended to actually show Miami as the port of destination, Khan was at great pains to establish that the Bank was not responsible for monitoring quota restrictions or sanitary inspection requirements. In the process, however, he demonstrated his clear knowledge of these requirements. In any case, the Bank's own documents reveal that, regardless of the destination stated on the letters of credit, the coffee was actually being sold in the

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U. S. to U. S. coffee companies. Neither Khan nor any other employee ever asked Bilbeisi about this. Again, had such questions been asked, the entire scheme may have come to light and the Bank might have severed its relationship with Bilbeisi.

Other "accommodations" made to Bilbeisi were the surreptitious transfer of funds for the express purpose of hiding them. This was done in September, 1984 by transfers from the Miami Agency to the Nassau Agency of funds in excess of US\$1.5 million. At the time, the Nassau Agency was physically located in the Miami office, and the transfers were in fact from one desk in the Miami office to another. These transfers were made for the purpose of hiding Bilbeisi's corporate assets from his estranged wife. In addition, both the Boca Raton and Miami Agencies made cash available to Bilbeisi from his various corporate accounts in what could also be characterized as a surreptitious manner. In some instances the required forms reporting cash transactions over US\$10,000 were not filed. These types of transactions, which were conducted through the Bank's internal accounts and could not have been done without the active assistance and involvement of Bank employees, themselves created the opportunity for extensive tax fraud and

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tax evasion by Bilbeisi, his companies and his partners, and thus they potentially implicate the Bank itself.

After continuing these operations on a consistent basis for a period of four years, U. S. prosecutors could now argue that the Bank's accommodating methods of financing Bilbeisi and the Bank's unquestioning servicing of his letters of credit evidence the Bank's own awareness of Bilbeisi's smuggling operation and the Bank's complicity in it. Bilbeisi's "waivers" based upon his possession of the coffee, the constantly defective and contradictory documents, the false ports of destination, and the accommodating extensions of credit which themselves exposed the Bank, could all arguably be seen as evidence of the Bank's knowing assistance of the Bilbeisi smuggling operation. Thus, although we have found no direct evidence that any Bank employee actually knew that Bilbeisi was smuggling coffee (or other commodities) into the U. S., prosecutors could argue from these overall circumstances that Bank employees (and therefore the Bank itself) did in fact know.

Sakhia's lessons in "accommodating" major customers were well-learned by Nadim Hasan, who, as manager of the Boca Raton Agency, "serviced" Bilbeisi's partners. It was directly through Hasan that Bilbeisi's partners, Calderon,

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Otano and Villalba opened three Panamanian "shelf" corporation accounts with BCC in London, in the names of Franjuli, S.A., Chevere, S.A. and Labaro, S.A. These accounts appear to have been opened for the purpose of evading U. S. taxes, and Calderon, Otano and Villalba were personally serviced by Majaz Malik, the manager of the Swiss Cottage branch in London. Malik admitted he knew that the corporations were "shelf" corporations which did no business and that their accounts had been opened for "tax purposes," but felt that his customers' attempts to evade U. S. taxes were not his concern. His actions could easily be characterized by prosecutors as demonstrating his membership in a conspiracy with Calderon, Otano and Villalba to impede the Internal Revenue Service and prevent the collection of taxes from Bilbeisi's associates, and thus his actions could implicate the Bank itself. That all of Malik's acts occurred in England affords the Bank no defense.

Hasan's and Malik's activities were not confined to just these corporate accounts. At Malik's direct urging, Calderon, Otano and Villalba opened nine personal accounts at Malik's Swiss Cottage Branch within several months of opening the three corporate accounts. These personal accounts were then used for the issuance of bank guarantees from Swiss

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Cottage, securing millions of dollars in loans issued at both the Boca Raton Agency and the Swiss Cottage branch. Such "cash collateralized" loans are considered by U. S. prosecutors and investigators to be major indicators of tax evasion.

Calderon, Otano and Villalba were key members of the Bilbeisi smuggling operation until they apparently broke with him in late 1985. After that it is unclear just what business they were in, but whatever it was it generated millions of dollars for them, which they deposited in their BCC accounts. After breaking with Bilbeisi, they opened another Swiss Cottage account for a corporation they jointly owned, Commodity Brokers International. This corporation maintained another account at BCC Colon, and millions of dollars were transferred between these two accounts and all the other Calderon, Otano and Villalba personal and corporate accounts between 1986 and 1989. These circular transfers themselves could be considered as suspicious by prosecutors and investigators, and even be viewed as indicators of illegal money laundering. In addition to the millions of dollars transferred to, from, among and between all of the Swiss Cottage and Panama accounts held by Calderon, Otano and Villalba, large transfers were also made by them to Gerardo

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Harris, Manuel Noriega's associate. Instructions issued to the Panama Agency by Calderon, Otano and Villalba directly authorized transfers to and from their accounts upon the instructions of Majaz Malik, among others. Since the Swiss Cottage personal accounts were secret "manager's ledger" accounts personally supervised by Malik, these instructions as well as Malik's personal involvement with the circular transfer of the funds among the accounts and his awareness of the "tax purposes" of the accounts could implicate the Bank itself in conspiracy charges relating to tax evasion and money laundering by Calderon, Otano and Villalba.

Another account under IRS investigation, far smaller and less questionable than those of Bilbeisi, Calderon, Otano and Villalba, is that of Heather Wyser-Pratte. In 1983 she opened an account at the Cromwell Road branch, which was moved in 1988 to the Regent Street branch in London. The initial account at Cromwell Road was a time deposit account opened by her through Nadim Hasan in the amount of US\$600,000. Apparently, Pratte did not pay tax on the interest earned on this account and failed to disclose its existence to the IRS between 1983 and 1989. Pratte has claimed that she thought she had opened an "interest-earning tax-exempt" account, and that she had been told this

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by a BCC officer whose name she cannot now remember. Since the prosecutors and investigators already suspect BCC of actually advising its customers about the means and methods of avoiding and evading income taxes, it is possible that they will consider the Pratte account yet another example of the Bank, through Nadim Hasan, conspiring with a U. S. taxpayer to evade taxes and impede the IRS.

The attitude of U. S. prosecutors and investigators toward the Bank is very unfavorable. They incorrectly and unfairly view its management as condoning and encouraging Bank employees in advising and assisting customers in money-laundering and tax evasion. As a result of this attitude, the transactions engaged in by the Bank on behalf of Bilbeisi, Calderon, Otano, Villalba and Pratte could possibly be interpreted as evidence of a conspiracy between the Bank and its customers to, among other things: smuggle goods into the U. S.; make false statements to U. S. agencies and departments; launder money derived from smuggling; fail to file reports of cash transactions over US\$10,000; violate the U. S. money laundering statute; evade U. S. taxes; and impede the Internal Revenue Service in the performance of its lawful functions. Essentially, the activities of the members of the "bank within a bank" between 1982 and 1988 could criminally

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implicate BCC in the U. S.

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III. MUNTHER BILBEISI

A. **BACKGROUND:** Munther Bilbeisi is a 60-year old Jordanian citizen who was born on July 23, 1930 in Amman, Jordan. He entered the United States December, 1976 and received permanent resident status sometime in 1977. Bilbeisi currently resides in Amman, Jordan and London, England, and during his residence in the United States he lived in Boca Raton, Florida.

B. **BILBEISI ASSETS:** Munther Bilbeisi's family is reported to be one of the wealthiest in Jordan. His father, Ismail Bilbeisi, formed Ismail Bilbeisi and Co., Ltd., headquartered in Amman, and this company reportedly acts as exclusive General Agents for Toyota in Jordan, as well as General Agents for Panasonic Radio and British Petroleum Products. Ismail Bilbeisi, one of the largest landowners of commercial, residential and farm properties in Jordan, died in December, 1977, leaving his entire business and estate to his six children, each of whom reportedly inherited a one-sixth interest. Munther Bilbeisi estimated the 1983 value of his share of Ismail Bilbeisi and Co. at US\$16 million, and his share of the real estate holdings at US\$27 million. This information is based upon an individual Statement of

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Assets and Liabilities compiled in November, 1983 by Munther Bilbeisi's outside accountant, Kenneth Grushoff. Ex. 1.

Grushoff's report further identified Munther Bilbeisi's net worth in the United States at US\$3.5 million, consisting of mortgaged and unmortgaged land in the Boca Raton, Florida, area, eight cars and a 48-foot yacht.

Grushoff further reported approximately US\$1.4 million in assets held by Munther Bilbeisi in the United Kingdom, consisting of five automobiles and real estate, and assets held by Bilbeisi in Spain consisting of five more automobiles (value US\$245,000) and real estate (value 153 million Spanish pesetas).

To our knowledge, Grushoff's Statement of Assets and Liabilities has never been independently corroborated, and Munther Bilbeisi has never submitted any audited financial reports or documents to substantiate his wealth, despite several requests to do so by the Bank.⁴

Munther Bilbeisi's banking interests during the period covered by this report (1982 through 1989) include accounts at Banque de Paris et des Pays-Bas (Suisse) and the Arab Bank

⁴The Central Credit Committee was presented annual credit line proposals ("CLP's") by the Latin American Regional Office for Bilbeisi and his companies. Each indicated that financials had been requested, but the files reveal no such financials ever having been delivered. Ex. 2.

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(Overseas), both in Geneva, Switzerland.⁵ In addition, he maintained accounts with the Arab Bank Limited and Grindlay's Bank in Amman, Jordan, as well as at BCC in London, Nassau, Panama, Miami, Boca Raton and Amman.⁶ One of his companies, Coffee, Inc., maintained accounts at the Atlantic Bank in Boca Raton, Florida, as well as at BCC in Boca Raton, Miami and Nassau. Other companies owned or controlled by Bilbeisi also kept accounts at BCC Miami, Boca Raton, or Nassau. Bilbeisi's associates also maintained substantial accounts with BCC London and Panama. See, Section IV B, C and D.

C. BILBEISI BUSINESS INTERESTS: Munther Bilbeisi's business interests appear to be extensive. BCC Miami files indicate that at least in 1988-89 he was involved in the international sale of helicopters between Jordan and Guatemala. It has been alleged that Bilbeisi is in fact an

⁵Detailed information concerning these accounts is unavailable. However, Munther Bilbeisi maintained assets of between U.S.\$1.8 and \$2.5 million at the Arab Bank, as reflected in the various letters of guaranty issued by that bank to BCC in Bilbeisi's behalf.

⁶Munther Bilbeisi's brother, Fakhri Bilbeisi, is currently the Country Manager of BCC in Jordan; prior to that position he was manager of the BCC Agency in Amman. Ismail Bilbeisi & Co. also maintained extensive banking contacts with BCC Amman. As of December 31, 1983, that company as well as other family members held a credit line of US\$6.6 million, and had outstanding debts to that Agency of US\$9.3 million. Ex. 51.

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arms dealer, a fact which Bilbeisi has vehemently denied under oath in a deposition taken in Miami on May 19, 1990.⁷

Ex. 3. In the unsubstantiated Grushoff Statement of Assets and Liabilities, Bilbeisi described himself as doing, "on occasion," Jordanian government contracts as a supplier of commodities such as cement, foodstuffs and livestock, as well as the purchase of "distressed merchandise" exported to Jordan and Saudi Arabia.

Other businesses with which Bilbeisi has been identified are "real estate and the import of Persian carpets." This information was reported on the "New Proposal for Central Credit Committee Meeting" submitted by the Latin American Regional Office in Miami in January, 1984, and aside from the fact that Bilbeisi owns real estate, it is almost certainly incorrect in its description of his business.⁸ Ex. 51.

⁷This deposition was taken in the case of Nicholas Collwyn Sturge v. Coffee, Inc., and involves an insurance claim filed by Coffee, Inc. with Lloyds of London for U.S.\$3.5 million based upon an alleged "switch" of insured coffee being transported by Coffee, Inc. from Guatemala to the United States in 1986.

⁸Throughout our investigation we have uncovered absolutely no indication that Bilbeisi is involved in the real estate business or the import of Persian carpets, and no bank files made available to us (including the unsubstantiated Grushoff Statement of Assets and Liabilities) support that statement.

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Bilbeisi has only three types of businesses which we have been able to independently verify: (1) arms dealing, at least in 1988-89; (2) rental of international shipping trailers and containers through Container International Transport Limited, Inc., International Chassis Transportation Systems, Inc., and Consolidated Trailers, Inc.;⁹ and (3) the export of coffee beans from Central America to the United States. It is Munther Bilbeisi's coffee business which is at the core of his relationship with BCC in Miami.

D. BILBEISI COFFEE SMUGGLING OPERATION: Munther Bilbeisi's coffee operation intimately involves two companies directly controlled by him. The first and most important is Coffee, Inc., a Florida corporation formed in September 1983 for the business of importing coffee from Central America. Ex. 4. Coffee, Inc. is still in business and its headquarters are now located at Bilbeisi's former residence, 701 Sanctuary Drive, Boca Raton, Florida. Munther Bilbeisi is President and Director of this company, and Gloria

⁹Each of these companies were incorporated in Florida in November, 1983, shortly before receiving large loans from the Boca Raton Agency in December, 1983. Each was involuntarily dissolved in November, 1984, but apparently continued to do business as limited partnerships until December, 1984. At that time Bilbeisi's interest in them was sold to his partners, Steve Calderon, Joseph Villalba and Jose Otano, who continued their operations while receiving additional loans from the Boca Raton Agency secured by deposits in BCC London.

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Delgaudio, a Coffee Inc. employee, is the corporate Secretary and Treasurer. The second corporation is Orion Systems (Panama), S.A., a Panamanian corporation. Orion was formed by Bilbeisi prior to Coffee, Inc., and it, too, was in the business of buying and selling coffee. Ex. 5. When Coffee, Inc. was established Bilbeisi combined the activities of the two companies under one accounting and tax reporting system.

Bilbeisi's coffee transactions constituted a massive smuggling operation of coffee from various Central American countries into the United States. Ex. 6. Bilbeisi's principal associates in this endeavor were Steven Calderon, Jose Otano and Joseph Villalba, each of whom played a key role in the business and also maintained substantial and very active accounts with BCC in London and Panama. The smuggling operation was in place from about mid-1983 through late 1986, when a disastrous fall in coffee prices essentially drove Bilbeisi out of business.

Bilbeisi's key associates in this operation, Steven Calderon, Jose Otano and Joseph Villalba, each held important positions with the Coordinated Caribbean Transport Shipping Line ("CCT"). Otano was in charge of Central and South American shipments for CCT; Calderon was Vice President of Operations for CCT and the direct supervisor of Jay Anthony

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Aramburo, a key functionary in New Orleans; and Villalba was in charge of in-bound shipments for CCT. Ex. 6. These individuals were perfectly positioned to insure a successful smuggling operation, and were essential to Bilbeisi's scheme. They worked with him from at least 1983 through late 1985, at which time, apparently due to a financial dispute, they broke with Bilbeisi and reportedly engaged in their own import transactions, the nature of which are unclear. Munther Bilbeisi continued in coffee smuggling after they broke with him in 1985, but on a reduced basis until late 1986 or early 1987 when low coffee prices basically drove him out of the business.

Munther Bilbeisi maintained "agents" in various Central American countries, in particular Guatemala (Humberto Hernandez and Wallace Pappadopollo) and Honduras (Elio Ordonez, Manuel Davila, and Arnulfo Andara Flores).¹⁰ Each of these "agents," with the possible exception of Davila, were local employees of CCT.

¹⁰There was also a direct connection between Munther Bilbeisi and Gerardo Harris, the former Vice-Minister of Treasury under the Noriega regime in Panama. Harris knew Bilbeisi, and put him together with Carlos Dubon, a former government official under the Samosa regime in Nicaragua, for several "coffee deals" out of Honduras in 1985. Ex. 7. For a more detailed review of the possible connection between Bilbeisi and Noriega, see Section II J.

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These and other "agents" arranged for the purchase in these countries of coffee known as "resaca," generally considered to be sub-standard grade prohibited from export. This coffee was smuggled out of Central America on board ships usually owned by the CCT Line. Arrangements were made at the Central American port of embarkation for the coffee to be loaded into large containers and put on board a CCT ship. This involved the active assistance of CCT officers Calderon, Otano and Villalba, as well as of local Central American port officials. Ex. 6.

According to the sworn testimony of Jay Anthony Aramburo and others, the coffee was loaded and transported to the U.S. by means of "short shipping," which means that the coffee was listed on the ship's manifest but was shown as not having arrived at the port on time and therefore not put on board the ship. In fact, the coffee was put on board the ship in specially marked containers. Once the ship left port with the coffee successfully smuggled aboard, a CCT contact in a United States port was notified. Ex. 6.

One such contact, Jay Anthony Aramburo, a CCT employee, was located in the Port of New Orleans and his operation is typical of the overall smuggling scheme. Prior to the arrival of the smuggled coffee, Aramburo would be called by

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Elio Ordonez, or one of Bilbeisi's other "agents," who would report to him the departure of the coffee, the ship's name and the identifying numbers of the containers holding the smuggled coffee. The "agent" would then send the bills of lading and a list of the containers to be identified as "short shipped." When the ship arrived in New Orleans, Aramburo would amend the ship's manifest to show that the containers holding the coffee had not been put on board. In this way, Bilbeisi avoided the requirement of sanitary inspections for imported consumable products as well as the coffee import quotas. This would successfully avoid any U.S. Customs Service clearance and inspection of those containers. In the meantime the negotiable bills of lading had been sent to the Miami Agency in order to arrange for payment through Bilbeisi's various letters of credit.¹¹

By means of this smuggling operation, unexportable "resaca" coffee was exported from Central America without the payment of taxes or other fees in the exporting countries,

¹¹It is by no means clear that coffee was the only substance smuggled by Bilbeisi and his partners into the United States in this manner, and it is possible that the marked containers also held other materials, possibly even illegal drugs. The method of operation, the countries involved and their proximity to narcotic source and transit countries such as Colombia and Panama, the amounts of money involved as reflected in various bank accounts and the movement of those funds clearly indicate this possibility.

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and imported into the United States without sanitary inspection or the restrictions of the coffee quota imposed by United States membership in the International Coffee Organization.

Coffee was imported via New Orleans, Miami and Tampa. Whatever port it entered through, however, it all ultimately came to Miami, where it was rebagged and fraudulently marked as a higher grade. Ex. 6. This rebagging took place at Twin Terminals Warehouse, a storage facility for imports being unloaded in Miami. After being rebagged and marked at a higher grade, the coffee was generally sold at an inflated price to Chase & Sanborn or Chock Full O'Nuts.¹² Part of the operation included the payment of alleged "kickbacks" in the form of "commissions" to such persons as Arthur Berman (President of Chock Full O'Nuts and Vice President of General Coffee) and Frank Aravelo, operator of Twin Terminals for his help in rebagging coffee. Ex. 8.

The Bank's role in this smuggling operation consisted of: (1) opening letters of credit for Coffee, Inc. by means of which Bilbeisi financed his coffee purchases and gained

¹²These corporations were subsidiaries of General Coffee, an entity owned and controlled by Alberto Duque. As will be noted below, General Coffee and Duque defrauded BCC of over U.S.\$5 million. See pp. 82, 83.

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legitimate admission into Guatemala and Honduras; (2) extending credit to Bilbeisi and Coffee, Inc. in order to finance the letters of credit; and (3) issuing numerous, large, consecutively numbered cashier's checks to the same payee which were ostensibly used to pay for coffee purchases in Central America (and according to Louis Altamar, a former member of the smuggling operation, also to bribe local officials as necessary or to pay "kickbacks" and "commissions"). There is no direct evidence that the Bank, through any of its officers or employees, knew that Bilbeisi's coffee business was a smuggling operation, although as noted in Section III(I)(6) below there are grounds to claim that the Bank should have known, and grounds from which it can be inferred that the Bank was in fact fully aware.

E. BILBEISI RELATIONSHIP WITH BCC: Munther Bilbeisi's relationship with BCC Miami began in 1982, when he opened his first individual account.¹³ Since that time, and up to early 1989, the relationship between Bilbeisi and the Bank can best be described as very close.

¹³Bilbeisi maintained accounts with BCC in Jordan and other Agencies prior to his relationship with BCC in the United States.

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Bilbeisi was originally "marketed" for the Miami Agency by Nasim Farooqi, who was in charge of marketing in 1982. Originally, the Miami Agency had received a remittance for Bilbeisi, and this was personally delivered to him by Farooqi. As a result of Farooqi's efforts, Bilbeisi became an extremely active customer of the Bank. Ex. 9.

As Bilbeisi did more and more business with BCC in Miami (accounts and letters of credit) and Boca Raton (accounts and corporate loans), he came to be treated as a special customer who required special handling. When Bilbeisi had a question, need or problem, he was allowed to go directly to whomever he chose and at his own convenience. Bank employees have variously described his demeanor as demanding, loud, argumentative, intimidating and condescending to low level employees. Nevertheless, over the years he developed a close personal relationship with Nadim Hasan, the Manager of the Boca Raton Agency and close associate of Regional Manager A. R. Sakhia, and frequently invited Hasan to his home for social as well as business purposes. Ex. 10.

In the area of letters of credit, Bilbeisi worked directly with Hamid Khan, who was in charge of the Miami Letter of Credit Department from mid-1983 through 1986, the

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period of Bilbeisi's greatest letter of credit activity. In fact, Khan has been described as Bilbeisi's "advisor" on banking and financial matters. This relationship with Khan was not exclusively business oriented, however, since Bilbeisi on occasion entertained Khan and his guests on Bilbeisi's yacht, Ex. 11, 12, and apparently did at least one personal financial favor for Khan.¹⁴ Bilbeisi also worked directly with Hassan Parvez, Miami Agency Manager from 1984 through 1988, with Boca Raton Agency Manager Nadim Hasan, and with A. R. Sakhia, the Latin American Regional Manager, to each of whom he had unrestricted direct access.

Bilbeisi's direct relationship with these individuals, and especially with Sakhia, was crucial to Bilbeisi's overall relationship with the Bank. All of the officers and employees we have interviewed have asserted that Sakhia, as Regional Manager, was in fact the real manager of the Miami Agency. He kept fully informed of all of the Agency's operations and actually exercised direct control over that Agency, even to the extent of completely by-passing the various Agency Managers and issuing direct orders to Agency officers and employees. Ex. 13. Management of the Agency by its titular managers was in name only. Sakhia exercised

¹⁴~~See~~ pp. 161-162 below.

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direct control, and nothing was done by the Agency's or the Region's officers without his direct knowledge. Ex. 14. According to several Bank employees, Nadim Hasan, was Sakhia's close associate and right hand man in Miami, which enabled Sakhia to maintain the same degree of control in the Boca Raton Agency. See, Section V(A).

F. ALLEGATIONS BY LOUIS ALTEMAR AGAINST BILBEISI AND BCC

Louis C. Altemar is a native of Haiti who was first an employee and then a business associate of Munther Bilbeisi between 1976 to 1988. Ex. 15.

Until late 1985, Altemar served as driver, handyman and bodyguard for Bilbeisi.

Beginning in approximately November 1985, Bilbeisi used Altemar as an agent for the purchase of coffee and as a courier for money to be used to purchase that coffee. Ex. 16. Altemar became the payee of over US\$2.5 million in cashier's checks which he distributed on behalf of Bilbeisi.¹⁵ In these capacities, Altemar claims to have an

¹⁵In 1987 and 1988, after Bilbeisi's coffee business ended, Altemar actively participated in the sale of certain helicopters to Guatemala on behalf of Bilbeisi and his company Mura International. Altemar was paid a commission of approximately US\$75,000 by Bilbeisi for his services. See, Section III(I) (7).

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intimate knowledge of Bilbeisi's businesses, Bilbeisi's business and personal associates and his relationship with certain officers in the Miami and Boca Raton Agencies and the Regional Office.

Altemar has become a witness against Bilbeisi and has given a sworn statement in the current civil litigation brought by a Lloyds of London insurance syndicate against Coffee Inc. and Munther Bilbeisi (see, footnote 7).

In this statement, Altemar said that Bilbeisi's coffee import business was in fact a smuggling operation.¹⁶ He also stated: "I know that Mr. Bilbeisi paid employees of BCC banks cash to obtain letters of credit and entertained them at his house at the Sanctuary." Ex. 17.

In order to obtain further details of Altemar's knowledge of Bilbeisi's relationship with BCC officials, he was interviewed by BCC investigators on March 30, 1990. Ex. 16.

At that time, Mr. Altemar gave only incomplete information and provided no substantiation to his "pay-off" claim. He did state, however, that Munther Bilbeisi had an "improper relationship" with five BCC officials, namely A.R.

¹⁶This statement has been corroborated by the sworn statements of Jay Anthony Aramburo and Carlos Dubon, both themselves participants in the scheme.

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Sakhia, Nasim Farooqi, Hassan Parvez, Nadim Hasan and Hamid Khan. Altemar asserted that these five officers did many favors for Bilbeisi, and that Bilbeisi could get them to use the Bank's money instead of his own to finance his smuggling operations. In addition, Altemar stated that Bilbeisi could get loans, cashier's checks, or anything else he wanted from BCC because of his relationship with these Bank officers.

Specifically, Altemar claimed that:

(1) Nasim Farooqi, who handled Bilbeisi's business at BCC Miami in the very early years of Bilbeisi's dealings with the Bank, had several of his American Express bills paid by Bilbeisi, including one which Altemar recalled was in the amount of approximately US\$11,000. This allegedly occurred in 1983 and 1984. Farooqi also was the recipient of cash payments from Bilbeisi during this period. Altemar provided no detail on these payments.

(2) Nadim Hasan, whom Altemar described as Bilbeisi's best friend, received frequent cash payoffs from Bilbeisi, including several which were allegedly witnessed by Altemar himself at the home of Bilbeisi in Boca Raton. Altemar was very vague with respect to how much money was involved, or the frequency of the payoffs. He stated that on three or more occasions he witnessed Bilbeisi giving Hasan a "stack of

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bills," one or two inches high, at Bilbeisi's home. Hasan was described by Altemar as a frequent visitor to Bilbeisi's homes, and as a recipient of female companionship provided by Bilbeisi.

(3) Hamid Khan, whom Altemar described as also being very close to Bilbeisi, and having done many favors for Bilbeisi at BCC, allegedly accepted money and favors from Bilbeisi. Altemar stated that he knew of a US\$2,500 check which Bilbeisi wrote to Diane Mandarino, a former girlfriend of Khan whom Altemar stated also had a relationship with Bilbeisi. Altemar alleged that the check to Mandarino was a payoff to Hamid Khan.¹⁷ Altemar further stated that Khan received additional cash payments from Bilbeisi, which Altemar personally observed. Khan was also alleged to be a frequent visitor to Bilbeisi's home.

(4) With regard to Sakhia and Parvez, Altemar stated that he knew of no cash payoffs, but that Parvez handled many post-dated checks from Chock Full O' Nuts and Chase & Sanborn for Bilbeisi, for which Bilbeisi was very grateful.

¹⁷The source of Altemar's knowledge about this check is highly suspect. It is entirely possible that the attorney for Lloyds of London was the person who showed this check to Altemar and coached him on its alleged purpose as a Bilbeisi payoff.

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Altemar's undocumented allegations about cash payoffs to Farooqi, Nadim Hasan and Hamid Khan are difficult, if not impossible, to corroborate, since the only ones who can testify about them are the payor (Bilbeisi), the payees (Farooqi, Hasan and Khan), or Altemar, the alleged witness.¹⁸

Our document review tends to confirm some portions of Altemar's allegations, in that the five Bank officials he named did regularly appear in Bank files as the persons who had direct regular contact with Bilbeisi and were the ones who handled most of his business with the Bank, including issuance of cashier's checks, letters of credit and loans.

Other allegations made by Altemar, however, have not been independently corroborated. With regard to those allegations made by Altemar which could be investigated further we have established that:

¹⁸Bilbeisi, Sakhia and Hasan have refused to discuss these matters with us. We have been unable to locate Farooqi. Altemar, after the initial interview, has refused to meet with us again and has failed to provide any corroborating detail to support his claims. Altemar has stated that he has "some documentation" to support his allegations, but we have never had the opportunity to interview him in depth again, first encountering resistance from Altemar, who demanded payment for his time as consulting fees for his testimony, and then having his lawyer, Nathan Diamond, refuse to make him available for further interview because of his impending appearance before a federal grand jury.

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(1) According to confidential sources, N. Farooqi has never had an American Express account. Thus, Altemar's allegations regarding Bilbeisi's payment of Farooqi's American Express account are either mistaken as to the identity of the credit account or entirely untrue.

(2) On April 14, 1986, a check was issued from the Coffee Inc. account at Atlantic Bank to Diane Mandarino for US\$2,500.00.¹⁹ A notation on the check stated for "Mrs. Hamid Khan." At depositions recently taken in the civil action between Lloyds of London and Bilbeisi, both Bilbeisi and Khan provided conflicting explanations as to the purpose

¹⁹Mandarino, currently living in the Chicago, Illinois area was formerly employed at the Citibank office in Miami. While in Miami, she and Khan lived together from approximately 1983 through 1987. The relationship was known to many employees of BCC in Miami. Mandarino denied any knowledge of payments to Khan by Bilbeisi and she further denied any knowledge of the \$2,500 issued in her name by Coffee Inc. She further denied that she had endorsed such a check and claimed any such endorsement was fraudulent.
Ex. 11.

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of the check.²⁰ There is no other physical evidence of any other payments from Bilbeisi to Khan.

(3) Louis Altemar alleged that on several occasions Bilbeisi provided female companionship for BCC officials, particularly Nadim Hasan. Our investigation has revealed that Bilbeisi had two female companions who may have been involved in this allegation. These are Tiffany Kimball and Tamara Mize. Kimball was identified during our interview with Nadim Hasan as a young girl with whom Bilbeisi was having an affair. Hasan admitted that he had seen Kimball at Bilbeisi's home on several occasions but denied that he had

²⁰ See footnote 93. There is some confusion as to the reverse side of the check. We have obtained two different versions of the endorsement side of the check: one bears the endorsement "For deposit only - To the Postmaster's Official Checking Acct"; the other bears the endorsement "Diane Mandarino - Pay to the order of Pan American Bank N.A." In our interviews with Diane Mandarino she was shown both versions of this check. She has denied any knowledge of the check and has denied that she has ever endorsed any check in the amount of \$2,500 from Bilbeisi's company Coffee Inc. It should be noted that the version of the check which bears the Postmaster endorsement was obtained from James Dougherty, Esq., attorney for Lloyds of London. He claimed this version came from documents subpoenaed from Atlantic Bank. The second version which bears the endorsement of Diane Mandarino was also obtained from James Dougherty who received it through a document request from Munther Bilbeisi. Both versions have been made exhibits in the Sturge/Coffee Inc. litigation. Ex. 19.

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any type of personal relationship with Kimball or any other female friend of Munther Bilbeisi.²¹ Ex. 18.

Additional investigation regarding Kimball revealed that on at least two occasions Kimball was paid a total of US\$4,000 by Munther Bilbeisi in the form of cashier's checks from the Boca Agency. Moreover, in September 1984, Tiffany Kimball opened an account at the Nassau Agency (then still located in the Miami Agency office) with a deposit of US\$1,500.00 drawn on an account of Munther Bilbeisi. A handwritten notation was contained in Kimball's Nassau account folder which identified her as Mr. Bilbeisi's "niece" and requested expeditious handling of the account. Ex. 20.

Attempts were made to locate and interview Kimball regarding her knowledge of Bilbeisi's relationship with the Bank officers. Kimball was finally located in the Orlando, Florida area, but she has refused to answer any questions. Ex. 21.

Tamara Mize, like Kimball, has been identified as a frequent companion of Munther Bilbeisi and an attendee at

²¹It should be noted that Hasan answered only several questions about Kimball. Immediately after Kimball's name surfaced in the interview, Hasan had a private conference with his attorney and thereafter Hasan terminated the interview and refused to answer further questions.

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numerous social functions at Bilbeisi's home in Boca Raton. Like Kimball, Mize received several thousand dollars from Munther Bilbeisi, some of which was for her medical or dental bills in New York. Ex. 22.

Mize now resides with her mother in the West Palm Beach, Florida area. Her mother was interviewed regarding her knowledge of Munther Bilbeisi and his relationship with Tamara Mize, BCC or any of its officers. She would not make Tamara Mize available for questioning. Ex. 23.

Altemar is the only person who thus far has made any specific claims about improper activities between Bank officers and Bilbeisi. As noted, those allegations are vague and for the most part unsubstantiated. Moreover, Altemar, an admitted member of Bilbeisi's coffee smuggling scheme, is a questionable source of highly suspect credibility.

There are, however, portions of Altemar's claims which appear to be corroborated and which all boil down to his allegation that Bank officials were performing "favors" for Bilbeisi, "favors" which were essential to the successful operation of his smuggling scheme. These included the granting of apparently under - collateralized loans, the accommodating issuance and administration of letters of credit, the establishment of accounts in both Nassau and

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Panama without proper documentation, the transfers of account balances to hide those funds and the supply of cash from corporate accounts with little "paper trail."

G. THE ESTABLISHMENT OF BILBEISI'S U. S. ACCOUNTS

Bilbeisi's business relationship with the Miami Agency began on December 1, 1982, when he opened his personal account with a deposit of US\$125,000. These funds were transmitted from BCC Amman via BCC London. Ex. 24. Although this account remained opened until May 11, 1986, the majority of the account activity occurred during 1983, when over US\$688,000 in deposits and over US\$750,000 withdrawals were made. See App. 3. At the end of 1983, this account was in an overdraft status in the amount of US\$43,000. Ex. 25.

Bilbeisi's first business account with BCC Miami was in the name of Orion Systems (Panama), S.A., which was opened on December 28, 1982, only three weeks after his personal account was established. The manner of opening was unique in that it was opened with a withdrawal of US\$15,282.50 instead of a deposit. This was done in connection with Bilbeisi's first letter of credit issued by the Miami Agency, IMP-166/82. Ex. 26. In order to provide the opening fees for that letter of credit, Orion was opened and immediately debited in the amount of the opening fee. In short, Bilbeisi

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literally used the Bank's money to open his first letter of credit, even though neither he nor Orion Systems had established an authorized line of credit or signed any loan documents. Significantly, as of December 28, 1982, Bilbeisi's personal account maintained a credit balance sufficient to cover this debit in Orion Systems. Ex. 24.

This situation was the first step in a long policy under which Bilbeisi successfully continued to use the Bank's money to conduct his operations, without the required approval of a sufficient credit line by the Central Credit Committee in London, and often without adequate loan documentation.

During 1983 there was significant activity in the Orion Systems account, with total deposits of US\$3.8 million and total withdrawals of US\$4.1 million. See App. 3. As of December 31, 1983 Orion Systems, like Bilbeisi's personal account, was in an overdraft status in the amount of almost US\$400,000.²² Ex. 27.

²²The overdraft status in the Orion and personal accounts continued into late February, 1984, when U.S.\$400,000 was transferred into the Orion account from BCC Khartoum. In response to our inquiries, Khartoum confirmed this transfer but indicated that these funds did not come from any accounts maintained by Bilbeisi, Orion or Coffee, Inc. Khartoum declined to identify the source of these funds. Ex. 28.

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It is interesting to note that both the Orion Systems and Bilbeisi personal accounts were significantly overdrawn in December, 1983, because at exactly the same time the Bank, through its newly established Boca Raton Agency, was negotiating to provide a US\$2.5 million loan to three other Bilbeisi companies, each of which had been formed only weeks before the loan application. The loan was secured in part by Bilbeisi's personal guarantee. These negotiations were conducted by Latin American Regional Manager A. R. Sakhia and Boca Raton Manager Nadim Hasan. The documentation for that loan makes no reference whatever to Bilbeisi's personal overdraft of US\$43,000 or Orion's overdraft of almost US\$400,000.²³

Another significant factor in the early days of these two accounts is the demonstrable financial relationship between Bilbeisi's operations and the operations of General Coffee, a major coffee importer during 1982 and 1983. The Miami Agency financed at least a portion of General Coffee's imports, which resulted in a US\$5 million loss to the Bank.

Ex. 29.

²³There were a number of other questionable activities involving that U.S.\$2.5 million loan, as will be described more completely at pages 46-56.

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In May, 1983, General Coffee filed for bankruptcy in Miami, Florida. Subsequent investigation connected with that bankruptcy revealed that General Coffee's operation was fraudulent, in that the imports of coffee made under BCC-issued letters of credit apparently did not exist. Alberto Duque, the owner and operator of General Coffee, had forged bills of lading and other documents in order to create the illusion that his BCC letters of credit were used to purchase Colombian coffee, when apparently no such purchases or imports had been made. Ex. 30. This fraud, which was perpetrated on BCC and other institutions, resulted in a loss of over US\$5 million to the Bank, a fact which Regional Manager Sakhia was fully aware of by mid-1983.²⁴

During 1983, Orion Systems received over US\$662,000 in payments from General Coffee, apparently for Coffee purchases by General Coffee from Orion. Ex. 31. Most of this activity occurred after the General Coffee bankruptcy. Some of these payments involved Bilbeisi's first large cash transactions with the Miami Agency. One day after the General Coffee

²⁴For reasons unknown to us, BCC had not placed itself in the position of consignee of the imported coffee in order to secure its financial position on the letters of credit issued to Duque, an action generally considered normal under most import financing circumstances. Instead, the Miami Agency secured the letters of credit by Duque's personal guarantees, which ultimately proved to be worthless.

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bankruptcy, Bilbeisi withdrew US\$30,000 cash from the Orion corporate account. Over the next month, Bilbeisi withdrew a total of US\$82,140 cash from the Orion account in four transactions. The last transaction, in the amount of US\$40,000, was made two days after Orion received its first deposit from General Coffee.²⁵ Ex. 32.

During the fall of 1983, Bilbeisi opened what was by far his most active account with BCC: Coffee, Inc., opened on September 9, 1983. The initial deposit of US\$148,987.85 consisted of checks issued to Coffee, Inc. by General

²⁵U. S. law requires that cash transactions of over US\$10,000 be reported by a bank to the Internal Revenue Service on a Currency Transaction Report ("CTR"). No record of any CTR filing of any kind is available at the Miami Agency for the period preceding January 1, 1987. Accordingly, there is no record of a CTR filing on any of these cash transactions. Our confidential sources indicate that the Internal Revenue Service has received no CTR's reflecting these transactions. In addition, at about this time, on August 9, 1983, the first apparent "structuring" in the Orion account surfaced. On that date, four cashiers checks for U.S.\$7,000, \$7,000, \$7,000 and \$6,000 were purchased by Orion. The checks, one to Brisker for \$7,000 and the remaining three to Jose Otano for \$20,000, appear to have been cashed the same day at the Miami Agency. Ex. 33. As noted, no record of any CTR's for these transactions exist, and our sources indicate that the IRS has received no filings relating to these transactions (it is arguable, however, that at least the purchase of these cashiers checks was not a reportable transaction).

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Coffee.²⁶ Ex. 34. The total transfers from General Coffee to Coffee, Inc. in the last four months of 1983 total almost US\$300,000.

During this period of time, Bilbeisi's Coffee, Inc. account at the Atlantic Bank received funds totaling over US\$5.5 million, the majority of which were from General Coffee. Ex. 35. These deposits provided the funds which were transferred into the Coffee, Inc. account at the Miami Agency, as identified above.

The year 1984 was the most active year for Coffee, Inc. During that year, deposits in excess of US\$19.9 million and withdrawals in excess of US\$19.7 million were made. See App. 3.

The significance of the financial relationship between General Coffee and Coffee, Inc. lies in the way the Latin American Regional Office, through its manager, A. R. Sakhia, reported to London, and in the way the letters of credit were handled by the Miami Agency. As noted above, the Bank lost over US\$5 million due to the letter of credit import fraud

²⁶Bilbeisi also maintained a Coffee, Inc. account at Atlantic Bank located in Boca Raton, Florida. Throughout the period of 1983 through 1989, significant transfers of funds between these two accounts occurred, and at times the matching deposits and withdrawals in these accounts actually take on the appearance of "kiting".

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perpetrated by Duque and General Coffee. This massive loss occurred just as Bilbeisi's companies were beginning to engage very heavily in the issuance of letters of credit for exactly the same purpose as General Coffee - coffee importation. Safe and sound banking practices would seem to suggest that, in reaction to the discovery that the Bank had been duped with false bills of lading, shipping manifests and other documents essential to letters of credit, the Bank would review similar documents - especially those involving the same commodity - with heightened care and concern. In regard to Bilbeisi's letters of credit, however, exactly the opposite seems to have occurred. In fact, letters of credit issued to Bilbeisi's companies were handled in what can only be described as a cavalier fashion by the Miami Agency.²⁷

In addition, the Miami Agency and the Latin American Regional Office obfuscated and covered up what was actually

²⁷ See Section III(I) below. The Miami Agency appears to have ignored what could reasonably be considered as warning signs of smuggling or other illegal activity, and also went out of its way to enable Bilbeisi, who with his companies was in an almost constant overdraft status beyond the approved credit limit, to continue to finance letters of credit. In short, under circumstances which should have caused alarm, the Miami Agency loosened its letter of credit issuance and payment procedures for Bilbeisi, and the Latin American Regional Office, which was fully aware of the activities inside the Agency, did nothing in its supervisory capacity to correct the situation.

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going on in Florida with Bilbeisi and his companies, as a review of a US\$2.5 million loan in Boca Raton as well as a December, 1983 credit line proposal to London eloquently demonstrates this point.²⁸ This was apparently done to avoid any questioning by London management of the relationship between Bilbeisi and the Miami and Regional offices, or of Bilbeisi's involvement in coffee imports -- questioning which certainly would have occurred after the General Coffee/Duque debacle.

1. The Boca Raton Loan:

The Boca Raton Agency was established in December,

²⁸See Sections III(G)(1) and (2). The overall situation in Florida did not escape the careful scrutiny of Mr. Saleem Siddiqi, then the Chief of Internal Audit for the Bank in London. Despite the barrage of lies and obfuscations emanating from Miami, Mr. Siddiqi became aware of at least part of the true situation involving Bilbeisi, and severely criticized both the Miami Agency and the Latin American Regional Office. Ex. 53. Despite his best efforts, however, Mr. A. R. Sakhia and his assistants, principally M.U. Rehman, Nadim Hasan and Hamid Khan, continued to operate in essentially the same fashion under the guise of "accommodating" a very lucrative customer, thereby exposing the Bank to serious financial loss and ultimately to potential criminal liability. It is to the credit of Mr. Siddiqi, however, that as soon as he became aware of the situation, he acted immediately to stop it, and it was only through the efforts of A. R. Sakhia and his assistants that Mr. Siddiqi was thwarted in those attempts.

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1983, and its first manager was Nadim Hasan.²⁹ M. U. Rehman, the Credit Manager at the Latin American Regional Office, has advised us that Nadim Hasan was an unusual choice for manager of this new Agency due to his lack of experience and seniority. However, Rehman stated that Hasan was very close to Sakhia and had been hand-picked by Sakhia for that position. Ex. 14.

The first loan issued by the Boca Raton Agency was made to three of Bilbeisi's companies: Consolidated Trailers; International Chassis Transportation Service; and Container International Transportation. This loan was negotiated by Nadim Hasan and A. R. Sakhia directly with Munther Bilbeisi at the Boca Raton office in December, 1983.³⁰ Ex. 36. The

²⁹We have been unable to uncover any written proposal or authorization for the opening of this Agency by the Bank's management in London. Various Bank employees have reported that this Agency was opened because a "market survey" revealed major potential in Palm Beach, although we have not been able to locate any such survey. Similarly, no Bank employee has been able to explain why the Agency was physically located in Boca Raton when Palm Beach was in fact the targeted area. Reportedly the Internal Revenue agents have received information that the Boca Agency was opened to specifically accommodate Munther Bilbeisi.

³⁰Bilbeisi was represented in the loan transaction by Carlos A. Castro of the Miami law firm of Castro & Castro. His law partner, Jose Luis Castro, was convicted and incarcerated along with Alberto Duque in connection with fraud charges relating to General Coffee. Bilbeisi's dealings with Duque and General Coffee have already been referenced. Correspondence by Carlos A. Castro to BCC

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loan was not only the first one made by this Agency, it was the first one received by these three companies, each of which had been incorporated by Bilbeisi in Florida only weeks before. Ex. 38.

The transaction actually involved three separate loans to each corporation but the loan proceeds were commingled. Technically, US\$1 million was loaned to Consolidated Trailers and International Chassis Transportation Service each, with the remaining US\$500,000 being loaned to Container International Transportation. Although the first two of these amounts were clearly above Sakhia's authorized limit of US\$500,000 as the Regional Manager, and the total amount clearly exceeded his authorized limit, no approval for these loans was sought or received from the Central Credit Committee in London, the only group in the Bank authorized to approve such large disbursements. Bank records show that the date of the loan was actually December 23, 1983 and on that same day the proceeds of the loan were transferred through the Miami Agency's internal accounts to newly established

concerning these loans classifies them as "mortgage loan to Munther Bilbeisi," a classification which is plainly inaccurate since the loan on its face was for "working capital" for the corporations. As will be seen, neither description is truthful. Ex. 37.

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Bilbeisi accounts in Panama (US\$1.5 million) and Nassau (US\$956,250). Ex. 39.

On December 28, 1983, M. U. Rehman sent a telex to Khalid Sharwani of the Central Credit Division in London. Ex. 40. That telex referenced a telephone conversation between them that morning concerning loan advances by the Boca Raton Agency. Rehman recited that the security for the loans consisted of UCC filings on all of the assets of the companies, plus the personal guaranty of Munther Bilbeisi.³¹ The telex stated:

"Please note that a complete credit proposal is being prepared for Central Credit Committee. For your information the above amount will not be disbursed before completion of all necessary documents." (emphasis added.)

In fact, as stated, the Agency's records show that the entire amount of the loans, US\$2,500,000, had been disbursed five days prior to Rehman's conversation with Sharwani. Ex. 39.

Shortly after this message, Sharwani sent a return telex to Rehman concerning the loans. Ex. 41. The telex acknowledged receipt of the December 28 message, and asked for a Credit Line Proposal ("CLP") to be forwarded to the Central Credit Committee. A credit line proposal was

³¹The UCC filings were not made until May of 1984, five months after the loans.

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prepared for Miami Regional Office approval for each of these three loans, but none of them were ever sent to the Central Credit Committee, despite the fact that the loans had been made and the proceeds disbursed, and despite the fact that a second request for a CLP was made in February. Ex. 41. The originals CLP's remain in the files in Miami as Regional Office documents. Ex. 42.

The CLP's as prepared for each of the corporations are significant in two additional respects. First, they indicate that business received from Consolidated Trailer Corporation and Container International Transport for 1983 was US\$15 million each, and for the preceding year (1982) was US\$7 million. As far as we have been able to determine, these corporations did not even exist prior to November 1983, and therefore gave no business to BCC whatsoever in 1982 or 1983. Moreover, neither Bilbeisi nor any other of his corporations had done this volume of business with Boca Raton or Miami. In addition, the purpose of the loans are stated to be "working capital, assistance to meet short term requirements." As will be noted shortly, this is highly unlikely.

Apparently, when no credit line proposal was submitted to London, the Central Credit Committee presumed that the

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loan had not been disbursed, as had been promised in Rehman's telex of December 28. However, the existence of the loan was exposed in the course of a 1984 internal audit supervised by London, and this led to another telex to Rehman on January 8, 1985 (over one year after London's first request for a CLP on these loans). Ex. 43. That telex indicated that no CLP had ever been submitted on these loans, and asked for background information concerning them. This telex was apparently ignored, and London once again contacted Rehman on January 29, 1985 pointing out that it was still awaiting a reply concerning these loans. Ex. 44.

These documents were located in the files of the Central Credit Committee in London. No further documents concerning that loan appear in those files, and none of these telexes appear in any of the files maintained by the Boca Raton Agency or the Latin American Regional Office. Nor was Rehman's December 28, 1983 telex found in the Miami Regional files, indicating the strong possibility that these files may have been "altered." In this regard, Hamid Khan has told us that both A. R. Sakhia, the Latin American Regional Office Manager, and Hasan Parvez, the Miami Agency manager between 1984 and 1989, removed documents from letter of credit files.

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Khan did not identify any specific documents or files, and denied ever having done this himself. Ex. 12.

In sum, this loan was issued without the approval or knowledge of the Central Credit Committee, although the Central Credit Committee had been assured telephonically and by telex by M. U. Rehman that the loan funds would not be disbursed without such approval, and that the appropriate CLP would be forwarded. Mr. Rehman told us that he did this on the instructions of Regional Manager, A. R. Sakhia.

One of the documents contained in the Boca Raton Agency files include a pledge agreement signed by Bilbeisi and referencing this loan. Ex. 45. In that agreement, Bilbeisi promised to maintain "compensating balances" in unspecified other accounts in order to provide security for this loan. Curiously, this is not even mentioned in Rehman's December 28 telex to Mr. Sharvani, although in that telex Rehman did refer to "other considerations for allowing the above facilities" which had been mentioned in the telephone conversation but which were not specified in writing. When interviewed by us, Rehman had no recollection of what the "other considerations" may have been, and stated that they did not include the compensating balance agreement.

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The loan proceeds of US\$2.5 million which Rehman promised would not be disbursed were sent directly by BCC Boca Raton to BCC Miami. From Miami's internal IBF account these funds were forwarded to personal time deposit accounts in Bilbeisi's name at BCC Panama (in the amount of US\$1.5 million) and at BCC Nassau (in the amount of US\$956,250)- despite the CLP assertion that the funds were for corporate working capital purposes. Ex. 39. Each of these accounts was established without Account Opening Forms or signature cards on the same day that the loan proceeds were disbursed, December 23, 1984.

During 1984 the operation of the Nassau Agency was conducted under the management of Saad Shafi at the offices of the Miami Agency itself. The account ledger card for Bilbeisi's personal account maintained in Panama and to which the US\$1.5 million in loan proceeds was disbursed contains a handwritten notation, "lien; not to be released without tested telex of BCC Boca Raton." Ex. 46. The manager of the Panama Agency at the time was Amjad Awan, who is now presently incarcerated after having been convicted on money laundering charges in Tampa, Florida. No similar restriction appeared in the Nassau documents maintained in Miami, despite

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the Bilbeisi Pledge Agreement to maintain "compensating balances" as security for the loan.

The Bilbeisi personal accounts at the Panama and Nassau Agencies remained open until May 25, 1984. During that five-month period, the account at the Panama Agency earned US\$72,875 in interest, and the account at the Nassau Agency earned US\$46,957 interest. Ex. 47. Both accounts were closed on the same day, and the proceeds transferred to a newly opened Munther Bilbeisi personal account at the Boca Raton Agency. Ex. 47. These funds were held in that account until August 1, 1984, when the funds were used to repay the loans for each corporation. Ex. 48. The Boca Raton Agency was subjected to an annual internal audit conducted in August or September 1984. The effective date of the audit was July 31, 1984, one day prior to the repayment of the loan. Since the loan was in fact repaid prior to the actual conduct of the audit, it was noted by the auditors but received only minor criticism with the suggestion that Central Credit Committee approval should have been secured. Ex. 49.

Finally, it should be noted that the method of the physical disbursement of the loan and the return of the funds to Boca Raton was done in an extremely unusual and confusing manner. Bank employees have advised us that it is improper

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to transfer loan proceeds from the account of one Agency to the account of another, as was done here, unless the purpose of the loan is to pay off another existing loan held by the second Agency. Since this was not the case, and since the effect of disbursing the loan in this manner made it extremely difficult to trace the funds, it is possible that this course of conduct was followed for that very purpose. Moreover, the movement of the money raises questions as to the reasons for having handled the transfers in this manner. Indeed, it can be alleged that the funds were moved from Miami to Panama and Nassau and then returned in order to make the tracking of the funds more complicated.

It is unclear what the real purpose of this loan was. Obviously, the loan was not issued for "working capital" for any of the named corporations. In fact, the money apparently remained in two personal accounts in Bilbeisi's name, until it was consolidated into another Bilbeisi personal account in Boca Raton and then ultimately used for repayment. The funds were never expended by Bilbeisi or his corporations for any purpose at all. There are two possible interpretations which can be drawn from this: first, the funds were used as collateral for Bilbeisi's financial transactions with other persons or financial institutions, even though they were

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supposedly pledged to BCC for the repayment of the loans; and second, the loans were used to create an "apparent source" of income for these three corporations to cover the influx of money laundered from some illegitimate source. In the second scenario, the books and records of the corporations would show total receipts of US\$2.5 million from BCC loans, when in fact money in that amount from other sources could have been funnelled into the corporations under the guise of the loans.³²

2. The Establishment of Bilbeisi's Credit Facility in Miami:

In January, 1984, two credit line proposals ("CLP's") were prepared in Miami for Munther Bilbeisi and his companies separate and apart from the CLP prepared on the US\$2.5 million loan in Boca Raton one month before. The first CLP was dated January 20, 1984 and contained essentially accurate information. Ex. 50. The second, dated January 26, 1984, contained inaccurate information. Ex. 51. The second CLP was the one which was submitted to and ultimately approved by

³²In regard to the use of the funds as "collateral" for other business deals, ~~see~~ pp. 117-119. It is not known how Bilbeisi or the corporations handled interest earned or paid in their tax returns, but the potential for tax evasion is apparent, and with it the potential liability of the Bank in a "Klein Conspiracy."

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the Central Committee in London. We have been unable to determine who in the Bank actually prepared these CLP's.

The first CLP was prepared specifically for Orion Systems and Coffee, Inc. That CLP showed the address of these companies as Boca Raton, Florida, and described their business as "importation of coffee beans from Latin America; company incorporated in Panama." The borrower's background was accurately described by noting, "Mr. Bilbeisi ... is the beneficial owner of the company [and] has dealing with our Amman branch." It further reported that in the past Miami had opened letters of credit for these companies which were fully covered by various bank guarantees. Business received from the companies was also accurately reported as US\$810,000, which reflected the then-open letter of credit IMP 166/82 for coffee imports. The first CLP requested approval for a credit facility in the amount of US\$2.3 million, to be secured by a US\$1 million guarantee from BCC Amman and a US\$800,000 guarantee from the Arab Bank Limited. The purpose of the credit facility was reported as "importation of coffee from Latin American countries" and as "working

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capital needs." A copy of an audited balance sheet was noted as available for review.³³

The second CLP is entirely different from the first and contains statements which the Miami Agency and the Latin American Regional Office should have known were inaccurate. The borrower is listed as "Mr. Bilbeisi and his Group Accounts," without any reference to specific companies. The location of these companies is listed as Miami, although both Bilbeisi and all of his companies were resident in Boca Raton, Florida.³⁴ The business is described as "real estate and import of Persian carpets," with all references to coffee importation (as reflected in the first CLP) having been removed. Bilbeisi's background is disingenuously described as being "general agent for import of Toyota motor cars in Jordan," a claim which could only have come from the Grushoff Statement of Assets and Liabilities, in which this business

³³This is presumably a reference to Ex. 1, Kenneth Grushoff's "Statement of Assets and Liabilities" dated December, 1983, although it is inaccurate to state that this was an "audited balance sheet."

³⁴This is significant because at this time the Boca Raton Agency was open, and it would thus seem appropriate and normal for that Agency to be making the application for companies and individuals located within its area. A CLP submitted by Boca Raton, however, would almost necessarily have to reflect the existence of the earlier U.S.\$2.5 million loan, which was significantly excluded from both CLP's.

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was attributed to Ismail Bilbeisi & Co., not to Coffee, Inc., Orion or any Munther Bilbeisi entity. Aside from that Statement, there are no records at Miami, Boca Raton or the Latin American Regional Office which support this claim, and in fact the prior business dealing of the Miami Agency and the Regional Office with Bilbeisi completely contradict it.

In the second CLP, no mention whatever was made to the "audited balance sheets" referenced by the first CLP, or the availability of copies of those balance sheets.³⁵ The stated purpose of the CLP was also revised to exclude any mention of the import of coffee from Latin America. It reported the facility was for "working capital needs," thus implying the facility was for the purpose of promoting Bilbeisi's non-existent businesses of "real estate and the importation of Persian carpets."

The second CLP also increased the amount of the facility requested from US\$2.3 million to US\$2.5 million. It recited the same security as the first CLP (a US\$1 million

³⁵In fact, neither Bilbeisi nor any of his companies ever submitted financial statements to the Bank, despite repeated requests from London. On one occasion Engracia Estalella, in charge of the Credit Department in the Miami Agency, requested statements directly from Bilbeisi. Bilbeisi's outrage at this request resulted in its being withdrawn and earned for Ms. Estalella a rebuke from M. U. Rehman in the Regional Office's Credit Department.

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guarantee from BCC Amman and a US\$800,000 guarantee from the Arab Bank), but significantly noted that the Arab Bank guarantee was "to be increased to US\$1,500,000."³⁶ The second CLP deceptively noted that the past business received from Bilbeisi was US\$4,050,000 in 1983. This refers to letter of credit IMP 166/82, which was issued in that total amount but under which only US\$810,000 had been disbursed (as accurately reflected in the first CLP).

Finally, the second CLP reported that Bilbeisi's outstanding debt to BCC was US\$789,000 as of January 31, 1984. This completely ignored the US\$2.5 million loan to Bilbeisi and his companies issued by the Boca Raton Agency only one month before. In fact, Bilbeisi and his "Group Accounts" owed over US\$3.2 million to BCC as of January 31, 1984. Even more significantly, much of this debt was unsecured. While it is arguable that the Miami Agency, the originator of the second CLP, might be unaware of the Boca Raton loan, A. R. Sakhia, the Manager of the Regional Office and one of the loan negotiators, was fully aware of it.

³⁶This promised increase was not kept, and neither the Miami Agency nor the Regional Office pressed Bilbeisi on it. The \$700,000 shortfall in security continued for over thirty months, despite the fact that Bilbeisi and his companies were in an almost constant overdraft position for the next three years.

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Nevertheless, Sakhia allowed the second CLP to go forward to the Central Credit Committee in London without reference to this major debt, an action which is hardly surprising in view of his efforts to hide the loan from London management in the first place.

As noted, the first CLP which more or less accurately reported Bilbeisi's financial and business activities, was not forwarded to London. The second CLP was sent, and on February 22, 1984, it was approved by the Central Credit Committee.

Virtually all of the information contained in the second CLP is demonstrably inaccurate. Moreover, the Miami Agency and the Regional Office should have known this. Given Sakhia's direct involvement and control of the Agency and the Regional Office, it is clear that he was aware of both and involved in the preparation or review of the second.

The actual purpose of the second CLP, as demonstrated by the subsequent use of the credit facility, was to obtain credit of US\$2.5 million for Bilbeisi to use in funding letters of credit for the purchase of coffee in Central America through Coffee, Inc. and Orion Systems. The second CLP was crafted to avoid any mention of coffee importation or of Bilbeisi's existing debt to the Bank, however, because

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after the General Coffee/Duque fraud any such mention would clearly have raised concerns in London, concerns which would certainly have proved awkward for Sakhia, Hasan and Khan in Florida.

It must be kept in mind that much of the coffee sold by Bilbeisi in the United States in 1983 was to General Coffee or its affiliates, all controlled by Alberto Duque. The General Coffee/Alberto Duque fraud and the resultant US\$5 million loss to the Bank were fully known to both London as well as Sakhia and his operatives. Notifying the Central Credit Committee that the Miami Agency and the Latin American Regional Office were continuing to finance coffee importation under these circumstances, and with a company doing business with General Coffee, would most certainly have resulted in heightened scrutiny and supervision by London.

Ultimately, however, London did learn at least part of the truth. The June 29, 1984, internal audit of the Miami Agency and supervised by London revealed key facts about Bilbeisi and his business.³⁷ Ex. 52. This led to a letter from Saleem Siddiqi to Sakhia dated February 6, 1985 in which

³⁷The success of the deception practiced on London by the Miami Agency and the Regional Office is demonstrated by the inquiry contained in the audit, asking when Bilbeisi had switched from the real estate and Persian carpet business to the coffee business, and what experience Bilbeisi had in coffee.

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Siddiqi criticized Sakhia for failing to use reasonable caution with Bilbeisi's coffee business in light of the losses incurred by BCC in the General Coffee situation. Ex. 53. Siddiqi further criticized Sakhia for the manner in which Bilbeisi's credit facilities were being handled. His letter was basically ignored by Sakhia. When no answer was received, Imtiaz Ahmad wrote to Sakhia on February 15, 1985. Ex. 54. This time, Sakhia directed Rehman to answer the letter, and instructed Rehman what to say. Ex. 14. Rehman's response letter, dated March 27, 1985, addressed only the portion of Siddiqi's criticisms relating to the use of post-dated checks from Bilbeisi as collateral for letters of credit. Ex. 55.

For some unexplained reason, Mr. Siddiqi's February 6, 1985 letter is not contained in any of the files maintained by the Miami Agency or the Regional Office. It was only located upon examination of the Central Credit Committee files in London.

3. May 1985 Bank Statement

A review of the Miami Agency credit file on Munther Bilbeisi uncovered a Coral Gables Federal Savings & Loan Association of Boca Raton, Florida "Request for Verification of Deposit." Ex. 56. The form was prepared by Coral Gables

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Federal in an apparent response to Bilbeisi's application for a residential mortgage. The form was sent to the Boca Agency but requested current balances in the Miami Agency's accounts of Munther Bilbeisi and Coffee, Inc. The response, a copy of which was found in the Bilbeisi credit file, was signed by Nadim Hasan, Manager of the Boca Raton Agency, on May 20, 1985 and noted that Bilbeisi's personal and business accounts were in the seven figure range. The form did not reveal balances in Bilbeisi's account as requested but did contain a few sentences about the high regard the Boca Agency had for Bilbeisi as a customer.

Contained in Bilbeisi's monthly account statement file in Boca Raton was a false monthly account statement for his account at that Agency dated May, 1985. Ex. 57. This statement was obviously prepared on a typewriter and with a different print from that found on other monthly Bank statements issued by Boca Raton. This statement showed an ending balance in Bilbeisi's account of US\$2.5 million, an amount which is false. The actual ending balance in the account for May of 1985 was US\$90, as was shown on the authentic May, 1985 Bank statement contained in the same file. Ex. 58. The fraudulent statement claimed a deposit to the account of US\$2,582,207.80 on May 25, 1985.

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Interestingly, a deposit for this amount was made to this account exactly one year prior, i.e., the proceeds of the December, 1983 Boca Raton loan of US\$2.5 million on their way back from Panama and Nassau. Ex. 48.

We have not been able to determine the purpose of the false bank statement or why it is in Bilbeisi's Miami monthly statement file. Without confirmation from Coral Gables Federal Savings, it is not possible to determine if the "Request for Verification of Deposit" and the fraudulent bank statement were sent to that institution. The only clear fact is that an obviously fraudulent Bank statement was located in Bilbeisi's personal account file at the Miami Agency.

H. BILBEISI'S NASSAU AGENCY ACCOUNTS:

Munther Bilbeisi came to the Miami Agency on September 18, 1984, and explained to Bank officers that his wife was about to sue him for divorce and that she might attempt to seize the balances in his corporate accounts. Ex. 13; Ex. 59. It has been verified through public record searches that Bilbeisi's wife filed for divorce just prior to his visit to the Miami Agency. Bilbeisi stated that he wished to avoid having his accounts attached or seized, and issued a series of oral instructions for that purpose. As a result of those instructions, a series of transactions occurred which

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effectively emptied Bilbeisi's Miami Agency corporate accounts and successfully hid those funds.³⁸ Each of these transfers was made from the Miami Agency to newly opened accounts at the Nassau Agency, which was then physically located in the same office as the Miami Agency.

First, on September 19, 1984, a wire transfer of US\$600,000 was made by Bilbeisi from the Coffee, Inc. account at Atlantic Bank to the Orion Systems account at the Miami Agency. Those funds, however, were never deposited into the Orion account in Miami. Instead, without any written documentation, the Miami Agency transferred those funds to a new Orion account opened that same day at the Nassau Agency. Although the Nassau Agency was physically located in the Miami office, the absence of any documentation concerning the transfer of the US\$600,000 to the Nassau books would have made it virtually impossible to trace. Ex. 60.

Second, at the time Coffee, Inc. had an outstanding letter of credit (IMP 179/84) at the Miami Agency for which a margin account of US\$1,027,004 had been established. This margin account was closed with a transfer of the entire amount to a new margin account, again located at the Nassau

³⁸Bilbeisi's personal account at the time was in an overdraft status of over US\$50,000, and thus no transfer from that account was necessary.

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Agency and again in the name of Orion Systems. According to our sources, this transfer was shown on Coffee, Inc.'s books as payment for coffee purchases. If this is in fact the case (we have not gained access to those corporate books), then the entries are false, because within one month the entire amount was retransferred back to Miami and deposited into the Coffee, Inc. account. Ex. 61.

Third, another transfer of US\$20,891.44 was made from the Coffee, Inc. account at Miami, thus reducing its balance to zero. These funds were also transferred to a new Coffee, Inc. account, also at the Nassau Agency. Ex. 62.

There are no written instructions for these transfers from Bilbeisi, and we have been unable to locate any Account Opening Forms or signature cards were prepared.³⁹

It is not known to whom Bilbeisi issued his oral instructions for these transfers. Several Miami Agency employees, however, have reported that they were done at his specific oral instructions because of his marital problems, although they do not know to whom the instructions were

³⁹Bilbeisi, in a sworn deposition given in civil litigation with Lloyds of London, denied that he, Coffee, Inc. or Orion held any accounts at the Nassau Agency. When confronted with records of these accounts, he accused BCC of having made these transfers for its own purposes and without authority from him and threatened to sue the Bank. Ex. 3.

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given. It seems clear, however, that at least three persons had to have been involved in these actions and communicated with Bilbeisi. These are: Regional Manager A. R. Sakhia, who governed the Miami Agency and who, according to Miami Agency employees, was directly involved in all of its transactions, especially those relating to Bilbeisi; Hamid Khan, who was in charge of the Bilbeisi letters of credit and related margin accounts, and who therefore must have been aware of the transfer of at least the Coffee, Inc. margin account; and Saad Shafi, who was the manager of the Nassau Agency and in direct charge of its few accounts.⁴⁰

Within a month, Bilbeisi had reconciled with his wife and the threat of attachment or seizure of his accounts had passed.⁴¹ Accordingly, each of these transfers to the Nassau Agency was reversed by October 21, 1984. Ex. 60; Ex. 61; Ex. 62. Unlike the earlier transfers to Nassau, however, there is clear documentation in the Miami files signed by Khan and Shafi, among others for each of these transfers back to Miami. The retransfer of the US\$600,000 in the Nassau/Orion

⁴⁰A. R. Sakhia, Hamid Khan and Saad Shafi have declined to discuss this and other matters with us and thus have provided no explanation of these transfers.

⁴¹The divorce petition was not dismissed by Bilbeisi's wife until January, 1985, however.

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account to the Miami/Coffee, Inc. account is worth brief mention, however, because it is typical of how Bilbeisi's letters of credit and margin accounts were handled.

During October, 1984, Bilbeisi opened an additional letter of credit (IMP 212/84) for Coffee, Inc. with the Miami Agency. The face value of this letter was US\$440,836.20, and as collateral, the funds in the Orion account at Nassau were pledged. By letter dated September 27, 1984, Grace Perez, Hamid Khan's assistant in the Letter of Credit Department, and Hamid Khan himself notified Saad Shafi to hold the face value of this letter of credit, US\$440,836.20, in the Orion account. Ex. 63. However, four days later, on October 1, 1984, US\$500,000 was transferred out of the Orion account in Nassau, Ex. 60, to Coffee, Inc. in Miami, apparently to cover two Coffee, Inc. checks which had been presented there.⁴² This left an insufficient amount in the Orion Systems Nassau account to cover letter of credit IMP 212/84.⁴³ Subsequently, when that letter of credit was

⁴²Bilbeisi had issued two checks from the Miami Coffee, Inc. account to Pacit, S.A., for US\$244,040 and US\$186,168.89 which were converted to cashier's checks. According to our sources, Pacit, S.A. is a company connected with Gerardo Harris, a confidant of Manuel Noriega. Ex. 64.

⁴³Hamid Khan handwrote on a letter dated October 1, 1984, that he had been instructed to release the collateral in the Nassau account on the instructions of the Miami Credit

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presented at the Miami Agency for payment in the amount of US\$404,133.21, there were no funds in the Coffee, Inc. account or any of its margin accounts to meet it. As a result, the Miami Agency was forced to advance this amount itself on behalf of Coffee, Inc., without any loan documentation or security. Instead, a loan account had to be established for Coffee, Inc. to cover this advance, despite lack of collateral and numerous overdrafts, and this loan was only established two weeks after the initial disbursement.

Ex. 66.

As noted, Bilbeisi has denied that he authorized any of these transfers or that these accounts were established by him or even with his knowledge. Bilbeisi has even claimed that the Miami Agency "stole" the US\$600,000 from him (the wire transfers from Coffee, Inc. at Atlantic Bank to Orion at the Miami Agency), although bank documents clearly show otherwise. There is some peripheral documentation which supports the statements of the Miami Agency employees that

Department. He explained further that the collateral for the letter of credit was fully covered by the various bank guarantees issued for Coffee, Inc. Khan failed to mention, however, that the bank guarantees securing the Coffee, Inc. letters of credit were already entirely used as collateral on other letters of credit and overdrafts. **Ex. 65.**

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these transfers were made on Bilbeisi's instruction, but none of them are Bank documents. Ex. 67.

(I) Bilbeisi's Letters of Credit

(1) Introduction:

Between December, 1982, and February, 1986, the Miami Agency issued twenty-seven letters of credit, five in the name of Orion Systems (Panama) S.A., and twenty-two in the name of Coffee, Inc. The total face value of all of these letters of credit exceeded US\$79 million. However, only US\$9 million in disbursements were made, and almost all of these disbursements were made on just the first ten letters. All of the others, with a face value of over US\$65.5 million, were cancelled, without ever being drawn on, although Bilbeisi paid over US\$43,000 in opening fees for them. Of the actual disbursements on the first ten letters of credit, US\$8.5 million was paid out between January 1983 and June 1984. Of that amount, US\$4 million was paid to one beneficiary, Financiera Del Atlantico, a company with alleged connections to Manuel Noriega. Only US\$500,000 was paid out after June, 1984, although Bilbeisi caused the Miami Agency to issue seventeen more letters of credit between June 1984 and February 1986, with a face value of US\$65.5 million.

See App. 2.

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Throughout this period various employees of the Miami Agency and the Regional Office were directly involved in almost every letter of credit. With the exception of Nasim Farooqi and K.G.S. Jhala, who were transferred shortly after issuing the first letter of credit to Orion, the same Bank personnel - A. R. Sakhia, S.U. Sakrani, M. U. Rehman, Hamid Khan and Grace Perez - each played a continuing role in issuing and administering these letters of credit. Each letter of credit required the advance approval of Sakhia upon the recommendation of Sakrani and Rehman, and with the exception of the first, each was prepared and serviced by Khan with the assistance of his subordinate, Grace Perez. Many of these letters of credit were opened with overdrafts and without margin accounts and were serviced without regard for substantial procedural and documentary discrepancies. Many of them were opened without a sufficient approved credit line, were closed with loans to Bilbeisi to cover shortfalls, and created substantial exposure well above Bilbeisi's bank guarantees.

In order to evaluate the procedures followed by the employees of the Miami Agency - and particularly by Sakhia and Khan -- a brief review of commonly followed letter of credit procedures as set forth in International Chamber of

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Commerce Publication #400, "Uniform Customs and Practice for Documentary Credits" and the Bank's own standard operating procedures written by Hamid Khan is appropriate.⁴⁴

(2) Standard Letter of Credit Practices & Procedures:

A letter of credit is an instrument issued by a bank on behalf of a customer authorizing a named beneficiary to draw upon funds which will be honored by the bank if drawn strictly in accordance with the terms and conditions specified in the letter of credit. This provides assurance to the beneficiary (exporter) that after shipping his goods, payments will be made provided that the stipulated conditions are complied with. Similarly, it assures the opener (importer) that the beneficiary will only be paid upon actual receipt of the goods in the U. S. and strict compliance with the stipulated conditions. By issuing a letter of credit, a bank essentially guarantees the transaction between the opener and the beneficiary. Inasmuch as it is a distinct and separate transaction from any contract between the opener and the beneficiary, the letter of credit deals only in

⁴⁴In his initial interview with us prior to his refusal to further cooperate, H. Khan described letter of credit procedures which "should" be followed and which were closely similar to the ICC practices. In fact, Mr. Khan stated that in preparing the Bank's written letter of credit procedures he relied heavily on ICC Publication #400. Ex. 12.

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documents, not merchandise, and in doing so it substitutes a bank's credit for that of the opener.

Two of the primary concerns of a bank issuing a letter of credit are to insure its own security and to protect itself against fraud. In this regard, the issuing bank should:

1) Adequately insure the opener's ability to pay when documents are presented, or else be prepared to refinance the merchandise without any unnecessary exposure. A margin account should be opened at the time of issuance so as to preclude unnecessary exposure to the Bank.⁴⁵

2) Verify the identity and financial integrity of the beneficiary. It should be determined if the opener and beneficiary are in any way affiliated with each other in order to preclude potential fraud;

3) Know the terms and conditions of the underlying contract so that there will be conformity with the letter of

⁴⁵A "margin account" is generally an account held and controlled by the Bank and containing some or all of the funds to be disbursed under a particular letter of credit. For example, if a letter of credit for \$1 million is issued with a 50% margin requirement, the customer must provide the Bank with \$500,000. These funds are placed in a "margin account" which is to be used exclusively for payment of the letter of credit. In this way, the Bank secures its position to the extent of the amount of margin required.

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credit. Documents required in the contract should also be included with all documents required in the letter of credit;

4) Ascertain that all stipulated documents (Certificates of Origin, Quality, Quantity, Sanitary Inspections, Quota, ICO Stamps, Bills of Lading, etc.) satisfy the legal requirements of both the importing and exporting countries respectively involved in the transaction;

5) Secure a valid insurance policy or certificate assigned to the bank to cover the value of the merchandise. This should be required even if the letter of credit is issued against 100% cash collateral so as to protect the bank in any eventuality;

6) Secure consignment rights to both the insurance proceeds and the goods themselves. Consignment is particularly appropriate in international transactions if the letter of credit is not fully collateralized by cash and/or secured by a sanctioned line of credit.⁴⁶

After the issuance of a letter of credit, amendments requested by the opener must be in writing. Irrevocable letters of credit, like all those opened for Bilbeisi,

⁴⁶With the bank designated as consignee, the carrier may only release the merchandise to the opener after being so authorized by the bank upon presentation of a properly endorsed bill of lading.

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further require that before any amendment can become operative it must first be approved by all parties in writing. Requests for amendments should therefore be considered with care and in the context of risk, liability, compliance with existing trade requirements, and conformity with the contents of ICC Publication #400.

In similar fashion, all importation documents should likewise be scrutinized prior to negotiating payment to a beneficiary and releasing merchandise to the opener. All documents must be presented and examined as to contents, completeness and conformity with the terms, conditions and any properly approved amendments to the letter of credit. Again, this examination should place particular emphasis on compliance with existing import/export regulations and restrictions promulgated by the respective countries involved in the transaction. Certificates of origin, quality, quantity, sanitary inspections and ICO stamps must be issued by the appropriate authorities, and contain information completely consistent with all other data set forth on shipping documents. Bills of lading must also be reviewed for consistency, with particular concern for the presence of original signatures, counter-confirming signatures, date stamps and properly notated "On Board" markings that would

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collectively corroborate the actual, authorized movement of the merchandise.

Documents having omissions, inconsistencies, or otherwise found not to be in order should delay any payment to a beneficiary and the release of the merchandise to the opener. Such defects, or discrepancies, are generally considered unacceptable either by the bank and/or opener, because they usually indicate non-conformity with the original contract and the terms of the letter of credit. Certain discrepancies that should be of particular concern relate to certificates of quantity, quality and origin, and to bills of lading. Missing, incomplete or inaccurate certificates indicate potentially serious problems with the transaction and must be identified and corrected prior to payment. In addition, bills of lading not appropriately marked "On Board", or not properly dated and endorsed by the carrier's representative, or bills of lading reflecting incorrect or inconsistent information concerning merchandise marking, lot identification, and invoice numbers are discrepancies, which, by their very nature, cannot go unnoticed by the bank without leading to potential liability to the opener, the beneficiary and the bank itself.

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As stated earlier, documentation discrepancies delay the process of payment to a beneficiary and should prevent the release of merchandise to the opener. These situations can be resolved with the bank's approval as follows:

1) The beneficiary can request immediate payment against its own guarantee that would protect the bank from financial loss by making payment despite discrepancies.⁴⁷

2) Independently, or at the request of the beneficiary, the opener can authorize payment despite documentation defects by effecting a waiver of discrepancies. Such a waiver of discrepancies must be in writing and approved by all parties before payment is authorized.

Upon the presentation of the required documents to the bank, a PAD account (Pay Against Documents) is created. This account is an internal control device which indicates that the negotiable documents have been presented to the bank and that payment to the beneficiary will be made upon the approval by all parties of those documents. As long as the PAD account is open the negotiable documents remain in the

⁴⁷This type of waiver is generally not in the best interest of the beneficiary or the bank, because under the guarantee, payments must be refunded to the bank upon demand and thus the bank is secure only to the extent of the validity of the guarantee, a lesson the Miami Agency should have learned with Duque.

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custody of the bank and are not released to the opener or to the shipper until approved.

Upon approval of the documents, payment is made to the beneficiary by the bank, with the opener's appropriate demand account, loan account or margin account being debited to cover these funds. The documents are then sent to the opener for the release of the goods from the ship or from the shipper's warehouse, and for their processing through U. S. Customs.

Until such time as the opener makes payment or appropriate loan arrangements on any outstanding advances (e.g., that portion of the bank's payment to the beneficiary not collateralized with cash in a margin account), the shipping documents should not be released and the goods will thus continue to be held by the shipper (with the bank secured as consignee), in a bonded warehouse controlled by U. S. Customs. If the opener is unable to pay, an LTR (Letter of Trust Receipt) loan must be approved and opened before the negotiable documents can be released. Upon approval, the credit department should endorse the negotiable documents and close the PAD Account with the proceeds from the LTR loan.⁴⁸

⁴⁸It should be noted that this procedure never was followed in any of the Bilbeisi transactions, and in all cases in which Bilbeisi lacked the funds to pay the Bank,

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As can be expected, on occasion negotiable documents may not be available to the bank to permit appropriate negotiation and timely release of merchandise by a carrier. In such cases, the goods can be released with an indemnification from the bank known as a Shipping Guarantee. This can be a risky accommodation for the bank unless certain precautions are taken. In effect the bank takes on a separate and distinct liability of covering for the absence of documentation. Financially, carriers can demand unlimited indemnities. Moreover, the U. S. Customs Service, depending on the merchandise involved, can require a minimum of 100% of the applicable duty and up to five times the value of the merchandise to cover any fines and penalties that could be assessed. Prior to issuing any kind of indemnification the bank should:

- 1) secure secondary (non-negotiable) copies of all sales invoices, certifications, bills of lading and other transportation documents;
- 2) secure the additional required cash collateral and/or reduce the opener's sanctioned line of credit accordingly. This amount should be over and above any

negotiable documents were released to him anyway with PAD accounts still open and LTR's yet to be created.

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liabilities already outstanding under a letter of credit if so applicable;

3) secure a signed Letter of Indemnity from the opener in favor of the bank. This in effect is a counter-guarantee by the opener that indemnifies the bank for any losses incurred;

4) ensure that the aforementioned documents are precisely referenced in the indemnity and attached thereto when the opener formally acknowledges their receipt for presentation to the carrier. All this data must be consistent with the contents of the original letter of credit; and

5) maintain the financial restrictions placed upon the opener until such time as the original documents are presented and the indemnification can be recalled. In situations in which original documents are believed to be missing or lost, this information should be set forth with an expiration date cited on the Letter of Indemnity. A one-year limitation for the production of duplicate documentation is generally considered acceptable.

With regard to U.S. Customs Service requirements, regulations provide that any import into the U. S., whether duty free or not, must be declared, cleared and released from

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the U. S. Customs Service designated bonded storage facilities before entering the United States. Imports awaiting transshipment through the U. S. to a foreign destination must also be declared and must remain in U. S. Customs' custody in a bonded warehouse while awaiting further shipment. Any request to subsequently import such merchandise into the U. S. requires the filing of a new set of declaration documents for clearance under the same conditions as if originally declared for import into the United States. This requires the presentation of all original shipping documents together with the new set of declaration documents (invoices, certifications of original, quality, quantity, ICO/quota stamps, bills of lading, vessel manifest, discharge papers, and bonded storage records, etc.) prior to clearance and release of the merchandise by U. S. Customs'. Coffee importations, which were subjected to international quota restrictions until February 1985, also required ICO (International Coffee Organization) documentation as a prerequisite for clearance through U. S. Customs in addition to other documentary requirements.

Finally, U. S. Customs will not release coffee without the shipment having been certified by the Food and Drug Administration (FDA) as acceptable for consumption in the

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United States. This requirement is still enforced by the U. S. Customs Service, even though coffee quota restrictions have been removed.

3. General Coffee Letters of Credit:

Prior to issuing letters of credit to Bilbeisi's companies, the Miami Agency had financed similar coffee imports for General Coffee with similar letters of credit. Between November 1982 and March 1983 six Miami Agency letters of credit were issued for General Coffee through K.G.S. Jhala. The total face value of these letters was approximately US\$12 million. As a result, the Bank was defrauded of US\$5 million.

The explanation of how the Miami Agency fell victim to the General Coffee fraud becomes apparent from an analysis of its letters of credit, all of which were opened and closed within the brief four month period preceding its May, 1983 bankruptcy.

General Coffee had a line of credit of US\$5 million which was secured by personal guarantees of Alberto Duque and by corporate guarantees from one of Duque's companies. Ex. 68. These personal guarantees proved to be worthless. Likewise, efforts to secure the coffee as collateral also failed to offset the Bank's loss because the coffee either

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did not exist or had already been released to buyers. Moreover, the Miami Agency had neglected to have itself named as consignee of the coffee and thereby provide itself a security interest in the commodity.⁴⁹

Duque had apparently caused the Bank to issue payments on the letters of credit based upon forged documents which contained numerous discrepancies. Ex. 30. These discrepancies ought to have served as a warning, but Duque consistently waived them and so they were disregarded by the Agency. Moreover, the Agency never confirmed any waivers with the beneficiaries, nor did it ever attempt to conduct any background or financial checks of the beneficiaries. Either action may have forewarned the Agency of the fraudulent nature of General Coffee's operation.

To add to this risk, margin accounts had not been established to secure payments and minimize the Bank's exposure.

The above condition was further compounded by the Agency's practice of continually granting credit facilities to cover letter of credit payments despite constant General

⁴⁹This serious oversight had been identified by employees at the Miami Agency on Duque's first letter of credit, but for unknown reasons was never corrected in the subsequent letters.

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Coffee overdrafts. This was done by keeping established PAD accounts continuously open and unpaid for General Coffee, accounts which were then allowed to pyramid until they ultimately became one continuous, revolving loan with a constant exposure of close to US\$5 million. Under these conditions, every General Coffee letter of credit payment was made with unsecured Bank funds. The Miami Agency used its own money for Duque's letters of credit, and accepted his personal guarantees as security for each of them.

(4) Letters of Credit Issued and Used by Bilbeisi:

Just as General Coffee went into bankruptcy, Bilbeisi began his own coffee import operations. Rather than tightening procedures to avoid phantom coffee imports, forged shipping documents and inadequate security, the Miami Agency and the Regional Office provided to Bilbeisi, Orion and Coffee, Inc. most of the same accommodations it had provided to General Coffee.⁵⁰ The only differences were that the Bank

⁵⁰These accounts had been opened by Enrique Olavarria, a former employee of City National Bank of Miami, which was owned by Alberto Duque. Olavarria's cousins are Carlos and Jose Luis Castro, the same individuals who operated the law firm of Castro & Castro. This firm was providing simultaneous legal services to the Miami Agency, Bilbeisi and Duque. These legal services included the formation of the three corporations which received the \$2.5 million Boca Raton loan as well as assistance in drafting the loan documents themselves. Jose Luis Castro and Duque were both convicted of fraud in connection with the operation of General Coffee.

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was a consignee of the Bilbeisi coffee and that Bilbeisi had posted bank guarantees instead of personal guarantees - but even these were frequently inadequate and left the Bank with substantial exposure.

Like Duque, Bilbeisi began purchasing coffee from Central and South American vendors via letters of credit. On December 23, 1982 Bilbeisi's first letter of credit was opened in the name of Orion Systems, S.A. On the same day, Duque had several PAD accounts outstanding in the amount of over US\$4.8 million. The first Bilbeisi letter of credit (IMP-166/82), for over US\$4 million, was opened without establishing any margin account and without any authorized credit facility, and was secured only by an Arab Bank guarantee of US\$800,000. Even the opening fees of US\$15,000 were paid for by the Miami Agency by opening and immediately debiting the Orion Systems account.⁵¹

By May 18, 1983, the day on which General Coffee filed bankruptcy, Bilbeisi's first letter of credit (IMP166-82) already had open PAD accounts for over US\$1.6 million, had created a potential exposure of over US\$800,000 above the Arab Bank guarantee, and had caused repeated instances in

Ex. 69.

⁵¹See p. 39.

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which Bilbeisi's personal and corporate accounts were in an overdraft status.

At this point, in May 1983, Hamid Khan took over the Letter of Credit Department in the Miami Agency. Khan continued the established practice of not doing any check on the beneficiaries; of not securing assignment of insurance proceeds or even checking to see if goods were insured; of accepting shipping documents replete with missing, incomplete and erroneous information; of waiving all such discrepancies at the opener's direction; of paying beneficiaries inadequately secured with BCC funds; and of opening PAD accounts to permit the release of merchandise to Bilbeisi without payment from him, thereby facilitating the opening of his next letter of credit.

On September 13, 1983, Khan, with Sakhia's approval, opened a second letter of credit with a face value of US\$810,000 for Bilbeisi in the name of Coffee Inc. See App. 2. As before with General Coffee and with the first Orion letter of credit, the Miami Agency opened this without a margin account, continued to use Bank funds to pay for it, and relied solely on bank guarantees which up to December

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1983 were insufficient and created exposure for the Bank of between US\$700,000 and US\$1,300,000.⁵²

In the months between December 1983 and July 1984 (during the life of the Boca Raton secret loan of US\$2.5 million), Khan, with Sakhia's continuing approval and with assistance from Sakrani, Rehman and others, opened nine more letters of credit in the name of Coffee Inc. Total face value of these letters of credit exceeded US\$13 million. See App. 2. During this same time the Duque/General Coffee criminal investigation was proceeding, and this investigation, directly involved the Miami Agency as one of the defrauded parties. The method of Duque's fraud and his misuse of the Miami Agency's letters of credit was thus well known to all of the key Miami employees. Ex. 29. Having been defrauded for US\$5 million by abuse of letters of credit, an appropriate reaction would have been to prevent a recurrence. A heightened sense of diligence concerning funding, margins, background checks, insurance, shipping documentation, credit sanctions and guarantees within the overall context of limiting potential exposure was called for. For all nine of

⁵²This exposure does not include the \$2.5 million Boca Raton loan which was outstanding at this time.

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these letters of credit, through which virtually all of the total payments were made, this did not occur.

The first four letters of credit issued in 1984 (IMP-104/84, 105/84, 106/84 and 107/84), with a total face value of more than US\$4 million, See App. 2, were opened without any margin accounts; no background checks of the beneficiaries were conducted; no insurance was confirmed or assigned; all payments on them totalling over US\$1.7 million were made with BCC funds; PAD Accounts were allowed to remain open in an equal amount so as to release coffee to Bilbeisi without him having to use his own money; and then loans were issued in order to allow the Agency to close the letters of credit. In addition, each of these letters of credit (and, indeed, all of Bilbeisi's letters of credit on which disbursements were made) involved serious discrepancies in the negotiable documents. These discrepancies included, in almost every instance, missing or improper certifications of quantity, quality, origin and sanitation, and improperly prepared bills of lading, a number of which lacked original signatures and "On Board" stamps.

These four letters of credit were opened at a time when Bilbeisi's accounts reflected overdrafts in excess of US\$300,000, see App. 4, and thus total potential exposure to

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the Bank was over US\$1.5 million, over and above the existing bank guarantees of US\$1.8 million from the Arab Bank and from BCC Amman, and did not include the US\$2.5 million loan that had been extended to Bilbeisi by Hasan and Sakhia through the Boca Raton Agency in December 1983.

After closing out these four letters of credit with outstanding loans (LTR's) of over of US\$1.7 million, another letter of credit (IMP-140/84) was opened for Coffee Inc. for the face amount of US\$2,608,740. See App. 2. By this time -- April, 1984 -- Bilbeisi's accounts had a net positive position of slightly more than US\$37,000. See App. 4. Then, with loans (LTR's) outstanding in excess of US\$1.7 million against guarantees of US\$1.8 million, and with no margin account having been established, Khan arranged for the issuance of this letter of credit with a face amount of US\$2.6 million and for the payment of over US\$900,000 for the first coffee shipment. This was done despite major discrepancies in the shipping documents. Bilbeisi waived those discrepancies, however, admitting that he was already in possession of the coffee.⁵³ Ex. 70. Two subsequent

⁵³This receipt of the goods without the possession or presentation of the original shipping documents is a virtual admission that the coffee had been smuggled off the ship and into the U.S.

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payments totaling over US\$1.7 million were also made by Khan under this letter of credit, thereby increasing the Bank's exposure of over US\$2.6 million.⁵⁴ These payments were eventually covered by post-dated Coffee, Inc./Atlantic Bank checks credited to Bilbeisi's account. **Ex. 71.** Sakhia personally approved the acceptance of these post-dated checks.

Throughout these transactions, the Bank also had a constant exposure of US\$2.5 million (the Boca Raton loan) over and above any other exposure not secured by the aforementioned bank guarantees.

Prior to closing the above letter of credit, two of the four remaining letters of credit opened between January and July 1984 also had funds disbursed to beneficiaries. Two others were cancelled without payments, one of them without any explanation.

Regarding those with payments to beneficiaries, both (IMP-160/84 and 161/84) were opened with a total face value of US\$2,046,000 on June 8, 1984 with Sakhia's approval. See App. 2. At that time, there were loans (LTRs) still outstanding in excess of US\$1.7 million which were offset by

⁵⁴These payments along with those made under IMP 105/84, 106/4 and 107/84, are extremely suspicious and may be connected to Manuel Noriega. See pp. 110, et. seq.

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US\$1.8 million in guarantees. To fund these letters of credit, Bilbeisi - on the day before they were opened - gave directly to Sakhia a series of postdated checks drawn on the Coffee, Inc. account at Atlantic Bank and based upon anticipated sales collections. Ex. 72. These checks were collectable during the period of June 12 through July 13, 1984 and totaled US\$2,150,000. As each became collectable, the funds were credited to Coffee Inc.'s demand account which had already been placed in an overdraft position in excess of US\$2.6 million so as to create margin accounts for these letters of credit.⁵⁵ In essence, these post-dated checks were partially paying off margin accounts that had been established for Bilbeisi with Bank funds. At the same time the US\$2.5 million Boca Raton loan was still outstanding.

On July 24, 1984, with Bilbeisi corporate and personal accounts reflecting overdrafts in excess of US\$546,781, loans (LTRs) outstanding in excess of US\$1.4 million, and the Boca Raton loan of US\$2.5 million, Khan opened letter of credit IMP-179/84 for Coffee Inc. in the amount of US\$3,639,972.

See App. 2. Again, post-dated checks totaling more than

⁵⁵Margin accounts were now required due to criticism contained in an internal audit conducted in June 1984. Ex. 52. Yet a large portion of these margin accounts were created by overdrafts in the Coffee, Inc. account. See, e.g., App. 4, July 26, 1984.

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US\$800,000 and dated between July 23 and 27, 1984, were used as credit assets. A margin account which had been opened for a previous letter of credit (IMP-165/84, which had been cancelled without disbursements) was used to provide the margin for this letter of credit. Totaling US\$1,027,004, that margin was initially established by creating an overdraft status in Bilbeisi accounts in excess of US\$2 million.⁵⁶ By the time it was rolled-over, all the post-

⁵⁶These margin account funds were never used because this letter of credit (IMP-179/84) was eventually cancelled on October 24, 1984 without any payments to the beneficiaries. However, what did happen with this margin between July 24 and October 24, 1984 is of interest. Briefly and according to limited documentation in the files, this margin, opened in the name of Coffee Inc. and specifically established for IMP-179/84, was transferred on September 19, 1984 out of the Miami Agency and placed in the Nassau Agency in a margin account for Orion Systems. These funds remained in this account (the Nassau Agency at this time was still physically located in the Miami Agency) until Khan requested it be returned on October 24, 1984. On that date the transfer was made, the funds were again placed back in the original Coffee Inc. margin account, and the letter of credit was cancelled with the funds returned to the Coffee Inc. demand account. The file provides no explanation or documentation as to why or on what authority it was done. See pp. 51-52. Regardless of the answers to these questions, the reality simply stated is that a margin was transferred offshore and recreated under a new identity. It was then reversed back through the internal accounts of BCC. Khan, who was responsible for this and aware of it, himself characterized this type of action as completely improper. Ex. 12. Since he refused to discuss this specific letter of credit or margin account with us, however, the contradiction between his actions and his words remains unresolved.

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dated checks, with a value in excess of US\$3 million, had been collected, and the margin account of US\$1,027,004 was fully funded by Bilbeisi.

In September 1984, another letter of credit (IMP-212/84) was opened for Coffee Inc. in the amount of US\$440,333. See App. 2. This was secured by Bilbeisi's various bank guarantees. Although it was opened in Miami, for unexplained reasons a margin of 100% was required to be held in Nassau. According to a Khan notation in the file, however, no margin was ever opened either in Miami or Nassau because Nassau failed to follow Miami's instructions. This had occurred because Khan had used the Nassau margin to offset overdrafts in Bilbeisi's Miami accounts. Thus, when the Miami Agency went to the Nassau margin account to make the payout on this letter of credit there were insufficient funds available. Once again, the Agency used its own funds to pay for a letter of credit and then had to cover this by arranging another (fifth) loan (LTR) to close out this letter of credit. Again, the Bank had purchased coffee for Bilbeisi and permitted him to pay it back via a loan which was well beyond any credit limit authorized by the Central Credit Committee in London.

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This letter of credit was the last time any funds were disbursed to letter of credit beneficiaries in 1984.

(5) Letters of Credit Issued and Not Used by Bilbeisi.

From June 1984 through February 1986 less than US\$500,000 was disbursed in connection with the last sixteen letters of credit issued during this time frame, although their face value totaled more than US\$65.5 million. See App. 2. Virtually all of these sixteen letters of credit were opened and then closed by Bilbeisi without any disbursements having been made. Only one disbursement of US\$90,000 on IMP 126/85 was made in all of 1985. Nevertheless, Bilbeisi paid the Miami Agency over US\$43,000 in opening fees for letters of credit he never used. At about the same time, however, Bilbeisi began the issuance of hundreds of cashier's checks from the Miami and Boca Raton Agencies, and these checks were allegedly for the purchase of coffee and the payment of commissions. The last sixteen letters of credit, then, appear to have served only one purpose: their issuance gave Bilbeisi and his agents ostensibly legitimate status as coffee purchasers in Central America. The Guatemalan and Honduran consuls in Miami have confirmed that no non-residents are not allowed to enter those nations and engage in coffee purchasing without

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actually possessing a letter of credit. This is a matter of foreign exchange and export controls for each country. Thus Bilbeisi and his agents gained entry to those countries, purchased coffee, cancelled the letters of credit, smuggled the coffee out and made private, surreptitious payments to the sellers with the Bank's cashier's checks as well as bribes to certain individuals to facilitate this process.

(6) Findings:

Concerning all of the twenty-seven letters of credit issued for Orion Systems and Coffee Inc. between 1982 and 1986, certain observations regarding documentation and the movement of the merchandise can be made.

First, in considering the letters of credit collectively, it appears that they were used by Bilbeisi as an essential device in his smuggling scheme: they enabled him to finance his initial coffee purchases while he was associated with Calderon, Otano, Villalba and Gerardo Harris. Once that relationship ended he relied almost exclusively on cashier's checks for his coffee purchases while simultaneously continuing to open and cancel letters of credit. These letters gave him an aura of credibility as a legitimate coffee buyer in Central America.

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Second, to perpetrate the smuggling scheme, the shipping documents, the certifications of origin, quality, quantity and sanitation, and the bills of lading and the declarations of final destination had to be misleading or falsified. For all the letters of credit issued for Bilbeisi, these documents were, without exception, furnished to the Miami Agency with multiple discrepancies, which were always waived by Bilbeisi. These discrepancies, together with the falsified declarations of destination, were the necessary product of a successful smuggling operation. The silent acceptance of these discrepancies by the Miami Agency and the Regional Office was essential.

On more than one occasion Bilbeisi advised Khan that he was waiving discrepancies because the coffee was already in his (Bilbeisi's) warehouse. Ex. 70. Although imported goods are not normally released by the shipper until payment is made, and payment is normally not made until the bills of lading and other required documents are presented to the Bank, the early release of the coffee to Bilbeisi without payment or proper documentation apparently raised no questions at the Miami Agency. Similarly, the issue of how the coffee could have been released and processed through Customs without the presentation of essential shipping

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documents was not raised either. The coffee could only be transferred from the ship or from the Customs bonded facility to Bilbeisi's warehouse either by the issuance of a Shipping Guarantee to the shipper or by an unauthorized release by the shipper and after illegally circumventing the U.S. Customs Service. On only two occasions, however, were Shipping Guarantees issued, and these involved the only instances in which the coffee was shipped by a carrier other than the CCT shipping line. Neither Hamid Khan nor any other Bank officer ever inquired into those situations. They simply followed Bilbeisi's instructions.

Third, for virtually every letter of credit, the port of destination for the coffee was listed as either Aqaba, Jordan or Latakia, Syria. See App. 2. In no instance, however, is there any indication that the coffee ultimately went there. Instead, the indications in the files clearly show that the coffee was sold in the United States, largely to Chase & Sanborn or Chock Full O'Nuts. In only two shipments - one on IMP 140/84 and one on IMP 160/84 - was coffee shown as destined for the U.S. In both cases, the original port of destination was amended from Aqaba to Miami immediately before the arrival of the coffee. This involved two shipments of coffee which were the only ones not shipped

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on CCT. In addition, these were the only shipments in which release of the coffee to Bilbeisi's warehouse was not permitted without either the posting of a Shipping Guarantee or the presentation of valid shipping documents.⁵⁷

The circumstances surrounding the issuance of the two Shipping Guarantees are indicative of Khan's, Rehman's and Sakhia's knowledge of U.S. Customs regulations and their silent acquiescence with Bilbeisi's smuggling scheme. For undetermined reasons, one of the coffee shipments to the U.S. under IMP 140/84 was transported on the Concorde Line instead of on CCT. Apparently, Concorde had no part in Bilbeisi's smuggling operation, and refused to release the coffee upon its arrival in Miami without either the presentation of correct documents or a Shipping Guarantee.

⁵⁷A January 22, 1985 memorandum from Grace Perez to the letter of credit department deserves mention in regard to the destination of the coffee. This memo recited instructions issued by A. R. Sakhia directly to Ms. Perez (apparently ignoring the Agency manager, Hassan Parvez, in the process). This memo stated that in the future for Bilbeisi's letters of credit:

1) All transactions were to be made in the name of Orion Systems (Panama), not Coffee Inc.;

2) All transactions were to be fully collateralized under bank guarantees or cash collateral; and

3) Destination of the coffee was not to be shown if the destination is not the United States. (emphasis added). None of these curious instructions were followed by Agency personnel. Ex. 73.

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The unexpected and first time arrival of a Bilbeisi coffee shipment aboard a Concorde Line rather than CCT vessel caused problems at the Letter of Credit Department at the Miami Agency.

Apparently, as far as the Concorde Line was concerned, the coffee was being transshipped through Miami to Aqaba, Jordan. Accordingly, it would not release the coffee to Bilbeisi in Miami without corrected shipping documents showing Miami as the port of destination. Because of this, Bilbeisi, in a letter dated June 7, 1984, requested Khan that IMP 140/84 be amended to show Miami as the port of destination rather than Aqaba, Jordan, the originally declared port of destination. **Ex. 74.**

The Concorde situation tended to show in documents held by the Bank what Khan, Rehman and Sakhia must have already known--that the true destination of all previous shipments was really the U.S. rather than Bilbeisi's false declarations. Putting the true destination in writing directly confronted Khan, Rehman and Sakhia with U.S. Quota and FDA inspection requirements. Previously, as long as they had been able to pretend that the coffee was being transhipped through the U.S., they had been able to "legitimately" close their eyes to U.S. Government regula-

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tions and to Bilbeisi's smuggling of coffee into the U. S. in violation of those regulations. Now, however, with a new shipping line involved in Bilbeisi's smuggling operation, and with seriously defective negotiable documents, the goods could only be released from Concorde Line by a Shipping Guarantee issued and approved by the Bank itself. Issuing the necessary guarantee would have directly involved Khan, Rehman and Sakhia in the release of uninspected coffee violating the U.S. quota. Thus, it was necessary for them to find a new justification for their continuing wilful blindness.

Khan and Grace Perez, his assistant, accomplished this with several telephone calls.

First, Khan telephoned his "counterparts in other New York banks." They assured him that it was not a bank's duty to monitor quotas, but instead was the job of U.S. Customs. Khan noted this on Bilbeisi's letter of amendment. Ex. 74.

Meanwhile, Perez contacted the Council of International Banking, which confirmed that it is the importer's responsibility to monitor quotas and comply with U.S. Customs laws, not the Bank's. Perez noted this on Bilbeisi's letter of amendment. Ex. 74.

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Based upon these "opinions," M. U. Rehman directed that the necessary Shipping Guarantee be issued. Ex. 74. Then, Bilbeisi issued a counter-guarantee indemnifying the Bank on the Shipping Guarantee. In his indemnity, however, Bilbeisi stated that it was being issued because original shipping documents "had not arrived," and made no reference to the change of ports. Ex. 75. The Shipping Guarantee, which Khan prepared, used the same explanation.

Fourth, applications for letters of credit were filed and the letters themselves were opened without any background check regarding the identity or financial integrity of the letter of credit beneficiary.⁵⁸ Proof of insurance and assignments of insurance proceeds were never secured, and the underlying sales contracts relating to the letters of credit were never obtained.

Fifth, amendments to the letters of credit were repeatedly requested and automatically accepted by Khan and his superiors at Bilbeisi's request, and almost always without written approval by beneficiaries. These amendments consistently called for the deletion of requirements for certifications of origin, quantity, quality and sanitary

⁵⁸This is hardly surprising, considering the dubious background and connections of one of the chief beneficiaries, Financiera Del Atlantico. See pp. 110-111.

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inspection, and also made significant changes on crucial shipping documents.

Sixth, all of the files on open letters of credit which were either closed or cancelled with or without payments never contained confirmation that the designated beneficiaries had even received the original letter of credit, or in fact had subsequently approved the cancellation of the letter of credit.

Set forth earlier in this report is a description of the proper procedures involved in the processing and handling of letters of credit. This is based upon the ICC Publication 400 as well as BCC's own Operational Manual on letters of credit which Hamid Khan himself had written. In addition, that section addressed the various financial and documentary controls necessary to the proper administration of an international letter of credit, as well as the need for diligence on the part of the issuing bank. All of this care and diligence is necessary because letters of credit are easily and frequently abused for the purpose of committing fraud.⁵⁹ Bilbeisi's letters of credit were repeatedly

⁵⁹See Letter of Credit: Fraud, Prevention and Detection, Bank Administration Institute, 1989, p. 9: "When issuing or confirming a letter of credit, the bank's exposure to fraud is greatest when discrepant documents are not caught when examined." (emphasis in original.) Ex. 135.

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opened, administered, paid and closed with an almost total disregard for these procedural and documentary requirements. The lack of care and diligence in the opening and administration of each one of Bilbeisi's letters of credit is so frequent and consistent as to arguably appear to be a purposeful attempt to assist Bilbeisi in the success of his smuggling operation.

(7) Mura International Helicopter Deal:

By the end of 1986 Bilbeisi's coffee business for all practical purposes had come to an end. During 1987 his accounts with BCC were once again in a constant overdraft status, and the Bank -- reminiscent of Alberto Duque -- had to look to guarantees to collect Bilbeisi's outstanding debts. This time, however, the guarantees were from banks, not from the opener personally, and the Miami Agency successfully collected US\$3.5 million in 1988, albeit almost two years after the overdraft debts were amassed. Ex. 76. The guarantees were insufficient, however, and as of April, 1988, Coffee, Inc. still owed BCC approximately US\$400,000 in interest on past indebtedness.

It was under these circumstances, with the Bank still trying to collect this money, that Bilbeisi once again approached the Miami Agency in the summer of 1988 to assist

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in financing yet another international transaction. This assistance involved a contract which had been made by another Bilbeisi company, Mura International, Inc., for the sale of three helicopters by Mura International to the Republic of Guatemala for US\$5.1 million.⁶⁰ Hamid Khan and Grace Perez again became involved with Bilbeisi in this transaction.⁶¹

The helicopter sales contract identified BCC as the issuing bank of a Stand-By Letter of Credit (STB) to be opened by Mura International with the Republic of Guatemala as beneficiary, in the amount of ten percent of the contract value of US\$5,175,000. These funds, US\$517,500, would be payable to Guatemala in the event Mura International failed to deliver the helicopters as per the terms of the contract.

The financing of the helicopter sale to Guatemala was done through a letter of credit issued for the Republic of Guatemala by the Bank of Guatemala. Mura International, the seller of the helicopters, was the beneficiary. The Capital

⁶⁰These helicopters were ostensibly to be used for medical evacuation only. However, they were constructed in such a way as to be easily transformed into helicopter gunships and have thus led to claims that Bilbeisi was an arms dealer. Ex. 3.

⁶¹At this time, Khan had been transferred from the Letter of Credit Department to the Regional Office, Corresponding Banking Unit. It is unknown why Khan became involved in this one letter of credit for Bilbeisi when it was no longer his job.

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Bank in Miami, which also serviced Bilbeisi accounts, was the confirming bank and the source of the funds for this transaction through an arrangement with the Bank of Guatemala.

With Khan's advice and participation, Ex. 77, Bilbeisi succeeded in having the Guatemalan letter of credit amended by deleting the requirement of the STB to be issued by the Miami Agency as a performance bond. In lieu of the STB, and with Khan's assistance, Bilbeisi persuaded Guatemalan officials to agree to withholding up to US\$517,500 from their payments to Mura International under the Guatemalan letter of credit until Bilbeisi satisfactorily performed by delivering the three helicopters. Simply stated, Khan helped Bilbeisi to eliminate the need to advance funds he did not have but which would have been required to secure the STB, and enabled him instead to have the Guatemalan government use its own money for his performance bond. All this was accomplished with Khan's advice and guidance.⁶²

Simultaneously, Bilbeisi negotiated to purchase the three helicopters from the Jordanian Air Force for US\$2.1

⁶²While there is certainly nothing improper in these activities, they do underscore the relationship between Khan and Bilbeisi in which Khan has been described by Hassan Parvez as Bilbeisi's business "advisor." Ex. 13.

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million. Meanwhile, Bilbeisi, despite his precarious financial position with the Miami Agency, also sought a commitment from the Miami Agency to open a letter of credit for Mura International, Inc. in favor of the Jordanian Air Force in the amount of US\$2.1 million in order to finance its purchase of the helicopters from Jordan.⁶³

In sum, then, Bilbeisi through his company, Mura International, was purchasing the three helicopters from Jordan for US\$2.1 million. Bilbeisi had tried and failed to get the Miami Agency to fund this purchase, and it is unknown how the purchase was financed. At the same time, however, through Mura International, he was selling the same three helicopters to Guatemala for US\$5.1 million, thus grossing a US\$3 million profit if the deal were completed. The Guatemalan government financed the purchase of the helicopters from Mura International through Capital Bank and the Bank of Guatemala letter of credit, and without any performance bond being posted by Bilbeisi.

The curious aspect of this arrangement is why the Guatemalan and Jordanian governments allowed Bilbeisi to

⁶³This letter of credit was not issued and it is unknown how Bilbeisi financed this transaction. Significantly, by this time A. R. Sakhia had been replaced as Regional Manager by Bande Hasan.

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structure this deal and act as a middle man for such an enormous personal profit, instead of dealing directly with each other -- something which would clearly have been to their mutual advantage. One possible answer may lie with the various special assignments of the Capital Bank letter of credit proceeds made by Bilbeisi.

There were three such assignments. The first was in the amount of US\$837,500 to the Miami Agency. Ex. 78. The second was to Grindlay's Bank on the Isle of Jersey, in the amount of US\$257,500 for credit to a numbered account, and the third was to Cartray, Ltd. at the Credit Suisse Bank in Luxembourg for US\$260,250.

The Miami Agency assignment of US\$837,500 was further assigned by Bilbeisi in five parts: US\$400,000 to the Miami Agency⁶⁴; US\$17,500 to Jose Francisco Valdes for Spanish translating services; US\$75,000 for commissions to Mauricio Coronado; US\$75,000 for commissions to Louis Altamar; and US\$270,000 to the Bank Leumi. Ex. 79. After receiving these funds, the Miami Agency transferred the US\$270,000 to the

⁶⁴The Bank used this money to repay the interest still due on prior loans. When the deal was closed and the assignments made, the Miami Agency applied this money to Bilbeisi's remaining debt. Bilbeisi claimed that this was not the purpose of the assignment and sued the Bank for that amount. That litigation was tentatively settled on November 20, 1990, for a payment of US\$75,000 by the Bank to Coffee, Inc.

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Bank Leumi for further credit to a numbered account. Ex. 80. Mauricio Coronado, one of Bilbeisi's agents in this deal, has claimed in a recent interview with Bank attorneys that this numbered account at Bank Leumi was held by high-ranking Guatemalan government officials. In short, the US\$270,000 was for bribe or kickback payments by Bilbeisi to Guatemalan or Jordanian government officers.

These suspicions have been confirmed by Hassan Parvez, the manager of the Miami Agency at the time, who has told us of conversations he had with Bilbeisi in which Bilbeisi admitted paying bribes from the Capital Bank assignments to Jordanian and Guatemalan officials. Ex. 13. If in fact payments were made by Bilbeisi to Jordanian and Guatemalan government officers, it would explain why those governments did not deal with each other directly -- a middleman such as Bilbeisi would be necessary to successfully hide the bribe payments. It would also explain why the governments were willing to allow Bilbeisi to make such an enormous personal profit -- their own negotiators were dealing from individual, not national self-interest.

In effect, then, Bilbeisi used the Miami Agency to assist in restructuring his business arrangement in terms most favorable to him, and then apparently used that Agency

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to handle the initial portions of his bribery payments to Guatemala.

J. Connections Between Bilbeisi and Manuel Noriega

In January, 1984 three letters of credit were opened by Bilbeisi through Coffee Inc. at the Miami Agency (IMP 105/84, 106/84 and 107/84) with a face amount of US\$3.4 million. In April, 1984 another letter of credit (IMP 140/84) was opened for Coffee Inc. at the Miami Agency with a face amount of US\$2.7 million. See App. 2. These four letters of credit at Miami were unique and deserve special mention because they directly involved the BCC Panama Agency in their administration, and because of the ultimate destinations of the funds.⁶⁵

(1) Letter of Credit Payment to Noriega Associates

The stated purpose of the letters of credit was the purchase of coffee from a Costa Rican company, Financiera Del Atlantico S.A., the named beneficiary. This company opened a demand deposit account at the BCC Panama Agency on March 7,

⁶⁵The manager of the Panama Agency at the time was Amjad Awan, and the officer overseeing the letters of credit was Mr. Singh, with the assistance of Ms. Nancy Grimas. The three letters of credit initiated in January, 1984 are referred to in the Panama Agency records as a single letter of credit, IMP 107/84.

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1984.⁶⁶ Ex. 81. Our sources have reported that a business associate and front person for Financiera Del Atlantico S.A. was Gerardo Harris. Harris is the former Panamanian Vice Minister of Treasury and a confidant of Manuel Noriega. Unconfirmed allegations from U.S. Government sources allege that Harris is involved in narcotics trafficking and money laundering. In addition, Harris is reportedly a close associate of Carlos Duque of Transit S.A. who ran the Colon Free Zone for Noriega, extracting "commissions" for Noriega in the form of fees for coffee shipments and other commodities. Harris is currently a prominent businessman in the Colon Free Zone.

In March, 1984 BCC Panama sent the shipping documents to BCC Miami indicating a total due of US\$1,055,700.00 and instructing the release of the documents to Coffee Inc. only against payment by that company of the letter of credit. On April 2, 1984 Bilbeisi authorized Hamid Khan to pay the beneficiary an additional US\$700,000 (for a total of

⁶⁶Five days prior (March 2, 1984) to the opening of the Financiera Del Atlantico account at the Panama Agency, Bilbeisi wire transferred US\$248,710.00 to the Colon Agency for the benefit of "Victor Overseas, S.A." The Colon Agency issued a manager's check for this amount to Victor Overseas, S.A. and that check was deposited at Banco de Iberoamerica, S.A. in Colon to the account of Pacit, S.A. Beneath the company endorsement is the signature of Gerardo Harris. Ex. 82.

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US\$1,755,700.00), stating that this amount of coffee had already been received and was in Bilbeisi's warehouse.. Ex. 70. In addition, Bilbeisi waived a number of serious discrepancies in those documents.⁶⁷ Despite a shortage of sufficient collateral and no margin accounts, Khan advised Panama to disburse US\$1.7 million to the beneficiary because Bilbeisi had waived the discrepancies. Subsequently, the Miami Agency opened a loan (LTR) for Coffee, Inc. -- still without sufficient collateral or margin -- and then telexed US\$1.7 million to Panama to reimburse that Agency. This was approximately one-half of the face value of letters of credit IMP 105/84, 106/84 and 107/84.

On April 9, 1984 Bilbeisi issued a letter to Hamid Khan instructing him not to continue the three letters of credit for payment of further coffee shipments. Ex. 83. Khan then sent an "Urgent Telex" to the Panama Agency on April 12, 1984 requesting that the beneficiary (Financiera Del Atlantico S.A.) be notified of these instructions and give its concurrence. Ex. 84. On April 11 and 12, 1984 Bilbeisi wire transferred from the Coffee Inc. account at Miami US\$208,038.60 and US\$356,290.00 for the benefit of Gerardo

⁶⁷The discrepancies included the lack of quantity and quality certificates, no "On Board" stamp on the bill of lading and contradictions in the harvest year of the coffee.

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Harris at BCC Colon.⁶⁸ Ex. 85. The funds were to be disbursed to Harris only upon approval of Joseph Villalba, Bilbeisi's associate in the smuggling operation. Villalba was at BCC Colon on these dates and authorized the release of the funds. Villalba himself also received a US\$5,000.00 wire transfer from Coffee Inc. on April 12, 1984. Later, on May 15, 1984 Bilbeisi wire transferred an additional US\$6,514.00 from the Coffee, Inc. account directly into an account maintained by Harris at the Colon Agency.

An irrevocable letter of credit theoretically cannot be cancelled after issuance and prior to expiration without the written concurrence of the beneficiary. Otherwise, the issuing bank may be liable for the unfunded portion of the letter if the beneficiary demands payment. No documentation, however, was found at the Panama or Miami Agencies showing the beneficiary, Financiera Del Atlantico, S.A., had concurred with the cancellation. It is possible that the lack of cancellation documents from the beneficiary did not concern Hamid Khan at the Miami Agency because he knew Bilbeisi had already wire transferred over US\$800,000 to Gerardo Harris, the real beneficiary of these letters of

⁶⁸Records were requested from BCC Colon as to what Harris did with these funds but they were not provided.

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credit, on March 2 and April 11-12, 1984.⁶⁹ The face amount of the three cancelled LC's (105/84, 106/84 and 107/84) was US\$3.4 million. Total payments to Harris and directly to Financiera Del Atlantico during the term of these letters of credit were US\$2,550,252.60.⁷⁰ If one considers the simultaneous payments of US\$900,000 made by Bilbeisi to Calderon, Otano and Villalba (the initial deposits in their corporate Swiss Cottage accounts), then the total expenditures made by him in April and May, 1984, is approximately US\$3.4 million -- the face amount of the three letters of credit. Possibly, Bilbeisi's business required the posting of a form of guarantee of payment in that amount, and the letter of credit fulfilled that purpose.

On May 25, 1984 Bilbeisi began to authorize payment on shipments received on letter of credit IMP 140/84. This

⁶⁹The amount consists of the wire transfers to Victor Overseas/Pacit S.A. (see n.66) for US\$248,710; the wire transfers to Colon for Harris in the amount of US\$208,038 and US\$356,290 and the transfer to Harris of US\$6,514.

⁷⁰This amount includes the US\$1.7 million wire transferred under the letters of credit and the US\$819,552 wire transferred to Harris or related companies. There were no additional payments uncovered from Bilbeisi or his related companies to Financiera Del Atlantico or Gerardo Harris during the term of these letters of credit. The Miami Agency still had a potential exposure in excess of US\$849,000.00, due to lack of any agreement by Financiera Del Atlantico, S.A. to their cancellation.

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letter of credit was similar to the prior three in that the beneficiary was Financiera Del Atlantico and significant discrepancies in the shipments were again waived by Bilbeisi. In addition, Bilbeisi acknowledged receipt of the coffee in his Miami warehouse prior to the receipt or approval of the shipping documents by the Bank. Ex. 70. There were three payments on this letter of credit which were authorized by Bilbeisi in this way. These payments totaled US\$2.7 million which was the total face value of IMP 140/84.

An analysis of the payments on the four letters of credit reveal that the named beneficiary (Financiera Del Atlantico) directly received only about ten percent (10%) of the proceeds (US\$168,030) from letters of credit 105/84, 106/84 and 107/84, and only about thirty percent of the proceeds (US\$764,224.30) from letter of credit 140/84.⁷¹ Moreover, the total of funds going to Financiera's account was US\$932,254.30. However, immediate withdrawals for the benefit of third parties totaled US\$778,830.00. These withdrawals were:

⁷¹Ms. Nancy Grimas, currently an employee at the Colon Agency and an administrator of the letters of credit, stated the percentage of the proceeds deposited by Financiera Del Atlantico, S.A. was too large to indicate the beneficiary was strictly operating in the capacity of a broker receiving commission payments.

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April 4, 1984 Managers check to Deutsch Bank for US\$150,000.00 with the notation "For account of Coffee International Trading Company;

May 25, 1984 Wire transfer to Harris Bank in Chicago for US\$228,830.00 to the benefit of Refco, Inc.

June 7, 1984 Managers check payable to the Union Bank of Switzerland for US\$220,000.00 with the notation Financiera Del Atlantico;

June 19, 1984 Managers check payable to Deutsch Bank for US\$200,000.00 with the notation Coffee International Trading, S.A. Ex. 86.

It is of importance to note that BCC as well as the Deutsch Bank and Union Bank of Switzerland were used by Manuel Noriega for his personal funds. In addition, Refco, Inc. is a large commodity trading firm with offices in Chicago and London. In 1984 and 1985 Rudolfo Ospina and Mauricio Lehrer rented office space at the Miami office of Refco, Inc. Both of them have since been convicted of Federal money laundering in Miami for their business activities while operating from the Refco offices. Accounts opened by them at Refco were used to launder drug profits.

In sum, only a small portion of the total payments made on these four letters of credit were actually made to the named beneficiary, Financiera Del Atlantico. Moreover, almost all of those payments were immediately transferred on the day they were made from Financiera's account at BCC

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Panama to other banks or companies associated with Noriega or with money laundering.

As for the remaining payments on these four letters of credit, fully ninety percent of total payments on IMP 105/, 106 and 107/84, and seventy percent of total payments on IMP 140/84, were made to a company never identified as a beneficiary. These payments, totaling over US\$3.4 million, were made to Standard Chartered Bank in New York for the account of Banco Promotor Del Comercio Latino-Americano, where they were apparently held for further credit to the account of "Coffee International Trading." Ex. 87. Banco Promotor is located in Panama, and it appears that this circular transfer, authorized by "Coffee International Trading," was done to launder the money issued from these four BCC letters of credit.

The business address contained in the Panama Agency's records for Financiera Del Atlantico is the same address in Costa Rica as the address given for "Coffee International Trading, S.A." In addition, U.S. Government sources report that "Coffee International Trading S.A." is connected to John Cogswell, a marketing functionary for the BCC Panama Agency. John Cogswell is the person who opened the "Coffee International Trading" account at the Panama Agency, was a

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financial advisor to Manuel Noriega and has been identified as a money launderer for Noriega by the U. S. Justice Department.⁷²

These factors suggest the strong possibility that the Panama Agency was used as an advising bank in these letters of credit to control and conceal the disbursements of proceeds and protect them from detection by U. S. law enforcement. Clearly, these transfers all could have been done by the Miami Agency itself.

(b) The Boca Raton Loan/Panama Connection:

We can find no plausible reason for Bilbeisi to have moved US\$1.5 million in proceeds from the Boca Raton loan to the Bilbeisi Panama time deposit unless those proceeds have a connection with the payments to Harris and other Noriega associates. Both the letters of credit and the Bilbeisi Panama account were opened within a few weeks of each other, between December, 1983 and January, 1984. Then, after the April and May payments to Financiera Del Atlantico and Gerardo Harris, Bilbeisi's Panama account was closed (May 24)

⁷²In addition, the Justice Department has claimed that Noriega maintained an account in the name "Zorro" at the BCC Panama Agency. Cogswell is reported to be the authorized signatory on that account.

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and the funds transferred to a Bilbeisi account in Boca Raton for ultimate repayment of the loan on August 1.

No legitimate business or economic purpose has been established for the Boca Raton loan or for Bilbeisi's Panama account containing the proceeds of that loan. The funds were transferred to and from Panama through unusual and covert procedures. The manager of the Panama Agency, Amjad Awan, is alleged by the U. S. government to have been the "personal banker" for Manuel Noriega. The actual recipients of the letters of credit funds and of Bilbeisi's direct payments all had alleged connections to Noriega. An inference can thus be made that the Bilbeisi time deposit was actually used as "security" or "collateral" required of Bilbeisi to conduct business in Panama with the Noriega-related entities and individuals. Once Bilbeisi established his reliability by payment on two groups of letters of credit and wire transfers to Gerardo Harris, Bilbeisi was free to return the US\$1.5 million loan to his Boca Raton account. This inference is strengthened by the fact that this is the first known business conducted by Bilbeisi in Panama.

K. Bilbeisi's Cashier's Check Activity

From mid-1983 through early 1987, Bilbeisi, directly or through his agents or companies, caused 264 cashier's checks

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to be issued by the Miami and Boca Raton Agencies totaling in excess of US\$10.1 million.⁷³ See Annex 6. The annual breakdown of the cashier's checks issued, by year, is as follows:

<u>YEAR</u>	<u>NUMBER OF CHECKS</u>	<u>AMOUNT</u>
1983	22	US\$1,359,588.46
1984	40	2,466,577.07
1985	45	1,182,099.00
1986	138	5,296,859.00
1987	<u>21</u>	<u>271,023.33</u>
	266	US\$10,576,146.86

The majority of the checks and the instructions for their issuance created the appearance that they were issued for the purchase of coffee or for expenses associated with those purchases. Ex. 88. The checks were issued upon the orders of Hamid Khan, Hassan Parvez or Nadim Hasan, each of whom did so upon the oral or written instructions of Bilbeisi.

In 1983 and 1984, Bilbeisi had used letters of credit for his alleged coffee transactions. At least some of the cashier's checks issued during those years were payments to

⁷³This amount includes cashier's checks drawn by or for Bilbeisi's benefit through the "cash local" accounts at the Boca Raton Agency.

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his smuggling partners, Calderon, Otano and Villalba, or are alleged to be kickbacks to Bilbeisi himself.

For example, on June 4, 1984, four cashier's checks were issued to "Rafael Garcia," three of them for US\$9,000 each and one for US\$3,000. Ex. 89. On June 19th, a like amount of cashier's checks were again issued to "Raphael Garcia." Raphael Garcia was only a name used by Bilbeisi for kickbacks to himself. Ex. 90. Jay Anthony Aramburo, a member of the smuggling scheme, has stated that "Raphael Garcia" checks were routinely sent to him by Bilbeisi. He said that he endorsed them in the name "Raphael Garcia" and returned them to Bilbeisi.⁷⁴ Ex. 6.

During 1985, Bilbeisi stopped using letters of credit for his alleged coffee purchases and began using cashier's checks with greater frequency. Although the reason for this change in practice is not known, two distinct possibilities exist. First, internal bank audits continued to ask embarrassing questions regarding the financing of the letters of credit; and, second, with the issuance of cashier's checks less people would be involved in the

⁷⁴Although Aramburo says he returned these checks to Bilbeisi after endorsing them, each of them was cashed at American Bank and Trust in New Orleans, where Aramburo -- not Bilbeisi -- lived and worked.

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handling and processing of the checks as opposed to the letters of credit.

Several other examples of Bilbeisi cashier's checks are typical of the hundreds issued throughout the four-year period. On July 9, 1985 five cashier's checks totaling US\$144,000 were issued and made payable to Nora Dubon, four of them for US\$27,500 and one for US\$34,000. Nora Dubon was the wife of Carlos Dubon, a coffee "broker" in Honduras who was introduced to Bilbeisi through their mutual friend, Gerardo Harris, and who was involved in smuggling coffee out of Honduras. Ex. 91.

On November 27, 1985, thirteen cashier's checks were issued to Louis Altamar, three for US\$45,000 each, six for US\$36,000 each, three for US\$12,000 each, and one for US\$9,000, for a combined total of US\$396,000. Three of these checks totaling US\$108,000 and allegedly to be used for coffee purchases were deposited back into the Coffee Inc. account. Ex. 92.

On January 10, 1986, thirteen cashier's checks were issued and made payable to Altamar for US\$242,500. Twelve of them were for US\$20,000 each and the remaining one was for US\$22,500. As had occurred during 1985, five of the checks totaling US\$120,000 were deposited back into the Coffee Inc.

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account, although all of them were supposedly for coffee purchases by Coffee, Inc. Ex. 93.

On March 3rd, thirty-one checks totaling US\$765,000 were issued and made payable to Altemar, thirty for US\$25,000 each and one for US\$15,000. Ex. 94. Ten of these checks, totaling US\$250,000 were not used for coffee purchases, but instead were used to re-issue four new cashier's checks on March 11th in the amounts of US\$212,750, US\$20,250, US\$10,000 and US\$7,000. Ex. 95. The check for US\$212,750 was deposited into the Coffee Inc. account after an attempt was allegedly made to stop payment on it, and the checks for US\$20,250 and US\$7,000 were deposited into Bilbeisi's personal account at the Atlantic Bank.⁷⁵ In addition, the original endorsement on the check by Altemar had been scratched out. Stamped on the back of the check was the notation "NOT USED FOR PURPOSES INTENDED." The check bears the endorsement of Munther Bilbeisi and Miami Coffee, Inc. account number 01006613.

⁷⁵The face of the US \$212,750 check bears the following handprinted notations: "NO GOOD," "CANSEL AVOID," and "CANSEL." [sic] The back of the check contained the notations: "NO GOOD," "AVOID" and "AVOID." In his claim of loss filed with Lloyds of London, Bilbeisi claimed that all of the March 3, 1986 cashier's checks were spent in purchasing coffee. This is a demonstrable lie, as the Exhibit 95 cashier's checks show.

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On March 28th, April 2nd and April 10th, a total of thirty-five more cashier's checks were issued and made payable to Arnolando Esquivel totaling US\$872,500. Esquivel was another coffee "broker" working for Bilbeisi and involved in smuggling coffee out of Honduras and Guatemala. Thirty-four of the checks were issued in the amount of US\$25,000 each. Ex. 96. Comparable "structuring" occurred on six other dates in 1986 covering thirty-seven cashier's checks with a value in excess of US\$1,799,000.

Bilbeisi stopped using letters of credit in mid-1984, although as noted earlier he caused the Miami Agency to issue sixteen more through 1985 which were all cancelled. Clearly by mid-1985, he was using the cashier's checks to pay for coffee and for commissions allegedly due on those purchases instead of using the letters of credit. Many of the cashier's checks were delivered by Bilbeisi to his "brokers" in the United States, and others were delivered in Guatemala and Honduras. In either case, however, the reason for their issuance and delivery appears clear: the cashier's checks enabled him to pay for coffee and commissions, as well as to pay the bribes and kickbacks necessary to the successful operation of his smuggling operation in Central America, with

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a secrecy and flexibility greater than that provided by letters of credit.

For example, the numerous cashier's checks issued to Louis Altamar were, according to Altamar, delivered by him to various coffee dealers, commission agents and government officials. Armed with twenty or thirty cashier's checks in amounts of up to US\$25,000 each and of unquestionable validity, Altamar was able to make numerous payments as required by whatever circumstances in which he found himself.

In addition, the cashier's checks permitted the recipients to receive payments directly without having to go through the formal banking channels which a letter of credit would otherwise have required. Cashier's checks could easily be physically transported by the payees to any bank in the world for deposit, without leaving any paper trail in financial institutions located in Guatemala or Honduras. In this way the payees would be able to avoid their own government's exchange controls and income taxes.

Moreover, the cashier's checks freed Bilbeisi from the need to acquire shipping documents, bills of lading and other documents normally required with international letters of credit prior to the issuance of payments. Use of cashier's

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checks must have streamlined Bilbeisi's smuggling operation enormously.

That the cashier's checks were actually used in the manner described by Altemar is confirmed by the endorsements on many of the cashier's checks payable and delivered to him, in that they bear the endorsements not only of Altemar but also of various other Hispanic individuals, some of whom we have been able to identify as coffee brokers in Guatemala and Honduras. In addition, these forms of payment, and the use of some of the cashier's checks as bribes and kickbacks, have also been confirmed by other recipients of the cashier's checks.⁷⁶

There is no direct evidence that any Bank officer or employee was aware of these purposes for the cashier's

⁷⁶Some of the cashier's checks were purchased by Coffee, Inc. checks drawn on its Atlantic Bank account, instead of directly through the Coffee, Inc. account at BCC. For example, in June 1984 Bilbeisi purchased four cashier's checks payable to "Raphael Garcia," three for \$9,000 each and one for \$3,000. The Boca Raton Agency debited the Atlantic Bank account directly for further debit to Coffee, Inc. This occurred again in July 1984, with the purchase of three more "Raphael Garcia" cashier's checks for \$15,000, \$5,000 and \$4,000 each. Since the Coffee, Inc. checks were payable to "BCCI," they could have been carried on Coffee, Inc.'s books for a number of different deductible, facially valid business expenses, even though according to Jay Anthony Aramburo, these "Raphael Garcia" checks were endorsed by him and delivered either in cash or endorsed checks directly back to Bilbeisi himself.

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checks. On the other hand, no Bank officer or employee ever questioned their issuance any more than they questioned the issuance of the seventeen unused letters of credit. Questions may have been appropriate, given the unique, and indeed strange, circumstances surrounding the letters of credit and the checks themselves.

L. Bilbeisi's Cash Activity

Bilbeisi was allowed to make substantial cash withdrawals from his personal and corporate accounts at the Miami and Boca Raton Agencies in such a manner as to leave very little documentary evidence to connect him with the transactions. This was done in several ways.

(a) The "Cash Local" Account:

The Miami and Boca Raton Agencies maintained a supply of cash on hand and accounted for it by means of its "cash local" account. When additional currency was needed at the Agencies, a cashiers check would be issued to one of the employees, who would take it to the Atlantic Bank in Boca Raton (that Agency's depository bank) or to the Pan American Bank in Miami (the depository Bank for the Miami Agency)

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where it would be cashed.⁷⁷ The cash would then be brought back to an officer at the Agency for disbursement. Ex. 97.

On at least three occasions, Bilbeisi withdrew cash from his corporate accounts in Boca Raton by use of this "cash local" account.⁷⁸

The procedure in Boca Raton worked as follows: cashier's checks were issued payable to Marcelle Walters, an Agency employee. She took these checks to the Atlantic Bank, cashed them and returned the money to the Agency Manager, Nadim Hasan. This cash was then delivered by Hasan to Bilbeisi, who would be waiting at the Agency office. The only documentary connection with Bilbeisi was that on the debit vouchers for the issuance of the cashiers check, the notation "cash for Mr. Bilbeisi" was made each time. These are the only instances we have been able to trace to Bilbeisi. Without the notation on the vouchers even these would have been impossible to connect with him.⁷⁹ Ex. 97.

⁷⁷Atlantic Bank is the same institution and branch at which Bilbeisi maintained his other Coffee, Inc. account.

⁷⁸The amounts were for \$7,000 and \$10,000 in June 1984 and another \$7,000 in August 1984. These were not reportable cash transactions requiring the filing of a CTR.

⁷⁹It should be noted that this system was not unique to Bilbeisi. The Boca Raton Agency performed the same service for other customers on several occasions.

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It is not known how Coffee, Inc. accounted for these withdrawals from their accounts, nor it is known what Bilbeisi did with the cash.⁸⁰ It is clear, however, that this system could have enabled him to access cash from these accounts with virtually no "paper trail," and to manipulate Coffee, Inc.'s books to show any type of deductible business expense not taxable as income to Bilbeisi.

Other instances of Bilbeisi cash transactions through the "cash-local" account in Boca Raton (for which CTRs were generated as appropriate) are as follows:⁸¹

<u>DATE</u>	<u>AMOUNT</u>	<u>SOURCE OF CURRENCY</u>	<u>AMOUNT RECEIVED IN US\$100 DENOMINATION</u>
1/6/86	US\$37,600	Atlantic BK via CC signed by Siddiqi	US\$30,600
1/22/86	US\$50,000	Cash-Local Atlantic BK	US\$45,000

⁸⁰Marcelle Walters was deposed in the Sturge v. Coffee Inc. litigation. She was questioned regarding the three cashier's checks relating to Munther Bilbeisi. Counsel for Sturge raised the question as to whether the cash generated through the cash local in this manner could have been used as a payoff to Nadim Hasan or any other bank officer who did favors for Bilbeisi. While stating that she had no knowledge of cash going to any BCC officer from Bilbeisi, Walters testified that it was certainly a possibility. Ex. 97.

⁸¹In each instance, the balance in the cash local account was insufficient to meet the requested withdrawal.

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2/19/86	US\$55,000	Cash deposited	US\$38,000
		for Bilbeisi	

A similar system was employed at the Miami Agency. Between May 19 and June 22, 1983, for instance, Bilbeisi made four currency withdrawals from the Orion account in Miami in the amounts of US\$30,000, US\$15,500, US\$22,000 and US\$40,000. Ex. 32. These withdrawals were made through debit vouchers which were signed by Bilbeisi as the recipient of the money, and which also identified the denominations of currency received (for example, the US\$40,000 withdrawal was with four hundred \$100 bills). These withdrawals, especially without the use of a check, should have triggered a CTR in each instance. As noted, no CTR files prior to 1987 exist for Miami and our sources indicate that the IRS has no record of these cash transactions. On the other hand, the Boca Raton Agency did file CTRs on its reportable cash transactions with Bilbeisi.

It is by no means clear that these are all of the instances in which Bilbeisi was supplied cash. These specific cases were found because vouchers specifically referencing Bilbeisi were uncovered. There is no way of knowing how many more such vouchers there are like this among the Agencies' tens of thousands of vouchers, or even whether references to Bilbeisi were always made on the vouchers. What is clear,

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however, is that these cash transactions are almost impossible to trace.

(b) Use of Miami Agency "Operating Account":

On September 13, 1983 a US\$50,000 check was issued to Munther Bilbeisi, which was drawn on the Miami Agency account maintained at Pan American Bank, N.A. Ex. 98. This was an internal account maintained by that Agency as its "Operating Account." Most withdrawals from this account were deposited to the Miami Agency's payroll account.

The check issued to Bilbeisi for US\$50,000 has the authorizing signatures of N. Siddiqi and M.S. Hamidani.⁸² The check was endorsed by Bilbeisi and was cashed at the Pan American Bank on the very date it was issued. Pan American Bank filed a CTR with the U.S. Treasury Department concerning the cashing of the check. No Agency employee has been able to explain any reason for issuing a US\$50,000 check on the Bank's own Operating Account to Bilbeisi. The Agency debited the Coffee, Inc. account for US\$50,000, but once again this cash withdrawal by Bilbeisi left virtually no "paper trail."

⁸²At the time, N. Siddiqi was an officer at the Miami Agency. In the upper left hand corner of the check is a notation by Siddiqi approving the check. Hamidani was also an officer at the Agency, and later he was transferred to Boca Raton, where he subsequently became Acting Manager following the departure of Nadim Hasan.

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This enabled Coffee, Inc. to account for the cash withdrawal in any way it chose, either as a coffee purchase or some other legitimate business expense not generating taxable income to Bilbeisi.

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IV. CALDERON, OTANO AND VILLALBA

A. BACKGROUND

Steve Calderon, Jose Otano and Joseph Villalba were all employed by CCT shipping line. Calderon was the vice president of operations, Otano was in charge of Central and South America, and Villalba was in charge of in-bound U. S. shipments. With the help of Jay Anthony Aramburo (alias "Raphael Garcia") Calderon, Otano and Villalba operated the smuggling ring with Bilbeisi until about late 1985. Ex. 6. They were also associated with Bilbeisi in the three container companies in Boca Raton, and together they arranged to lease shipping containers and other equipment to CCT, the same shipping line used in the smuggling operation and the line which employed them in key positions. See App. 4.

B. Panamanian Corporate Accounts Established in London

Calderon, Otano and Villalba established their banking relationship with BCC in May, 1984, by opening accounts for three Panamanian corporations at the Swiss Cottage Branch in London.⁸³ Ex. 99. The "Franjuli, S.A." account was opened by Calderon; the "Chevere, S.A." account was opened by

⁸³As will be noted, the initial deposit checks and Account Opening Forms were sent to Majaz Malik in May, but the accounts were not actually opened until about July, when the new Swiss Cottage Branch was officially opened under Malik's management.

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Villalba; and the "Labaro, S.A." account was opened by Otano. The initial deposits into these accounts were Coffee, Inc. checks in the amounts of US\$257,600, US\$290,970. and US\$350,000 respectively, and these allegedly represented payments of commissions by Coffee, Inc. to Calderon, Otano and Villalba.⁸⁴ Ex. 100.

These three accounts were opened by Majaz Malik, who at the time was the assistant manager at the Brompton Road Branch in England. However, since Malik knew he was about to be made manager at the new Swiss Cottage Branch, he delayed opening the accounts until July when that branch opened. The three initial deposit checks were put into the Brompton Road

⁸⁴According to Bilbeisi's outside accountant, Kenneth Grushoff, the payments to Calderon, Otano and Villalba from Coffee Inc. were recorded as commissions on the books and records of Coffee Inc. and were made to their Panamanian corporations at their request. Such commission payments are required by U. S. law to be reported to the Internal Revenue Service on Form 1099, but Grushoff admitted in deposition that he was instructed by Bilbeisi not to prepare the appropriate reporting forms. The payments were not listed on the Coffee Inc. tax returns as commissions, but instead were included in the "cost of goods sold" as coffee purchases. This would have prevented the transaction from being identified from the Coffee, Inc. tax return as income taxable to Calderon, Otano or Villalba. Grushoff also claimed that Otano requested some of his commission payments be made directly to contractors building his new home. Bilbeisi obliged. Grushoff claimed Calderon, Otano and Villalba all knew Forms 1099 would not be issued to them or their companies. He also stated that these entities were established for the purpose of evading United States taxes. Ex. 101.

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account at the Head Office in London in May, and upon his transfer in July, 1984, Malik had the funds transferred to the Swiss Cottage Branch account at the Head Office for further credit to the newly-opened corporate accounts. Ex. 102.

Malik stated that these accounts were referred to him by Nadim Hasan, the manager at the Boca Raton Agency, because they were close friends (a fact Hasan later denied in an interview with us, Ex. 18) and he wanted to help Malik in his new position as branch manager.

The Account Opening Forms were prepared by Hasan in Boca Raton. Ex. 102. They indicate that the accounts were referred to BCC by Munther Bilbeisi, reported Panamanian corporate addresses, and indicated that the branch should hold all mail for each company. Ex. 99. The prepared forms were mailed to Malik along with the initial deposit checks. At the same time, Hasan conveyed to Malik the very strong desire of Calderon, Otano and Villalba for strict confidentiality concerning these accounts. This desire for confidentiality was confirmed by Calderon, Otano and Villalba themselves when they later met with Malik in London shortly after the accounts were opened. Malik assured Hasan and the customers that he would fully comply with these wishes.

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Malik requested that the Panama Agency provide a background check on each of the corporations. He later received Dun & Bradstreet reports indicating that although the companies maintained Panamanian addresses they had no offices there and did not report any current business operations. Ex. 103. Malik was requested to provide accurate addresses for the businesses for a further background check, but never did so.

Malik stated to us that he believed the corporations were "bearer-shareholder" Panamanian companies, and that he knew they conducted no actual business operations since they were "shelf" companies. Malik also stated that he understood that Calderon, Otano and Villalba opened these accounts because they did not want to deposit their money in the United States due to "tax consequences." Malik said that the accounts were classified as "no correspondence (hold mail)" because the customers insisted upon confidentiality and did not want statements mailed to any Panamanian or U. S. address.

**C. Individual "Numbered" Accounts Established in
London**

Calderon, Otano and Villalba also maintained a number of individual accounts at the Swiss Cottage Branch, each of

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which were opened upon Malik's recommendation. Ex. 104. In December 1984, Calderon, Otano and Villalba had applied to the Boca Raton Branch for a loan of US\$700,000. Ex. 105. The purpose of this loan was to buy out Bilbeisi's partnership interest in three container companies, International Equipment Services, International Chassis Services and Consolidated Trailers.⁸⁵ The proceeds of this loan were deposited into the Coffee, Inc. account at Boca Raton, and the loan was secured mainly by Swiss Cottage guarantees based upon newly opened individual accounts. Ex. 107. On the same date the US\$700,000 was deposited, Coffee, Inc. purchased three cashier's checks at Boca Raton payable to Franjuli, Labaro and Chevere for a total amount of over US\$989,000. Ex. 108. These checks were subsequently deposited into the corporate accounts at Swiss Cottage. Essentially, Calderon, Otano and Villalba were immediately repaid their purchase price for the three partnerships, plus an additional US\$289,000.

⁸⁵These are the same companies which were formed in November, 1983 and one month later received the US\$2.5 million "working capital" loan which was placed into Bilbeisi's personal time deposit accounts in Panama and Nassau. Prior to the buy-out of Bilbeisi's interest in these companies, they had changed form from corporations to limited partnerships. The partners were Bilbeisi, Calderon, Otano and Villalba. Ex. 106.

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Calderon, Otano and Villalba had wanted to secure this loan with Bank guarantees based upon their Franjuli, Chevere and Labaro corporate accounts at the Swiss Cottage Branch. Malik recommended against this, however, because additional paperwork was required for Panamanian corporations and because of the length of time necessary to complete the transaction. Ex. 102. Malik instead suggested that they open personal accounts at that branch and use those accounts to secure the Boca Raton loans. They agreed, and in July, 1984, they opened nine personal accounts. Each of them had three accounts in his own name: one U. S. dollar money market account; one pound sterling money market account; and one time deposit account. These accounts were all manager's ledger "numbered accounts" in order to insure Calderon's, Otano's and Villalba's confidentiality. Malik said he believed that each of the individuals wanted numbered accounts in order to "maintain their confidentiality from Bank employees," because they said they did not want their names to appear on the Bank computer terminals. Ex. 102.

Malik stated that the three individuals had also wanted these personal accounts so that they could withdraw cash.

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easily when they traveled to Europe.⁸⁶ On at least one occasion, in February 1986, Calderon, Otano and Villalba withdrew cash to spend on a skiing trip in Switzerland. In addition, Malik stated that "occasionally" Calderon, Otano and Villalba carried cash from their accounts back to the United States in amounts of US\$10,000, US\$20,000 or US\$30,000.⁸⁷

D. Malik's Relationship With Calderon, Otano and Villalba

Malik was told by Nadim Hasan on various occasions through 1984 and 1985 that Calderon, Otano and Villalba had been employed by Bilbeisi in the coffee business as salesmen for Coffee, Inc. Malik also knew from Hasan that sometime in 1985 the three individuals left Bilbeisi's company and began their own shipping container rental business. Calderon, Otano and Villalba were also involved, he believed, in other businesses, including real estate development (motels in

⁸⁶It is unclear why it would have been easier for them to withdraw cash from individual accounts as opposed to the corporate accounts. Malik admitted that he knew that each of the corporate accounts was simply an alter ego for the three individuals, and he consistently permitted those individuals to remove cash from their accounts upon demand.

⁸⁷Malik said that in 1990 he would "probably not" tolerate such withdrawals; however, in 1984 he was not concerned with such transactions. Ex. 102.

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Miami), the ownership of a mobile home business, a nurse recruitment business and a catering business.⁸⁸

Moreover, Malik may have also learned some of this information directly from the accountholders. He stated that at times he had entertained Calderon, Otano and Villalba (and their spouses) when they came to London. In addition, he arranged their hotel accommodations, and on at least one occasion personally met Calderon's two brothers when they were withdrawing cash from the Calderon accounts. Generally, Malik's meetings with Calderon, Otano and Villalba were social according to him, and business matters were not

⁸⁸These businesses were known by various names such as ABC Party Rentals, C.O.V. Commodities and Cal-Vil Investments. Three other businesses were formed by Calderon, Otano and Villalba. These were: C.O.V. Commodities, Inc.; COE Commodities and Cal-Vil Investments. C.O.V. Commodities was a business formed by Calderon, Otano and Villalba with a bank account at Intercontinental Bank in Miami. This company received substantial transfers of funds from the Commodity Brokers International account at Swiss Cottage and at least one transfer of monies from that corporation's account at BCC/Colon. The disposition of the funds from the C.O.V. Commodities account at Intercontinental Bank in Miami is not known. C.O.E. Commodities was a business venture between Calderon, Otano, Jim Puente and Raul Enriquez. Puente was the accountant for Calderon, Otano and Villalba who was also involved as a beneficiary on several of Munther Bilbeisi's letters of credit. The volume of activity of this business is not known since its accounts were not maintained at BCC. Cal-Vil Investments was a business venture between Calderon and Villalba. This business maintained an account at the Boca Raton Agency and had a US\$10,000 loan guaranteed by BCC Swiss Cottage. The activity in this account was minimal.

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discussed, although occasionally the account holders would ask about their account balances or other general questions. Malik had no explanation as to why Calderon, Otano or Villalba would have come to London to meet with him just to discuss social matters, and stated that they were "just friendly visits." Ex. 102. He added that entertaining out-of-town clients was not unusual at BCC.

In July, 1987, Malik traveled with his family to Texas for the purpose of visiting his brother. From Texas he stated that he and his family drove to Orlando, Florida, in order to visit Disney World. While at Disney World he stated that he decided he would visit Calderon in Boca Raton (approximately a three and a half hour drive from Orlando) and Villalba in Miami (approximately a four hour drive from Orlando). Malik stated that he did meet with Calderon and Villalba, but that they did not discuss the accounts or any other business matters.⁸⁹ Ex. 102.

⁸⁹Malik stated he also met with the manager of the Boca Raton Agency, Sadiq Hamidani, and another Boca Raton customer who had been referred to the Swiss Cottage branch by Nadim Hasan. Nevertheless, Malik continued to insist that these were entirely social visits and no business whatsoever was discussed with these customers or with the Boca Raton manager.

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E. Malik Discussions About U.S. Taxes

Although Malik understood that the purpose of at least the corporate accounts was to avoid "tax consequences" in the United States, Malik said he did not recall having any discussion with Calderon, Otano or Villalba relating to taxes until 1987, when Otano was in the process of divorcing his wife. Otano and his partners telephoned Malik and expressed their concern that Mrs. Otano would "blow the whistle" on them with the IRS in the U. S. Malik stated he was extremely surprised when he heard this, because he had met Mr. and Mrs. Otano and thought they were a happily married couple. Malik expressed no surprise, however, at their concern that Mrs. Otano might "blow the whistle." Ex. 102.

Calderon, Otano and Villalba telephoned Malik several times after this initial conversation to express their continuing concerns about Mrs. Otano revealing the existence of their London accounts to the IRS. Malik claimed that he told them that he would be forced to release their bank records if the British authorities demanded them on behalf of the United States Government. Therefore, the accountholders decided to close their accounts in order to avoid any investigations and, according to Malik, "declare it all." Ex. 102. Malik thought that this meant they would declare

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all of the interest income that they earned on these accounts, as well as the deposits (presumably taxable income) which they had made in London. The accounts at Swiss Cottage Branch were closed in February, 1989 after these conversations. The funds were used to repay loans in Boca Raton and cancel guarantees which had been issued in London to secure them.

F. The Commodity Brokers International Accounts

One other account which had been opened in the Swiss Cottage Branch and also at the Panama Agency, and which was not closed in February, 1989, is the corporate account for Commodity Brokers International of Panama, another Panamanian corporation controlled by the three partners.⁹⁰ Ex. 109.

Although there is no reference to coffee in any of the account records, Malik stated he thought this was a commodity brokerage firm for coffee from Latin America. Most of the transfers out of this account were to BCC Panama, to an account called "COV Commodities," a business controlled by Calderon, Otano and Villalba. Ex. 102. Commodity Brokers

⁹⁰In 1989, while under investigation by the I.R.S., Calderon, Otano and Villalba authorized the bank to disclose information about some of their accounts in London. They did not authorize disclosure of the Commodity Brokers Account and the I.R.S. never requested information about it. Apparently, neither the I.R.S. nor Mrs. Otano knew about the account and therefore there was no need to close it in February 1989.

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International of Panama also opened an account at the Panama Agency. From 1984 through 1987, millions of dollars were transferred back and forth between Franjuli, Chevere, Labaro, Commodity Brokers International (Swiss Cottage), Commodity Brokers International (BCC Panama), COV Commodities, the personal accounts of Calderon, Otano and Villalba in London, and accounts maintained in other banks by these individuals. Ex. 109, Ex. 110.

G. Loan Transactions

Based upon funds initially generated from Bilbeisi and Coffee, Inc., Calderon, Otano and Villalba started several businesses. A common element for each of these businesses and for the individuals as well is that they received numerous loans from either the Boca Raton Agency or Swiss Cottage, all of which were cash collateralized in the Swiss Cottage Branch. The following is a review of some of these transactions.

(1) DECEMBER 20, 1984

Calderon, Otano and Villalba each received a US\$140,000 loan (total US\$420,000) from Swiss Cottage for the purpose of purchasing luxury cars (Mercedes Benz) in Germany. This was intended to be a three month loan. According to the loan documents, the proceeds were converted to deutschemarks to be

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turned over to Otano at a Holiday Inn in Dusseldorf, West Germany upon the presentation of his passport. The loans were secured by time deposits at Swiss Cottage, and were not repaid until February, 1989 when most of the accounts were closed. Ex. 109.

(2) OCTOBER 17, 1985

Calderon, Otano and Villalba established additional loan accounts at Swiss Cottage and made the following draws on the loans:

	<u>Calderon</u> <u>1400001</u>	<u>Otano</u> <u>14000062</u>	<u>Villalba</u> <u>14000057</u>	<u>Proceeds</u> <u>Destination</u>
10/17/85	42,000.00	42,000.00	42,000.00	BCC Panama
10/28/85	34,000.00	34,000.00	34,000.00	BCC Panama
10/28/85	58,725.34	58,725.34	58,725.34	BCC Panama
11/09/85	46,750.00	46,750.00	46,750.00	Bank of Nova Scotia
11/15/85	<u>25,000.00</u>	<u>25,000.00</u>	<u>25,000.00</u>	Intercon- tinental Bank
	US\$206,475.34	\$206,475.34	\$206,475.34	Miami

All of these loans were guaranteed by compensating balances at Swiss Cottage. Prior to February 26, 1989 these loans were repaid by the three individuals. Ex. 109.

(3) JANUARY 23, 1986

Calderon received a US\$150,000 loan at the Boca Raton Agency secured by a compensating balance at Swiss Cottage.

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The original purpose of the loan was for the purchase of real estate in San Antonio, Texas. However, the credit line on this loan was steadily increased as follows:

1/23/86	US\$150,000.00	
4/04/87	US\$100,000.00	
4/04/87	US\$125,000.00	Purchase Marine Trailers
5/22/87	US\$ 50,000.00	
7/13/87	<u>US\$100,000.00</u>	
	US\$525,000.00	

All of these additional loan facilities were guaranteed by compensating balances at Swiss Cottage. The loan involving the purchase of Marine Trailers in April of 1987 was also guaranteed by Jim Puente (a C.P.A. from Miami) and Raul Enriquez, business associates of Calderon, Otano and Villalba. Periodic interest and principal payments were made on this loan through February 20, 1989, at which time the loan was repaid in full with US\$432,510 in proceeds from Calderon's numbered account maintained at Swiss Cottage. Ex. 109, Ex. 111.

Also on January 23, 1986, Joseph Villalba obtained a US\$150,000 loan from the Boca Raton Agency guaranteed by compensating balances at Swiss Cottage and by Villalba's personal guarantee. Periodic interest and principal payments

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were made on the loan until February 20, 1989 when US\$249,815.30 was paid to the Boca Raton Agency by Swiss Cottage to close out the loan. The proceeds came from Villalba's numbered account at Swiss Cottage. Ex. 109, Ex. 111.

(4) JUNE 29, 1987

ABC Party Rentals obtained a loan at Boca Raton for US\$31,000 to purchase computer equipment. The signatories on the loan were Steve Calderon, Joseph Villalba and Carlos Melendez. The loan was personally guaranteed by all three and by compensating balances at Swiss Cottage. Periodic interest and principal payments were made on the loan, which was closed out on February 20, 1989. Ex. 109, Ex. 111.

(5) JUNE 1, 1988

ABC Party Rental d/b/a Diamonette Party Rentals obtained a US\$50,000 loan at the Boca Raton Agency on June 1, 1988. The signatories on the loan were Steve Calderon, Joseph Villalba and Carlos Melendez. All three personally guaranteed the loan, which was also secured by guarantees from Swiss Cottage. Periodic interest and principal payments were made on the loan until February 20, 1989, when this loan and ABC Party Rental's June 29, 1987 loan were both paid off with proceeds from the numbered accounts of Calderon

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(US\$14,845) and Villalba (US\$14,845) at Swiss Cottage. Ex. 109, Ex. 111.

(6) FEBRUARY 20, 1989

On this date the numbered accounts of Calderon, Otano and Villalba were closed at Swiss Cottage, and part of the balances were transferred to the Boca Raton Agency in order to pay off their first loan for US\$700,000 which had been used to buy Bilbeisi's interest in the three container companies. Final payments totaled US\$166,133, of which each paid from his numbered account at Swiss Cottage the sum of US\$55,437. Ex. 109, Ex. 111.

Periodic interest and principal payments had been made over the four year life of the loan to reduce the principal from the initial US\$700,000 balance. The sources of these payments to reduce this principal have not been determined, but many of the loan payments were made by cashier's checks obtained from Glendale Federal Savings and Loan Association in Miami. Ex. 112.

Also on February 20, 1989, the loans obtained on December 20, 1984 by Calderon, Otano and Villalba for the purchase of the luxury autos were paid off in the amount of US\$225,288.36.

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Periodic payments had been made on this loan during its four year term from unidentified accounts at Swiss Cottage.

After payment of the Boca Raton and Swiss Cottage Branch loans, the final balances in the personal numbered accounts at Swiss Cottage were, as of February 20, 1989:

Calderon	US\$166,297.34	Transferred to personal account at Boca Raton Agency.
Otano	94,218.44	Transferred to personal accounts at Southeast Bank, Miami.
Villalba	<u>221,044.77</u>	Transferred to personal account at Boca Raton Agency.
	US\$704,044.77	

The closing of the numbered accounts at Swiss Cottage resulted in transfers and loan repayments in the total amount of US\$1,585,897.53.

H. Movement of Money to Gerardo Harris in Panama

From April, 1984 until November, 1985 there was a pattern of movement of millions of dollars between Coffee Inc. and Calderon, Otano and Villalba, and Gerardo Harris, identified as an alleged Noriega associate. The starting point for the movement of these funds was Coffee Inc. Monies classified as commissions from coffee sales were transferred to the numerous accounts at the Swiss Cottage Branch controlled by Calderon, Otano and Villalba. From there,

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substantial sums were immediately transferred to BCC Colon directly into accounts controlled by Gerardo Harris.⁹¹ Ex. 109, Ex. 111.

It is not known how Harris disposed of the funds received from Bilbeisi or from Calderon, Otano and Villalba in London and Panama via the Swiss Cottage Branch. These records were requested from BCC Colon but not produced. In addition, other transfers were made from the Swiss Cottage Branch into accounts maintained by Jorge Pena Solano, an alleged narcotics trafficker, at the Bank of Nova Scotia. Ex. 109, Ex. 111.

The accounts maintained by Calderon, Otano and Villalba produced substantial taxable interest income. Conservatively, each earned more than US\$200,000 in interest income between 1984 and 1988. Ex. 109. Also, millions of dollars in deposits, presumably all taxable income, were deposited in these accounts. Since Calderon, Otano and Villalba along with Bilbeisi are currently under active criminal investigation by the IRS, it is presumed that their substantial taxable income was either under-reported or not reported at all.

⁹¹In April of 1984 Bilbeisi himself had directly transferred \$560,000 from Coffee Inc. accounts into accounts controlled by Harris. See p 112.

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The business relationship between Calderon, Otano and Villalba with Gerardo Harris is suspicious. While Harris is an influential businessman in the Colon Free Zone, he is also allegedly connected to Noriega and involved in narcotics trafficking and money laundering.

It was in November, 1985, when Calderon, Otano and Villalba formed Commodity Brokers International of Panama and opened accounts for it at the Swiss Cottage and BCC Colon, that Calderon, Villalba and Otano ostensibly stopped working with Bilbeisi. This account received large amounts of funds from unidentified sources and from the various Calderon, Otano and Villalba accounts. Funds in this account were immediately transferred to other accounts held by the three partners and to Harris' account at BCC Colon. Ex. 109; Ex. 111. The circular movement of these bank funds could be construed as evidence of money laundering. The trio opened other accounts at BCC Colon, one of which was used as collateral for a Gerardo Harris loan. Ex. 111. The key to analyzing the movement of funds between London and Panama/Colon is the records at BCC Colon which have been requested but not produced.

The connection any of these individuals have with any legitimate business which would generate the amounts of money

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deposited in their many "shelf" corporation accounts or which would justify the repeated, circular transfers of millions of dollars among these accounts has not been found. Together with the reputation of Gerardo Harris as an associate of Manuel Noriega and as a drug trafficker and money launderer, all of this activity becomes extremely suspicious.

The role of the bank in all of these activities is equally if not even more direct than with the Bilbeisi smuggling scheme, by virtue of Majaz Malik's connections with these people. Malik provided the services and advice to them at Swiss Cottage, and he was fully aware of the circular transfers of funds among their accounts. His own role may have gone even further. Calderon, Otano and Villalba provided instructions at BCC Colon to permit the transfer of monies upon verbal instructions by any of the three of them if the funds were transferred to:

A. Bank of Nova Scotia account of Jorge Pena Solano, an alleged narcotics dealer and money launderer;

B. BCC Colon, account of Commodity Brokers International of Panama; or

C. Any account with the approval of M. Malik of BCC Swiss Cottage. Ex. 113.

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Malik has denied any knowledge of these instructions and cannot explain them. Possibly, Calderon, Otano and Villalba neglected to mention them to Malik in any of their frequent "social" meetings.

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V. INVOLVEMENT OF BCC PERSONNEL

A. A.R. Sakhia

Sakhia served as the highest ranking BCC officer in Miami from the opening of the Miami Agency and Regional Office in May 1982 until February 1987 when he was transferred to the New York office.

Current investigation which included the forensic audit of bank documents and interviews of present and former bank officers and employees has established that Sakhia directed and ordered most of the bank's transactions involving Munther Bilbeisi and his companies.

Numerous BCC officials who served under the command of Sakhia in Miami stated during interviews with counsel and investigators that Sakhia ordered and directed favorable treatment toward Bilbeisi in contravention of bank policies and lending procedures. These activities included the following:

(1) Exceeding the loan authority of the Miami Regional Office by lending Bilbeisi's companies a total of US\$2.5 million on December 23, 1983 without the knowledge or approval of the Central Credit Committee in London;

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(2) Disbursing the proceeds of that loan through BCC internal accounts and arranging for the deposit of US\$1,500,000 in an account at BCC Panama without benefit of written instructions from Bilbeisi or execution of a required Account Opening Forms; and arranging for the deposit of approximately US\$956,000 of the loan proceeds in a Bilbeisi account at BCC Nassau without written instructions, Account Opening Forms or signature cards;

(3) Withholding the existence of the US\$2.5 million loan from the Central Credit Committee in London from December 1983 to at least August 1984, during which time other loans and credit facilities were extended to Bilbeisi for at least another US\$2.5 million without adequate collateral. During this period, Sakhia appears to have deliberately deceived the Central Credit Committee for the benefit of Bilbeisi both in terms of the amount of credit extended and collateral therefor as well as deliberately hiding Bilbeisi's coffee business and its relationship to General Coffee and Alberto Duque;

(4) Allowing overdraft facilities exceeding authorized limits;

(5) Creating margin accounts through overdrafts and acceptance of post-dated checks, thereby effectively

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advancing BCC funds for the benefit of Bilbeisi without adequate credit approval or loan documents;

(6) Filing false and inaccurate CLP's in London for approval of Bilbeisi's credit facilities.

(7) The transfer of Bilbeisi funds, including US\$600,000 from the Atlantic Bank and US\$1,027,000 which had been held in a letter of credit margin account, for the opening of new accounts at the Nassau Agency without written authorization or required Account Opening Forms or signature cards.

Every present and former Miami Agency and Regional official interviewed regarding their knowledge of Bilbeisi's transactions with the Bank stated that Sakhia authorized and directed each loan, extension of credit, letter of credit, acceptance of post-dated checks and account openings for Bilbeisi. Persons interviewed who made statements in this regard included Hassan Parvez, M.U. Rehman, Engracia Estalella, Sadiq Hamidani, S.U. Sakrani, Enrique Olavarria and Ted Walters.

Moreover, even Nadim Hasan and Hamid Khan, in the limited interviews they granted to counsel and investigators, made statements that Sakhia controlled and directed transactions involving Bilbeisi. Khan, in particular, stated

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that the manner in which credit and loans were extended to Bilbeisi were all rigidly directed by Sakhia.

The employees said that Sakhia conducted business at the Agency and Regional Office in a strict, uncompromising manner and contrary to BCC policy. His "innovative" methods of achieving a client's objectives frequently deviated from Bank policy and procedure. The picture which emerges from Sakhia's management of the Miami Regional Office is that of a renegade regional manager who conducted the business of a bank within a bank.

Documents obtained from the Central Credit Committee and from reports of the Bank's internal auditors show that Sakhia's policies were frequently at odds with London headquarters in matters pertaining to Bilbeisi transactions as well as transactions involving other clients. See Ex. 53; Ex. 54; Ex. 52.

Sakhia managed the Miami Regional Office and the Agency with frequent disregard for established procedures while subjecting subordinates who disliked his methods to vindictive and career threatening treatment, according to many BCC employees who have been interviewed during this investigation. See Ex. 14; Ex. 36.

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According to those interviews, Sakhia arranged deviations from established policies and procedures of BCC through certain loyal subordinates, including Nadim Hasan, Hamid Khan, and M. U. Rehman so that rarely did his signature or initials appear in the files of customers such as Munther Bilbeisi.

Louis Altamar has identified A.R. Sakhia as a BCC official who was very close to Munther Bilbeisi and who arranged favored treatment for Bilbeisi in terms of loans, credit and abuse of Bank facilities. Document review and interviews of BCC personnel conducted during this inquiry tend to support Altamar's allegations.

Finally, it should be noted that Sakhia declined to be interviewed by us and refused to cooperate with the Bank's investigation unless certain conditions and demands were met by BCC. These conditions were inconsistent with the procedures established by BCC for the conduct of this internal investigation. Shortly after his refusal to cooperate, Sakhia resigned from his position with the Bank effective July 31, 1990.

B. Nadim Hasan

Nadim Hasan served under A.R. Sakhia in Miami after the Agency and Regional Office were established in 1982.

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According to interviews conducted with other BCC employees, Hasan was a particular favorite of Sakhia. Hasan's career flourished under Sakhia, culminating in his appointment as first manager of the Boca Raton Agency.

Among other duties, Nadim Hasan handled several of the letters of credit for General Coffee and Alberto Duque in 1982 and 1983 which resulted in the multi-million dollar loss to the Bank. Nevertheless, Hasan was hand picked by Sakhia to manage the BCC Agency in Boca Raton, which closely serviced the transactions of Munther Bilbeisi and his business associates, Calderon, Otano and Villalba. While at the Boca Agency Hasan became close to Bilbeisi socially. Together with Sakhia, Hasan personally negotiated Bilbeisi's US\$2.5 million secret loan in December 1983.

Hasan and his attorney, after answering some preliminary questions by the Bank's counsel and investigators, refused to answer further questions regarding certain Bilbeisi transactions in which Hasan was directly involved. Hasan's refusal to cooperate precluded us from questioning him regarding allegations made by Louis Altamar that on several occasions Bilbeisi paid cash bribes to him.⁹²

⁹²Hasan's refusal to cooperate also precluded us from questioning him about the Bank's transactions involving Calderon, Otano and Villalba.

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Suspicious Bilbeisi-related transactions in which Hasan directly participated were:

(1) The US\$2.5 million "working capital" loan to Bilbeisi's three container companies. This was the first large loan issued by the Boca Raton Agency and completely exceeded the lending authority of the Agency and the Regional Office but was never approved by the Central Credit Committee.

(2) The disbursement of the US\$2.5 million loan proceeds on December 23, 1983 to accounts established that same day in Panama and Nassau in the name of Munther Bilbeisi despite the lack of written authorization and required Account Opening Forms. The funds were transferred through the Boca Raton and Miami Agency through internal accounts in such a manner as to conceal the movement of those funds into the personal accounts of Bilbeisi outside the United States.

(3) The arrangement of the US\$700,000 loan to Calderon, Otano and Villalba to buy Bilbeisi's interests in International Chassis, Container International and Consolidated Trailers, the three companies which received the secret loan in December 1983.

(4) The introduction of Calderon, Otano and Villalba to Majaz Malik in London, and the preparation of the Account

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Opening Forms for their Panamanian "shelf" corporation accounts, Franjuli S.A., Chevere S.A. and Labaro S.A.

(5) Obtaining cash for Bilbeisi through the use of the Agency's cashier's checks payable to Agency employees and cashed through the Agency's cash local account.

In addition, Hasan was alleged to have been a very close friend of Bilbeisi and it has been established that he visited Bilbeisi's home on numerous occasions. In fact, his relationship with Bilbeisi may have involved more than Bank business or social calls. It may have included business investments. On February 17, 1988, Bilbeisi's outside accountant, Kenneth Grushoff, in a business letter to Bilbeisi mentioned Bilbeisi's "continuing losses in the container business with Nadim Hasan." Ex. 67. Hasan and Grushoff have refused to explain this reference to us.

Finally, Nadim Hasan was also directly involved in arranging for and servicing the secret London account of Heather Wyser-Pratte. Pratte, along with the Bank itself, is presently facing criminal indictment by the I.R.S. for income tax evasion. See Section VII.

Hasan's refusal to cooperate with the Bank's investigation resulted in his dismissal from employment by BCC in the Summer of 1990. Nadim Hasan is a target of the

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IRS in its criminal investigation of Munther Bilbeisi, et al. Nadia Hasan, along with A.R. Sakhia and Hamid Khan, is the most likely former BCC employee to be indicted in this case.

C. Hamid Khan

Hamid Khan came to the Miami Agency in May 1983 and was immediately given the responsibility for the Agency's letters of credit.

Between May 1983 and late 1988, Hamid Khan was involved in every letter of credit opened by the Miami Agency for Munther Bilbeisi. In that time period Bilbeisi opened over 27 letters of credit with a face value of in excess of US\$79 million for which approximately US\$9 million was ultimately paid by BCC on behalf of Bilbeisi for the purchase of coffee. Louis Altomar, former driver, bodyguard and business associate of Munther Bilbeisi has alleged that Hamid Khan was one of five BCC officials who had an improper relationship with Bilbeisi and received bribes from him. This is an allegation which Khan has denied.

Altomar has charged that among other payments, Khan was given a check for US\$2,500 in April 1986 by Bilbeisi which was drawn on the account of Coffee Inc. and made payable to Diane Mandarino. Ex. 19. Mandarino at that time was the live-in girlfriend of Khan. A notation on the check stated

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that it was "For Mrs. Hamid Khan". While Khan has denied that he ever accepted any bribes or improper payments from Bilbeisi, he has given conflicting accounts of the purpose of this check. Further, Khan's versions have conflicted with explanations given by Munther Bilbeisi in his deposition testimony in the Sturge litigation.⁹³

Initially, Khan represented that while he and Mandarinino lived together they would often write checks to each other and exchange small loans. Khan made this explanation during an interview with a Bank attorney at a time when an actual copy of the check had not been obtained. Khan also showed a lack of candor by claiming to the Bank's attorney that he did not know the current whereabouts of Diane Mandarinino.⁹⁴ Subsequently, we received a copy of the check but Khan and

⁹³Khan initially denied any knowledge of the check to a bank attorney. Later, in an interview with another bank attorney, he characterized the check as one of a series of financial transfers between himself and Mandarinino. Later, with yet another bank attorney, he stated that the check may have involved the sale of carpets to Bilbeisi, and Kahn had the check issued to Mandarinino to avoid the appearance of impropriety. On the other hand, Bilbeisi has testified that the check was issued at Khan's request for the purpose of giving money to Mandarinino without the knowledge of Khan's wife.

⁹⁴Subsequent interviews of Diane Mandarinino established that Khan called her shortly after being interviewed about this check. In denying his knowledge of her whereabouts, it appears Khan wanted to preclude any interview of her.

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his attorney have refused further cooperation with the Bank, thus preventing additional questions.

The US\$2,500 check from Bilbeisi's Coffee Inc. to Diane Mandarino is not the only check to Mandarino which has raised questions during the Bank's investigation.

On 3/12/85 a BCC cashier's check in the amount of US\$840.00 was made payable to Diane Mandarino at the instruction of Hamid Khan. Ex. 136. The check was debited to an internal account of the Miami Agency. The reverse side bears the alleged endorsement of Diane Mandarino but the signature is suspicious. Further the check was negotiated at the Pan American bank where Khan, not Mandarino maintained an account.

In an interview with us, Mandarino denied that she ever received any cashier's checks from BCC. Like the Coffee Inc. check, Mandarino claimed she had no knowledge of it.

Moreover, there are at least three other questionable cashier's checks which were made payable to Hamid Khan by Khan's order with no other explanation. As with the Mandarino check, the funds were debited against an internal

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BCC account. All three checks were endorsed by Khan and deposited in his account at Pan American bank.⁹⁵

While it was not unusual for cashier's checks to be drawn against BCC accounts to officers for such purposes as payment of expenses, salary advances and loans, these checks to Khan and the one to Mandarino do not appear on their face to have such purposes. Khan has refused to make himself available to answer questions about these checks and the source and disposition of funds.

Khan's lack of cooperation has also precluded his responses to other critical questions raised in this investigation including:

(1) Why were letters of credit opened for Bilbeisi, many of which were cancelled at the same time as Bilbeisi was issuing cashier's checks to ostensibly pay for coffee purchases?

(2) Why did Hamid Khan and others consistently extend credit to Bilbeisi's letters of credit over and above his existing collateral and well beyond his approved facilities?

(3) Why was a US\$1,027,000 margin transferred

⁹⁵The checks were drawn on December 3, 1985 for \$3,500; February 10, 1986 for \$1,500 and March 20, 1986 for \$2,900.

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"offshore" to Nassau from the Coffee, Inc. account to the Orion Systems accounts without written authorization?

(4) Why did Khan not challenge Bilbeisi when there were many reasons to suspect that Bilbeisi and his associates were smuggling coffee into the United States and selling at least a portion of that coffee to General Coffee Inc. subsidiaries, Chock Full O'Nuts and Chase & Sanborn which were then in bankruptcy and which were in default to BCC for US\$5 million?

(5) Why did Khan himself issue multiple sequential cashier's checks in excess of US\$1million payable to Louis Altamar in 1986 at the request of Bilbeisi?

(6) What was the role of Hamid Khan and Enrique Olavarria in creating a list of cashier's checks at the instruction of Munther Bilbeisi after a subpoena had been issued for their production by the Plaintiff in the Sturge litigation?⁹⁶

⁹⁶This list included over 70 cashier's checks issued by the Bank to Altamar and others at Bilbeisi's direction, totalling millions of dollars. It included 10 checks to Altamar for US\$250,000 but endorsed by Bilbeisi and returned to the Boca Raton Agency for re-issuance and ultimate deposit in a Bilbeisi account. After this list was prepared, certain crucial checks disappeared for several months. They were found only after an intense search during our investigation. The checks in question tended to prove that Bilbeisi's insurance claim against Lloyds of London was fraudulent and their temporary disappearance prompted claims that the Bank was actively attempting to assist Bilbeisi in sustaining his fraudulent insurance claim.

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All of these issues have been fully discussed elsewhere in this report. Khan's refusal to cooperate with the investigation and answer questions regarding his conduct in these matters has resulted in the Bank's decision to terminate his employment.

D. Hassan Parvez

Parvez became manager of the Miami Agency in September 1984. He remained in that position until he was transferred to Istanbul, Turkey in late 1989.

As previously stated, Louis Altemar has made allegations to the effect that Parvez was one of five Bank officials who had what Altemar termed an "improper relationship" with Munther Bilbeisi. While Altemar stated that he had no knowledge of bribes or payoffs to Parvez by Bilbeisi, he nevertheless stated that Parvez was an officer from whom Bilbeisi obtained many favors including transactions wherein BCC used its own money to accommodate Bilbeisi's objectives rather than insist on proper and adequate collateral.⁹⁷

⁹⁷It must be remembered, however, that it was Parvez who oversaw the collection of US\$3.5 million on Bilbeisi's bank guarantees, and worked hard to collect the remaining US\$400,000 in remaining interest due.

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When interviewed by us, however, Parvez answered questions in great detail. Parvez denied that he ever accepted any bribes or favors from Bilbeisi. He denied ever visiting Bilbeisi's home or having any type of social relationship with him. Parvez stated, in essence, that the acceptance of post-dated checks as collateral and the extensions of credit for letters of credit for Bilbeisi were directed by Mr. Sakhia.

He further maintained that the transfers of US\$600,000 to "offshore" accounts in Nassau in September 1984, as well as the transfer to Nassau of over US\$1 million in a margin account was done at the direction of Sakhia to accommodate Bilbeisi's desire to effectively conceal these assets from his wife who had filed a divorce suit at that time.

Parvez also stated that on many occasions, Sakhia bypassed him in connection with instructions regarding letters of credit for Bilbeisi. Sakhia would communicate these instructions directly to officers such as Hamid Khan or Engracia Estalella who nominally reported to Parvez.

Parvez concluded that when it came to Munther Bilbeisi and other specific clients who dealt with Sakhia, he was manager of the Miami Agency in name only and had no real power. Parvez acknowledged that there were many Bilbeisi

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transactions handled by Sakhia that he would not have authorized.

However, Parvez's involvement in the Mura International letter of credit transaction which occurred after Sakhia's transfer to New York raises serious questions about his own conduct.⁹⁸

There is a serious lack of documentation regarding the terms and conditions surrounding the assignment of the Letter of Credit proceeds from Capital Bank and the rights of BCC to assign US\$400,000 to a long-standing interest debt owed to BCC by Coffee Inc.

There are questions as to why Parvez agreed to involve BCC in Bilbeisi's helicopter deal in the first place. Bilbeisi had owed BCC well over US\$3.9 million from 1986 until April 1988. At that time, open efforts to collect the money directly from Bilbeisi had failed, and the Miami Agency was forced to collect US\$3.5 million in bank guarantees,

⁹⁸The Mura International letter of credit transaction which concerns the assignment of approximately US\$837,000 from the Capital Bank in connection with the sale of helicopters to the government of Guatemala in 1988 has been the subject of litigation between Munther Bilbeisi and BCC. The litigation concerned the application of approximately \$400,000 from the letter of credit proceeds by Parvez to satisfy a long standing debt of Bilbeisi's company Coffee Inc, and was tentatively settled on November 20, 1990. See, p. 108.

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leaving a shortfall of approximately US\$400,000 in interest still owed.

Under these circumstances, it is all the more puzzling as to why Parvez agreed to participate in the assignment and why he did not protect the Bank's interest with a clearly written agreement saying that the purpose of the assignment was to pay the interest money due to the Bank.

Allegations have been made that part of the money assigned to BCC was intended to be used by Bilbeisi to pay certain bribes to foreign officials who had facilitated the helicopter deal for Bilbeisi. In fact, BCC transferred approximately US\$270,000 to Bank Leumi, Miami Beach in a questionable transaction which is alleged to be a cover for bribe money to be paid to certain Guatemalan officials. Parvez had stated to Bank attorneys, that he had conversations with Bilbeisi regarding the payment of bribes in connection with the helicopter sale.

F. Saad Shafi

Shafi was the manager of BCC Nassau prior to and after obtaining a Domestic License from the Bahamas. Prior to obtaining a Domestic License in 1985 the BCC Nassau office was operated from a deal in the Miami Agency. Shafi was manager of the Nassau operation in December of 1983 when

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Bilbeisi opened a time deposit account with proceeds from the US\$2.5 million loan from the Boca Raton Agency. Shafi was the manager of BCC Nassau when Bilbeisi opened accounts in September of 1984 for Orion Systems Inc. and Coffee Inc. These accounts were opened due to marital problems between Bilbeisi and his wife.

In total Bilbeisi opened four accounts at BCC Nassau while it was operated from the Miami Agency. No account opening forms were prepared for these accounts and no written instructions were issued by Bilbeisi to open them. Bilbeisi now claims that he was never a signatory over any accounts at BCC Nassau.

Shafi was indicted by a Federal grand jury in Tampa, Florida on money laundering charges in 1988 along with numerous other BCC officers. Shafi was never arraigned and there is an outstanding Federal warrant for his arrest. Shafi is no longer employed by the Bank and refused to cooperate in this investigation.

G. Amjad Awan

Awan was previously the manager of BCC Panama in late 1983 and 1984 when Bilbeisi had business dealings with this agency. In December of 1983 Bilbeisi opened a US\$1.5 million time deposit account with the proceeds of a US\$2.5

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million secret loan from the Boca Agency. The remaining loan proceeds were deposited at BCC Nassau. There are no Account Opening Forms or written authorization from Bilbeisi.

Avan was also the manager of BCC Panama when Bilbeisi and Coffee Inc. opened letters of credit IMP 105/84, 106/84, 107/84 and 140/84. These letters of credit were unusual and unique because the funds used to finance the transactions were from BCC Miami but BCC Panama assisted in administering the letters of credit. BCC Panama disbursed the funds, and was reimbursed by BCC Miami. From the US\$4.4 million received from BCC Miami in payments, less than US\$1 million was paid to the named beneficiary, Financiera Del Atlantico S.A. and over US\$3.4 million was disbursed to a bank in New York resulting in millions of dollars in payments to Noriega connected companies and individuals.

Avan was convicted in Tampa this past summer on money laundering charges. He is in jail awaiting sentencing and is no longer employed by the Bank.

H. Nasim Farooqi

Louis Altamar has alleged that Farooqi was the first BCC official to have an "improper relationship" with Munther Bilbeisi. In fact, Farooqi is the first Bank officer in Miami to have any dealings with Bilbeisi.

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According to Altemar, Farooqi was at BCC Miami in 1982, 1983 and for a short time in 1984 at which time he was transferred to the Tampa agency by Sakhia.

Altemar claims to have witnessed cash payoffs to Farooqi by Bilbeisi and that on several occasions Bilbeisi paid Farooqi's American Express credit card bills as a method of paying bribes to Farooqi. Altemar recalls one American Express bill in the approximate amount of US\$11,000 paid by Bilbeisi. We have determined from confidential sources that Farooqi has never had an American Express card indicating that Altemar was either mistaken in the type of credit card Farooqi used or he was not telling the truth about the bribes.

However, our investigation has corroborated the allegation that Farooqi was in fact the BCC officer who brought Bilbeisi to the Miami Agency. Farooqi was also involved in the issuance of the first letter of credit for Bilbeisi in 1982-83 prior to the arrival of Hamid Khan.

We have learned that Farooqi left the employment of BCC sometime in 1987 but apparently has stayed in communication with Bilbeisi regarding the pending Mura International litigation. In July, 1990, attorney Ed Davis who is representing BCC in the Mura case received a telephone call

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from Pakistan from Farooqi who explained that he is a close personal friend of Bilbeisi and would testify that BCC has stolen over US\$1 million from Bilbeisi.

I. M.U. Rehman

M.U. Rehman served in the Miami Regional Office under A.R. Sakhia from early 1983 to the end of 1986. In 1983, 1984, 1985 Rehman served on the Miami Regional Credit Committee and was directly involved in the US\$2.5 million secret loan to Bilbeisi's companies from the Boca Raton Agency in December 1983 as well as many other extensions of credit and overdrafts to Bilbeisi thereafter.

When interviewed by us on July 3 & 4, 1990, Rehman was confronted with documents relating to the US\$2.5 million Boca Raton loan. These documents included the Miami Regional Office CLP which was never forwarded to London; debit, credit and transfer documents showing that the proceeds of this loan were transferred on December 23, 1983 to Munther Bilbeisi's personal accounts in Panama through the Bank's internal accounts; and selected correspondence from the files of the Central Credit Committee regarding this loan.

When confronted with these documents Rehman stated that:

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- He had made a telephone call and sent a telex to London advising London of the intention of the Boca Raton Agency to issue a loan to Bilbeisi's three container companies. In his telex and telephone call, however, Rehman represented to London that a complete credit proposal was being prepared for the Central Credit Committee and that no funds would be disbursed before completion of the documents. The date of the telephone call was December 28, 1983, five days after the loan proceeds had been disbursed to Bilbeisi accounts in Panama and Nassau which had been created on the same day.

- In fact as Rehman admitted no CLP was ever sent to London for authorization for this US\$2.5 million loan and the funds had already been disbursed by the Boca Raton Agency, although he disclaimed knowledge of how the funds got to Panama and Nassau.

- His signature appeared on the Miami Regional Credit Office CLP as the approving officer but that the lending limit for the Miami Regional Office was only US\$500,000 and this loan to Bilbeisi greatly exceeded this limit.

- Rehman stated that his telephone call and telex to London on December 28, 1983 and his signature of the Regional

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CLP were made at the direction and insistence of A.R. Sakhia who wanted this loan made to Bilbeisi. .

- Rehman stated that he knew the loan was not properly collateralized and if the decision had been left to him, this loan to Bilbeisi would never have been made.

- He further stated that the manner in which these loan proceeds were filtered through the Bank's internal IBF accounts to Panama and to Nassau suggested that someone other than Bilbeisi had to be the architect of such a maneuver. Rehman stated that both A.R. Sakhia and Nadim Hasan had the access and the expertise to structure these transactions.

- Rehman stated that it would not be possible for this loan to have been made, proceeds disbursed, and the London Central Credit Committee by-passed without the complete knowledge and authorization of A.R. Sakhia even though Sakhia's signature or initials do not appear on any of the documents.

- Rehman admitted that all subsequent notices from the Central Credit Committee inquiring about the status of the CLP were ignored by Miami at the instruction of Sakhia. He further admitted that this US\$2.5 million loan was never carried as a Bilbeisi liability when the bank calculated Bilbeisi's credit standing for the purpose of extending

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overdraft facilities, creating margin accounts or submitting other CLP's to London. In other words, Miami represented that the US\$1.8 million in guarantees were adequate collateral for what was in reality over US\$5 million in loans and overdrafts in 1984.

- Under further questioning regarding some of Bilbeisi's other transactions through BCC, Rehman stated that after the internal auditors report of June 29, 1984 very little was done to correct the criticisms regarding the Bilbeisi accounts. Rehman stated that the report written by Saleem Siddiqi on February 6, 1985 and the February 15, 1985 letter of Imtiaz Ahmed were ignored by Sakhia. At the instruction of Sakhia, Rehman finally prepared a response to the Bilbeisi criticisms. This response, dated March 27, 1985 ignored most of the issues raised by the London officers. **Ex. 55.**

- Rehman admitted that BCC Miami should have suspected that Bilbeisi was smuggling coffee into the U.S. in violation of the quota system, especially when correspondence was received from Bilbeisi consistently waiving major discrepancies and ordering BCC to release documents and payments because the coffee was already in Bilbeisi's warehouse. Rehman agreed that the goods could not have been

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received prior to release of documents and funds without bypassing usual Customs control.

- Rehman further stated that the issuance of multiple cashier's checks to payees as instructed by Bilbeisi was wrong and should not have been done especially since letters of credit were already opened to buy the coffee. Again, Rehman's position was that this could never have been approved without the knowledge and direction of A.R. Sakhia. The same would apply to the acceptance and immediate crediting of post-dated checks for the benefit of Bilbeisi.

- Rehman further admitted that his signature appeared on some of the transfer vouchers sending Bilbeisi's funds to Nassau in September 1984. He claimed that Sakhia issued instructions to transfer these funds to Nassau. Rehman claimed he did not know the real purpose for these transfers nor did he know how the funds were returned to Bilbeisi's U.S. accounts.

Rehman described Sakhia as autocratic and vindictive but very innovative when it came to weaving in and out of complex transactions. Sakhia was a "master of marketing" but moved

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in sometimes secretive ways mostly through trusted associates.⁹⁹

Rehman stated that subordinates did not argue with Sakhia if they valued their careers.

Rehman stated that under Sakhia the Miami Regional Credit Committee was merely a rubber stamp for decisions that Sakhia had already made. It had no real authority on any major credit issue except as dictated by Sakhia.

Finally, Rehman had no explanation for the US\$2.5 million deposit shown in the May 1985 statement for Munther Bilbeisi's Boca Raton account. He agreed that it was suspicious and reflected a possible fraud.

J. Sadiq Hamidani

Hamidani was the assistant manager of BCC Boca Raton Agency when it first opened in 1983. He reported to the manager, Nadim Hasan. Hamidani signed the loan documents and internal vouchers concerning the US\$2.5 million loan from Boca Raton by Bilbeisi and his related companies. He did so

⁹⁹This characterization of A.R. Sakhia and Sakhia's involvement in extending favorable treatment to Munther Bilbeisi was corroborated by many BCC officers who were interviewed, the highest ranking of which was Mr. S.U. Sakrani whose description of instructions he received from Sakhia were similar to those described by M.U. Rehman.

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at Hasan's direction after witnessing both Hasan and Sakhia personally negotiating the loan with Bilbeisi.

Hamidani was one of two signatories on the check issued to Munther Bilbeisi from an internal BCC Miami account at Pan American Bank for US\$50,000 in 1983. This check was cashed by Bilbeisi at Pan American Bank. Hamidani had no explanation for that check.

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V. HEATHER WYSER-PRATTE

A. Background:

Heather Wyser-Pratte is a 47 year old former BCC customer currently residing in Palm Beach, Florida. **Ex. 114.** According to her attorney, Charles Ruffner, Pratte was born into a wealthy family and has always received her financial support and income from various family trust accounts. As a result, her lawyer claims that she has always relied upon accountants and bankers for her tax planning.

Late in 1982, Pratte meet Dr. Alberto Calvo at a cocktail party. Dr. Calvo had been hired by BCC in late 1970 to serve as a Senior Marketer in South America, and in 1981 he had been posted to Washington, D.C.¹⁰⁰ Calvo's duties included attracting deposits to BCC, and he was responsible for Pratte's introduction to Nadim Hasan at the Miami Agency in 1983.

¹⁰⁰Dr. Calvo is a citizen of Argentina and currently resides in the Dominican Republic. He resigned from BCC in 1988 and began working for Gaith Pharon, the target of a pending federal criminal investigation into a transaction involving CenTrust Bank and BCC concerning the purchase of U.S. \$25 million of CenTrust commercial paper.

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B. Bank Accounts:

1. BCC Cromwell Road

On February 7, 1983, Nadim Hasan referred Pratte's account to Shahid Hyatt Khan at BCC Cromwell Road.¹⁰¹ Ex.

115. Nadim Hasan prepared the Account Opening Form for Pratte, and requested that she be given a numbered manager's ledger account.¹⁰² The form was forwarded to Shahid Hyatt Khan by memo dated February 7, and in that memo Khan was instructed to route all correspondence concerning the account to Nadim Hasan.¹⁰³ Ex. 116. As a result, a numbered account was opened for Pratte on February 9, 1983 with any initial deposit of US\$650,200, wire transferred from the Bank of New York. Ex. 117.

Pratte claims that when she opened the account she explained to a Bank officer whose name she cannot now remember that she wanted an "interest bearing tax-free" account. In response, the unnamed Bank officer advised her

¹⁰¹Shahid Hyatt Khan's aunt is married to Nadim Hasan. At the time of the introduction, Hasan was employed at the Miami Agency. Nine months later, in December, he was made manager of the new Boca Raton Agency.

¹⁰²The Account Opening Form did not provide information as to Pratte's occupation or any references on her behalf.

¹⁰³The Cromwell Road manager, Nasrullah Khan, and his assistant manager, S.H. Khan, were the only employees empowered to operate this confidential numbered account.

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to open a time deposit account in London. Pratte claims that as far as she knew, based upon her discussion with this officer, that her London account was tax-free.¹⁰⁴

Pratte's Cromwell Road time deposit account had a term of one month and was consistently renewed. Customarily, when an account is opened in the United Kingdom, a "Composite Rate Tax Declaration" form is completed by the account holder. The form establishes whether the account holder is a resident of the United Kingdom and therefore subject to liability in that country. Pratte completed and signed this form 3 years after the account was opened, on April 24, 1986. Ex. 118. On the form she declared she was not a resident of Britain and thus not subject to British tax on interest earned. An explanation as to why this form was not filled out for over three years, or why it was not filled out upon the opening of the account, has not been provided to us. Nevertheless, the interest income earned by Pratte on her Cromwell Road account was not reported to the British Government throughout the life of the account.

¹⁰⁴Since the Account Opening Form was prepared by Nadim Hasan, it is likely that he is Pratte's unidentified Bank officer. Hasan admitted to us that he had conversations with Pratte about opening the London account, by denied giving her any tax advice.

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2. BCC Boca Raton.

In December, 1984, Pratte requested that US\$450,000 be transferred from Cromwell Road to the Boca Raton Agency for a potential real estate transaction. Ex. 119. On December 3, 1984, Pratte provided Nadim Hasan a letter of instruction regarding the distribution of those funds upon their receipt from Cromwell Road, and on December 12, 1984, Nasrullah Khan sent a memo to Hasan acknowledging the transfer of the funds to the Boca Raton Agency.

Shortly thereafter, on December 31, 1984, a demand deposit account was opened in her name at the Boca Raton Agency for the stated purpose of "facilitating transfers with Cromwell Road." Ex. 120. The opening deposit was US\$449,750 (the US\$450,000 transferred from Cromwell Road less transfer charges). Ex. 121. In January, 1985, a US\$50,000 check from Pratte's husband was deposited into the account, Ex. 122 and on February 8, 1985 the total balance in the account, US\$499,875 was transferred back to Pratte's BCC Cromwell Road account. Ex. 123.

On February 19, 1985, Pratte gave Hasan several checks totalling US\$226,627.57. These checks were deposited into her Boca Raton account (with or without her knowledge) and on March 4, 1985 the entire account balance was transferred to

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Cromwell Road, and Pratte's Boca Raton account was closed.
Ex. 124.

This account remained opened for approximately a three-month period, and was a BCC demand deposit account. According to the federal banking regulations controlling international banks, the duration of demand accounts at an international bank for U.S. citizens may not exceed one month, unless the account is used strictly for international business.

3. BCC Regent Street

In July, 1988, Francesca Garrard, assistant manager at Cromwell Road, received a telephone call from Tariq Jan, then the manager of the Boca Raton Agency. **Ex. 125.** Jan informed Garrard that Pratte wanted to close her London account and pick up the cash at the Boca Raton Agency. At the time, Pratte's account balance at Cromwell Road was over US\$1 million. Garrard informed Jan that the Bank did not have sufficient funds for such a withdrawal and that it was against Bank policy to permit a withdrawal in that amount. Garrard inquired as to the reason for the withdrawal and was informed by Jan that it was due to Pratte's impending divorce. Pratte had previously explained to Jan that the funds in the account belonged to her daughters, and she did

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not want her estranged husband to learn of the account and attempt to seize or attach it as part of the divorce proceeding. Garrard and Jan discussed the possibility of transferring the funds to Switzerland, but ultimately decided instead that it would be better to transfer them to BCC Regent Street. On July 14, 1988, Garrard received a letter from Pratte containing the formal request to make that transfer. Ex. 125.

Early in July, Tariq Jan called K. K. Misri, the manager at Regent Street, and instructed him to open a numbered term deposit account for Pratte at that branch. Ex. 126. Jan advised him that the initial deposit of over US\$1 million would be transferred to him from Cromwell Road. Misri expressed concern over the amount of the initial deposit. In response, Jan explained that Pratte was having marital problems and wanted to move her funds from Cromwell Road to another branch to establish a joint account for herself and her daughters. On July 14, 1988, Jan sent a letter to Misri enclosing an Account Opening Form and signature card executed by Pratte. Ex. 126.

Ms. Garrard at Cromwell Road was concerned that the funds which were to be transferred might be the subject of a court order in a divorce proceeding, and on July 27, 1988 she

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sent a memo to I.K. Patel in London requesting guidance. Patel subsequently instructed Garrard to transfer the funds as requested. **Ex. 125.**

On August 11, 1988, Jan transmitted a new Account Opening Form (listing Pratte and her daughters as joint account holders) to K.K. Misri at Regent Street. **Ex. 127.** At about the same time, Regent Street received a check from Cromwell Road for US\$1,021,287.96, which represented the total balance in Pratte's account at Cromwell Road and her initial deposit into the new Regent Street account. The Regent Street account was formally opened on August 12, 1988.

This transfer was the only deposit to Pratte's Regent Street account during its lifetime. The account rolled over on a monthly basis, and the monthly statements and term deposit receipts were sent to Tariq Jan at Boca Raton regularly. **Ex. 128.** Pratte's file was maintained in the desk of Tariq Jan's secretary, although Pratte did not maintain an account at that Agency. Jan stated that he regularly mailed the Regent Street statements and receipts to Pratte at her home in Palm Beach. However, she frequently telephoned him asking for copies of those statements because she said she had lost them. For this reason, he maintained a separate file for her and her time deposit statements in a

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location which was handy to him but separate from other Boca Raton Agency accounts. In addition, Tariq Jan had directions to Pratte's home in his brief case at the time of the IRS search of the Boca Raton Agency in May, 1989. Jan had stated that these directions were contained in his brief case, and were in his handwriting, because Pratte had invited him and his family to Palm Beach for a tour to be conducted by her. Jan never took advantage of this invitation, but did copy down the directions and kept them in his brief case.¹⁰⁵

C. Pratte's IRS Tax Problems.

During the last week of April, 1989, Tariq Jan wrote a memorandum to file memorializing a telephone conversation he had had with Pratte that week. Ex. 129. Pratte had expressed some concern to Jan about what, if any knowledge, the IRS had of her London account. She stated that she did not want the IRS to know about that account.

Jan responded to Pratte that the Bank would be required to fully answer an IRS subpoena about her account if such a subpoena were delivered. Pratte then retorted that she had nothing at all to hide. Jan was troubled by this

¹⁰⁵The IRS is extremely suspicious about this. According to Pratte's lawyer, her home was searched in the fall of 1989, and IRS agents asserted to her lawyer that they believed original Boca Raton Agency records had been secreted there. Naturally, none were.

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conversation because it implied that Pratte had not reported the existence of her London account to the IRS and may have evaded taxes on interest earned.¹⁰⁶ Accordingly, Jan requested guidance from the Regional Office in New York, which referred him to Bank counsel in Miami. Ex. 130. Subsequently, a criminal referral was filed with the U.S. authorities, indicating the Bank's suspicion that Pratte had failed to report her London account or the interest earned on it as required by U.S. law.¹⁰⁷

D. The Closing of Pratte's London Account.

On September 11, 1989, Pratte telephoned Frederick K.H. Wan, assistant manager at Regent Street, requesting that the balance of her account be transferred to a bank in Switzerland. Ex. 131. Wan informed Pratte that telephonic instructions were unacceptable, and that her request must be made in writing. In response, Pratte sent a telefax message dated September 11, via the Picadilly Circus branch which arrived at Regent Street on September 15 directing that the

¹⁰⁶Neither the Boca Raton Agency nor Cromwell Road were required to file with the IRS any reports of interest earned on Pratte's account. Such reporting was entirely Pratte's obligation.

¹⁰⁷This referral was made on July 17, after the IRS search of the Boca Raton Agency in May, 1989. At the time of the referral, Pratte apparently was already the target of an IRS criminal investigation.

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balance in her account be transferred to the Swiss Bank Corp. of Geneva, Switzerland.

On September 27, 1989, Abdi Zand, U.K. regional counsel, advised Regent Street that Pratte's written instructions should be complied with in the normal course of business. Misri, the Cromwell Road manager, then instructed Wan to contact Pratte since the signature on the letter of instruction differed from her signature card maintained in the account file.

On October 24, 1989, K.K. Misri spoke to Pratte regarding her request to transfer the balance of her account to the bank in Switzerland. Ex. 126. During their conversation, Pratte expressed concern over the secrecy of her account, the pending criminal charges against the Bank and the ongoing IRS criminal investigation. In addition, Pratte made a passing reference to U.S. tax problems that she herself was having.

On December 8, 1989, a new letter of instruction was sent from Pratte's attorney to Regent Street. Ex. 132. This letter of instruction directed that the balance in Pratte's account be sent to Chase Bank of Florida in St. Petersburg instead of to Switzerland. The stated purpose of this transfer was to make the funds available for the payment of

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Pratte's tax liabilities. After referring the letter to the legal department in London, Regent Street transferred the funds on December 18, 1989 and closed Pratte's account.

Since the closing of Pratte's account at Regent Street, BCC has had two further contacts with Pratte. On January 17, 1990, Pratte signed a specific consent for the Bank to disclose her London account activity to the IRS. Ex. 133. That consent had been presented to BCC accompanied by a request for copies of Pratte's account files. Second; on May 1, 1990, Pratte attempted to open an account at the Leadenhall office of BCC in London. Ex. 134. Pratte was interviewed by assistant manager Ibad Khan. Khan later reported that Pratte appeared extremely nervous and upset. During the interview, she placed a bag at the center of the table and implied that it contained the cash for an opening deposit. It is possible that the bag also contained a recording device and that this meeting was a ploy by Pratte to substantiate her claim that London time deposit accounts had been and were being represented by Bank officers as "interest bearing tax-free" accounts for U. S. residents. In fact, Pratte did inquire of Khan as to the possibility of opening a tax-free interest-bearing account. Ibad Khan, complying with the Bank's "know your customer" directives,

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refused to open an account for her, and declined to provide her with any tax advice, because he did not feel that he had received sufficient information from her to justify the opening of the account.

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VII. POTENTIAL CRIMINAL LIABILITY

**A. The Attitude of U. S. Prosecutors and
Investigators**

As noted in the Introduction, the U.S. prosecutors have already orally advised the Bank that it is the target of a criminal investigation centering upon a "Klein Conspiracy." In considering this or other possible charges which the prosecutors may consider bringing against BCC, it is necessary to first describe the general attitude which some of them have taken toward the Bank. This attitude has considerably affected their approach to the Bank, despite repeated efforts to correct it.

Many prosecutors and investigators hold a view of the Bank which is extremely cynical and profoundly prejudiced. They believe that BCC is essentially a narcotics money laundering institution.¹⁰⁸ This was the basic approach taken by the Tampa prosecutors and investigators in 1988, an

¹⁰⁸This is a perception which the Bank's attorneys have consistently endeavored to alter in a number of direct meeting involving Government prosecutors, investigators and bank officers. These meetings seem to have met with some success since the formerly harsh attitude of these individuals has considerably softened over the past twelve months. Other events, however, such as the Centrust/BCC situation have had a noticeably adverse affect and have tended to reinforce old attitudes.

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approach which ultimately led in October of that year to the criminal indictment of BCC.¹⁰⁹ The fact that BCC pled guilty to the Tampa money laundering charges only because of the strict corporate criminal liability theories of U.S. law has done nothing to improve its image in their eyes. Indeed, many of them are convinced that the narcotics money laundering activities of the Bank officers convicted in Tampa were activities expressly condoned and encouraged by the highest levels of BCC management.¹¹⁰

Prosecutors and investigators in Miami share this attitude, although to a lesser extent. Essentially, it is their view that BCC is a "full service bank" in the worse sense of the phrase. They believe that it is official Bank policy to actively seek out and market high net-worth individuals, and to gain from them large and frequent deposits, preferably in cash. They see such marketing efforts as being done at best without regard for the source .

¹⁰⁹United States v. Amiad Awan, et al. (Case No. 88-330-Cr-T-13(B)).

¹¹⁰The Bank's defense of its employees and the payment of their attorneys' fees is viewed by some Government officials as motivated solely by the desire of the Bank's management to prevent the indicted employees from exposing the role of higher ranking officers in illegal money laundering activities. Thus, the Bank's support of its indicted employees has been a major source of frustration and anger for U. S. prosecutors and investigators.

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of the customer's cash, and at worst with tacit acceptance or even actual knowledge that in many cases the customer's money is derived from illegal enterprises, most notably narcotics.¹¹¹

In the eyes of some prosecutors and investigators, the Bank's "services" are not limited merely to accepting the proceeds of illegal activities. They believe that BCC officers and employees, with express upper management approval, also actively assist and even advise their customers on the most effective methods of hiding their money and evading taxes.

Money, for example, is seen to be hidden or "laundered" by the constant, carefully controlled transfer of funds from one account to another within BCC and its world-wide branches or between BCC and other banks related to BCC, thus making the money almost impossible for U. S. law enforcement to trace. Since the Bank collectively "knows" that the accounts involved in such transfers are, for the most part, controlled

¹¹¹Manuel Noriega, the Government's current habeas corpus, is often cited as an example. As far as the Government is concerned, Noriega is universally acknowledged and recognized as a world-class narcotics trafficker. Admittedly, Noriega has been a customer of BCC, and the Government has referred on numerous occasions to the former Panama Agency manager, Amjad Awan, as "Noriega's personal banker." The Government sees this BCC-Noriega connection as proof positive of its belief that BCC is a narcotics money laundering institution.

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by the same individuals, it is easy for U. S. law enforcement to conclude that the Bank actively condones and assists the laundering of illegal proceeds or flight capital on a worldwide scale. Since many inter-agency or inter-bank transfers are particularly complex and difficult to accomplish, and are far beyond the normal business or banking aptitudes of the customers themselves, may law enforcement officers also conclude that such activity can only be accomplished upon the careful advice of the Bank's own officers.

Customers are seen to be assisted in tax evasion through any number of schemes, but one of the most common is the cash collateralized loan. Many prosecutors see no legitimate purpose for a customer to keep cash in a foreign bank account and use that cash as collateral for a loan made in another country or in the United States. They consider such loans as inherently suspicious, if not outright fraudulent, especially when the cash account is held in a corporate name and in a country where secrecy laws prevent immediate access to loan or account records by U. S. investigators. Such a transaction becomes even more suspicious when the loan is issued to a corporation instead of an individual, especially if it is a Panamanian "shelf" corporation.

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Other tax evasion "assistance" is seen in the failure to file currency transaction reports on large cash transactions in the United States; in making cash available without the normal "paper trail" of a check drawn directly upon a particular, readily identifiable local account; or in making U.S. dollars available to U.S. citizens or residents in foreign countries for the purpose of spending those dollars abroad or in bringing those dollars back to the United States (without filing the required report by the customer). As far as some prosecutors and investigators are concerned, none of these activities can take place without the knowledge and assistance of the Bank's officers and employees. Moreover, many of them are convinced that these activities occur on a daily basis in BCC.

Since the Bank's various officers are supervised by management, then, as far as the prosecutors are concerned, the upper-management itself must be aware of these activities. Since these activities have continued for years, then they must have the approval and encouragement of upper-management. Accordingly, the entire Bank, in their eyes, up to and including its highest levels of management, constitutes a sort of money laundering empire whose primary objective has been to attract, to purposely assist and to

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keep large volume customers who need to hide their money and evade taxes.

It is from this unfortunate point of view that the prosecutors and investigators will review facts relating to the Bank and its customers and make their determination as to whether the Bank should be charged with any crimes in connection with their investigation of Bilbeisi, Calderon, Otano, Villalba or Pratte.

B. Potentially Applicable Criminal Statutes and Theories of Liability

We do not know how much of the information contained in this report is known by federal prosecutors and investigators. We have been told (but have not been able to confirm) that Louis Altemar and Jay Anthony Aramburo have testified before the U. S. Grand Jury in Miami, so the overall smuggling scheme is probably known. In addition, Calderon, Otano, Villalba and Pratte have each consented to the disclosure of at least some of their London account activities, and a great number of documents was seized during the search of the Miami Agency in October, 1988 and the Boca Raton Agency in May, 1989.

Moreover, the federal investigators clearly have access

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by means of grand jury subpoenas to documents maintained by other banks, such as Atlantic Bank in Boca Raton.

On the other hand, there are certainly facts contained in this Report which federal investigators do not have access to. For example, they have not had access to any account records or information maintained at the Bank's Panama Agencies, nor have they interviewed current employees such as Majaz Malik or Hassan Parvez.

In addition, we have not been able to secure and review the personal or corporate tax returns filed by Bilbeisi, Calderon, Otano, Villalba, their related companies or Pratte. Thus, we do not know what, if anything, was incorrectly or falsely reported to the IRS by them. Accordingly, it is not possible to list all of the potential theories of criminal liability which may be used against the Bank, or to list all of the possible criminal statutes of the United States which U. S. prosecutors might allege have been violated. The following subsections, however, delineate some of the theories of criminal liability which might be pressed against the Bank.

(1) Corporate Criminal Liability

Under U. S. law, a corporation may be held responsible for the criminal acts of its employees when those acts are

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committed within the scope of the employee's employment and are motivated at least in part by an intention to benefit the corporation. Courts generally have held corporations liable for the acts of supervisory and managerial level employees, although in some cases corporations have been held criminally liable for the acts of lower echelon and non-supervisory employees as well.

The phrase "scope of employment" has been very broadly defined to include acts performed on the corporation's behalf in the performance of the employee's general line of work. An employee's scope of employment includes acts which are within the employee's "apparent authority," which means the authority which outsiders would normally assume an employee to have, judging from his position within the corporation and the circumstances surrounding his past conduct. The breadth of the phrase "scope of employment" renders most arguments to the contrary very difficult to support.

In addition to determining whether an employee acted within the scope of his employment, the courts have also generally required that the employee have acted with at least a partial intent to benefit the corporation before corporate criminal liability will be imposed. That an employee's acts may be unlawful and even contrary to corporate policy does

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not absolve the corporation of legal responsibility for those acts. Even if the employee's actions are potentially harmful to the corporation, or if the corporation receives no actual benefit from them, liability may be imposed as long as the employee acted with an intent to benefit the corporation. As long as this is at least part of the employee's intent, the corporation may be held criminally liable for the employee's actions even if no benefit accrues to the corporation or even if the actions result in harm or injury to the corporation.

In cases where intent to benefit the corporation is completely lacking criminal liability has not been imposed. Such cases usually involve employee wrongdoing in the nature of bribes, kickbacks or embezzlement, the type of activity which ordinarily would not be in the interest of the corporate employer. Where an employee has been bribed to perform acts which are criminal, however, if his motive is still at least in part to benefit the employer, then criminal liability may be imposed upon the corporation. As already noted, Louis Altemar has claimed that at least three BCC employees received payments from Bilbeisi for "services" rendered. These were Hamid Khan, Nadim Hasan and Nasem Farooqi. We have not been able to substantiate Altemar's allegations, and Khan has denied them. While the bribery

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claims militate against imposing corporate liability, they do not prevent it. There are no bribery claims against Sakhia, and that even if the bribery were proven, a partial intent to benefit the corporation even on the part of bribed employees will suffice to impose liability.

(2) Conspiracy:

If two or more persons conspire either to commit any offense against the United States, or to defraud the United States or any of its departments or agencies in any manner or for any purpose, and one or more of the persons involved performs any act to accomplish or further the purpose of the conspiracy, they may be fined up to US\$500,000 and imprisoned for up to five years.¹¹²

Section 371 of Title 18 of the United States Code is the general conspiracy statute and sets out two distinct offenses: (1) conspiracy to commit an offense against the United States; and (2) conspiracy to defraud the United States.¹¹³ To establish a violation of either offense under Section 371, the government must prove beyond a reasonable

¹¹²18 U.S.C. § 371. The term "person" includes both individuals and business entities such as corporations.

¹¹³Tax-related conspiracies have been prosecuted as both conspiracies to commit an offense against the United States and also as conspiracies to defraud the United States.

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doubt: (1) that there was an agreement by two or more persons; (2) to commit an offense against the United States or to defraud the United States; and (3) that an act in furtherance of that agreement was committed.

The gist of the offense of conspiracy is an agreement to commit an illegal act, or to accomplish a lawful purpose by criminal means. An agreement is rarely proved by direct evidence but is usually inferred from the circumstances of the case. It is not necessary for the prosecution to prove that there was a formal agreement or that the parties stated in writing or in words what the agreement was or how it was to be effected. It is sufficient to show that there was a mutual understanding to accomplish an unlawful purpose or to accomplish a lawful purpose by unlawful means, and this can be established by the individual actions of the parties. The agreement may thus consist of nothing more than a tacit understanding between the parties. It is not necessary for the government to prove that the parties agreed on the details of the conspiracy, but proof of the "essential nature" of the plan is necessary.

The offense of conspiracy necessarily involves two or more persons with guilty knowledge on the part of each, because an agreement is the essence of the crime. A

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corporation is a "person" under the law and can be indicted and tried as a conspirator.

In an indictment for conspiring to commit an offense against the United States, it is not necessary to allege all of the elements essential to the commission of the offense which is the object of the conspiracy. However, a conspiracy to commit a particular crime cannot exist without at least the same degree of criminal intent necessary for that offense itself. Given the attitude of the prosecutors and investigators toward the Bank, it is possible that they may view the circumstances surrounding the letters of credit and the cashier's checks as evidence of the Bank's involvement, particularly through the actions of A. R. Sakhia and Hamid Khan, in Bilbeisi's smuggling operation. This could mean that the Bank might face criminal indictment in Miami for conspiring with Bilbeisi, Calderon, Villalba, Otano and others, to violate Title 18 of the United States Code: Section 542 (introducing goods into the United States by means of false writings or statements); Section 545 (smuggling goods into the United States); Section 548 (removing or repacking goods in warehouse); Section 1001 (false statement to any department or agency or the United States); and Section 1956 (money laundering in relation to

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smuggling goods into the United States or in relation to illegal narcotics trafficking; or to violate Title 31 of the United States Code, Sections 5313 and 5312 (failure to report cash transactions over US\$10,000).¹¹⁴ Each of these charges is a felony. For a corporation, punishment may be a fine of up to US\$500,000. For an individual, punishment may be a fine of up to US\$250,000 or two years imprisonment or both.

(3) Klein Conspiracy:

A conspiracy to defraud the United States or one of its agencies includes a conspiracy to impede, impair, obstruct or defeat the lawful functions of the Treasury Department in the collection of income taxes.¹¹⁵ Unlike a conspiracy to commit an offense, a conspiracy to defraud the United States or any of its departments or agencies carries no requirement that the fraud consist of conduct which could be held illegal under some other law or rule. The crime of conspiracy to

¹¹⁴We do not know how much information the government has available to it, and accordingly it is not possible to list all of the statutes which might be involved in a conspiracy prosecution. In addition, Section 1956 did not become law until October 1986. As a result, a conspiracy to engage in money laundering would have to be confined to activities taking place after that date.

¹¹⁵United States v. Klein, 247 F.2d 908 (2d Cir. 1957), cert. denied, 355 U.S. 924 (1958) is considered the lead case for this theory of prosecution. Such a conspiracy is commonly referred to as a "Klein Conspiracy".

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defraud the United States consists of acts that interfere with or obstruct a lawful governmental function of one of the government's agencies or departments.

For a Klein Conspiracy, the prosecution must present evidence establishing that the intent of the parties was to impede the IRS. However, tax evasion need not be the only purpose or even the chief purpose of the conspiracy. If a tax evasion motive plays any part in a scheme, the offense has been committed even though the conspiracy may have had other purposes as well.

While some tax purpose must be shown, the government does not need to prove by direct evidence that the parties knew of the actual tax consequences of their scheme.¹¹⁶ The

¹¹⁶In the money laundering case of United States v. Sanzo, 673 F.2d 64 (2d Cir. 1982), cert. denied, 459 U.S. 858 (1983), it was argued that the Defendant (Sanzo) could not be guilty of obstructing the Treasury Department, because there was no direct evidence that his co-conspirator (Trainello) knew that Sanzo would not report the laundered money or that Sanzo knew that Trainello would claim tax deductions. In rejecting the argument, the Court stated:

"Existence of and participation in a conspiracy with the requisite criminal intent may be established ... through circumstantial evidence There was sufficient circumstantial evidence from which the jury could find in this case that Trainello knew that Sanzo was unlikely to report as income large sums of laundered money, and that Sanzo equally knew that Trainello would have to

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existence of and participation in a Klein Conspiracy with the required criminal knowledge and intent may be established through circumstantial evidence.

"Klein Conspiracies" have been applied to money laundering schemes. In the case of United States v. Browning, 723 F.2d 1544 (11th Cir. 1984), the government had conducted an undercover investigation into illegal drug trafficking in South Florida. In that case, the money laundering scheme used by the conspirators consisted of converting money received from marijuana sales into other forms and returning the money to its owners as the proceeds of fictitious loans. As a result, income otherwise taxable was disguised as the proceeds of a non-taxable loan. The court found that this scheme impeded the lawful operations of the IRS, and upheld the application of a Klein Conspiracy theory.

The taxes involved need not be the taxes of the parties to the conspiracy itself, and a Klein Conspiracy can include transactions in which the parties do not directly receive tax benefits themselves. If one person conspires to defraud the United States for the direct benefit of another and the

assign on his books some legitimate purpose for the payments that could form the basis for a tax deduction."

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indirect benefit of himself, that person may be held to have committed a Klein Conspiracy. The indirect benefit to the second party to the conspiracy need not be tax benefits, but may include payments for services rendered.

Finally, it is not necessary for the government to prove that the IRS was actually impeded in its efforts to assess and collect taxes. The illegality of the conspiratorial agreement does not depend upon the success of the conspiracy. Indeed, even the impossibility of attaining the goals of the conspiracy is irrelevant to the guilt of the conspiring parties.

A six-year statute of limitations applies to Klein Conspiracies, and that statute begins to run from the last overt act alleged and proved. Hence, a Klein Conspiracy which began in 1982 but whose last overt act occurred in 1986 may be prosecuted any time up to the anniversary date of that act in 1992.

From the point of view of a prosecutor, there may be ample evidence to circumstantially indicate that the Bank, through its employees, A. R. Sakhia, Nadim Hasan and Hamid Khan, engaged in a conspiracy with Munther Bilbeisi (and his various companies), Calderon, Otano and/or Villalba (and their various companies) to defraud the United States by

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impeding the lawful functions of the IRS. It is unlikely, however, that the government will find evidence of a conspiracy to defraud the United States in connection with Heather Wyser-Pratte's account, as long as Pratte is unable to identify the individual at the Bank who gave her the alleged "tax advice" and as long as her testimony remains as vague and ambiguous as it has been in the past. However, it is entirely possible that the government might include the Wyser-Pratte situation in one conspiracy indictment involving Bilbeisi, Calderon, Otano and Villalba, hoping that the stronger parts of the case relating to Bilbeisi would carry the weaker parts of the case relating to Wyser-Pratte.

Such a conspiracy charge could specifically include the Bank's activities, through Majaz Malik at the Swiss Cottage Branch in London, in relation to the accounts of Calderon, Otano and Villalba maintained there. Jurisdiction could be based upon actions of Calderon, Otano and Villalba committed in the U. S., and if the prosecutors view the Bank as their co-conspirator, then those U. S. based actions could be used as the jurisdictional basis of an indictment against Malik and the Bank. As is noted in subsection (4) below, however, criminal jurisdiction over Malik and his employer could be asserted even if no acts at all had been committed in the

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U.S. In any case, a conspiracy to defraud the United States is a felony for which a corporation may be fined up to US\$500,000, and for which an individual may be fined up to US\$250,000 or imprisoned for five years or both.

(4) Liability for Actions Performed Outside the United States

Under recognized principles of U. S. law, the United States may prosecute a foreign citizen or a foreign corporation for a crime committed against the United States even though the crime was performed outside the United States.

There are five general principles of law that permit the extraterritorial effect of U. S. penal statutes. These principles are: first, the "territorial principle," determining jurisdiction by reference to the place where the offense is committed; second, the "nationality principle," determining jurisdiction by reference to the nationality of the person committing the offense; third, the "protective principle," determining jurisdiction by reference to the national interest injured by the offense; fourth, the "universality principle," determining jurisdiction by reference to the custody of the person injured by the offense; and fifth, the "passive personalty principle,"

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determining jurisdiction by reference to the nationality of the person injured by the offense.

When an alien commits a criminal act against the United States on foreign territory, courts in the United States have long held that U. S. jurisdiction may be extended over the act under either the "protective principle" or the "territorial principle."

The protective principle allows a nation's courts to have jurisdiction to enforce its criminal laws when the conduct of the foreigner threatens the nation's security or directly interferes with its governmental functions. Under this theory, even if all the elements of the crime occur in a foreign country, jurisdiction exists because the actions have a potentially adverse effect upon security or governmental functions. There need not be proven any actual effect in the prosecuting country.

In the case of Rocha v. United States, 288 F.2d 545 (9th Cir. 1961), the court applied the protective principle to obtain jurisdiction to prosecute defendants for conspiracy to defraud the United States by making unlawful entries into the United States. The court viewed the violation of U. S. immigration laws as an act that attacked the sovereignty of the nation and thus warranted the application of the

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protective principle. Other offenses which might warrant the application of the protective principle could include conspiracy to impede the IRS, or conspiracy to violate U. S. Customs laws, to falsify Customs documents or to make false statements to Customs.

In the case of United States v. Fernandez, 496 F.2d 1294 (5th Cir. 1974), the defendant was charged with possessing, forging and passing stolen social security checks drawn on the U. S. Treasury. The defendant claimed that the Court lacked jurisdiction because all of the criminal acts had taken place outside the United States. The Court found that it had jurisdiction to prosecute the crime since the defendant's acts prevented the normal disbursement of social security funds to those citizens lawfully entitled to receive them. Although the Court made reference to the territorial principle, this actually appears to be an application of the protective principle to a conspiracy to defraud a U. S. Treasury agency.

The United States has a strong interest in collecting taxes and prosecuting conspiracies to impair the collection of those taxes, and it is likely that the U. S. courts would consider a conspiracy to defraud the United States by interfering with or impeding the IRS in the performance of

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its functions as an action which directly interferes with the U. S. government and therefore falls well within the protective principle of jurisdiction. Even if no act were committed in the United States in furtherance of such a conspiracy, the protective theory will still apply, since under that theory it is assumed that all of the actions occurred in the foreign country in the first place.

U. S. jurisdiction over a criminal conspiracy against the United States could also be justified under the territorial principle. Under this principle, before a nation may attach criminal consequences to an extraterritorial act, the act must be intended to have a detrimental effect in the United States. Acts done outside the U. S. but intended to produce and producing detrimental effects within it will justify the government in punishing the injury as if it had been committed within the country itself. This theory has been successfully asserted even in cases in which the defendant had not performed any act within the United States but was part of a conspiracy in which some of the other co-conspirators' activities took place within the U. S.

In United States v. Inco Bank, 845 F.2d 919 (11th Cir. 1988), the corporate defendant, Inco Bank, was indicted for violation of Section 371 of Title 18, United States Code.

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Inco Bank was a Cayman Islands bank doing business with and maintaining accounts at several banks in Florida but which was not otherwise present in the U. S. The indictment charged that Inco Bank and others conspired in Florida and in the Grand Cayman Islands to defraud the U. S. in violation of Title 18 of the United States Code, Section 371. Specifically, the indictment charged that Inco Bank, through its present and for a 1% fee, was engaged in a money laundering operation designed to smuggle money from the U. S. to the Cayman Islands and to return the money to the U. S. in a form that would conceal the source of the money and enable its owners to avoid payment of U. S. income taxes. The court stated that it is well-settled that the U. S. government has the power to prosecute every member of a conspiracy that takes place in the United States territory, even though some of the conspirators have never entered the United States at all, and even if some of the conspirators never committed any overt acts in the U. S. in furtherance of the conspiracy. In addition, the court noted that a conspiracy which occurs even partly in the United States can be prosecuted in the United States without resort to any theory of extraterritorial jurisdiction. Inco Bank had joined the conspiracy knowing that the conspiracy would function in the

Senator KERRY. On page 3, the report says, and I quote from it, "As with any smuggling operation, the operatives have several essential needs. They required a secure, safe system of financing their transactions. They needed appropriate extensions of credit in the form of loans and overdrafts, without too much formality, and they required a flexible system of payments to their foreign associates in Central America, whether by wire transfer, cashier's check, or both.

Moreover, their import and shipping documents were necessarily incomplete or defective. And so the smugglers needed unquestioning acceptance of these items, in order to ensure prompt, safe payment to their associates in Central America. The BCCI Miami and Boca Raton agencies accommodated these needs."

So essentially, to come back on what Senator Brown was saying, this report—while as you will testify, I think—this report has a slant, purposefully, and is not accurate in all respects, this report does set forth what the needs of these smugglers were, and why BCCI was so important to them. Is that accurate?

Mr. DOUGHERTY. Well, Senator, we haven't seen the report. It's flattery to us that the bank's own attorneys and investigators came to the same conclusion.

Senator KERRY. Let me ask you a couple of questions, with respect to the report, if I can.

The report suggests that Bilbeisi had a partner in his operations, and that that partner, Gerardo Harris, was a close associate of General Noriega. Do you know that to be true, or not?

Mr. DOUGHERTY. We haven't seen the report. I know it to be true that—

Senator KERRY. Do you know it to be true that he had a partner?

Mr. DOUGHERTY. I know it to be true, I know it to be absolutely true.

Senator KERRY. All right, so he did have a partner?

Mr. DOUGHERTY. Yes.

Senator KERRY. And the partner was a close associate of General Noriega.

Mr. DOUGHERTY. Yes.

Senator KERRY. Do you know whether or not part of Bilbeisi's profit was sent to Gerardo Harris in Panama?

Mr. DOUGHERTY. Yes, we know that, because we have the actual checks written by Mr. Bilbeisi.

Senator KERRY. And the report suggests on page 151 that in 1984, Bilbeisi transferred \$560,000 from Coffee, Inc., into Harris, Gerardo Harris-controlled accounts. Is that supported by your documents?

Mr. DOUGHERTY. It is, from the documents produced by Mr. Bilbeisi and his counsel. And that was the connecting link.

Senator KERRY. Now, I would like to ask Mr. Lehrman a couple of questions before we move into coffee, which Senator Brown is going to present for the committee.

It is my understanding that BCCI is now under the control of receivers who have been appointed by the central banks of the various countries. Is that correct, Mr. Lehrman?

Mr. LEHRMAN. There are provisional liquidators.

Senator KERRY. Provisional liquidators.

Mr. LEHRMAN. That's correct.

Senator KERRY. And have the liquidators made any effort to track down the BCCI inside borrowers, and to recover the money that they borrowed from BCCI which is among the missing money?

Mr. DOUGHERTY. Senator, unfortunately—

Senator KERRY. I just want to ask Mr. Lehrman.

Mr. DOUGHERTY. I will, sir, but you understand that the bankruptcy judge in New York has imposed, at the request of the bank, a gag order or a confidentiality order on that.

Now why that was done, why they requested that, I do not know.

Senator KERRY. Well, let me understand this correctly.

A bankruptcy judge—this is the one I think this committee criticized, I criticized, and we wrote a letter I think, and filed an affidavit with the judge—

Mr. DOUGHERTY. That's correct.

Senator KERRY. You're telling me that there is a—I think the gag order applies as to not the process, but as to substance in front of the court. Does it not?

Mr. DOUGHERTY. That's correct.

Senator KERRY. Well, I am asking you about process here. What I want to know is whether or not the liquidators have made any effort to track down the inside borrowers.

Mr. LEHRMAN. The short answer to that, Senator, is no.

Senator KERRY. Do you know why not, or what they are waiting for?

Mr. LEHRMAN. They've indicated that they are pursuing—attempting to pursue an agreement with the Abu Dhabi government, or an unnamed Abu Dhabi entity in order to make a contribution to the bank to, quote "restructure," close quote, the bank, so that the bank can once again function.

Senator KERRY. Well now, the liquidators are working really on behalf of the creditors. Is that not accurate? The liquidators represent the creditors.

Mr. LEHRMAN. That's correct.

Senator KERRY. And there are a lot of creditors out there who think they have some money coming to them, correct?

Mr. LEHRMAN. That is correct.

Senator KERRY. Now the liquidators have an attorney-client privilege, do they not?

Mr. LEHRMAN. Yes.

Senator KERRY. Have the liquidators waived an attorney-client privilege so that the creditors, on whose interests they are supposed to be acting, can investigate the fraud that has occurred?

Mr. LEHRMAN. No sir, they have not. They've instructed their attorneys not to waive that privilege. And I would add that it's rather common in bankruptcy proceedings involving fraud for the privilege between the client committing the fraud and former counsel to be waived by the trustee.

Senator KERRY. I might add that Mr. Clifford and Mr. Altman have invoked an attorney-client privilege to prevent the subcommittee from obtaining certain documents. And I am concerned that there is a sort of potential conflict here, which I want to get at for a minute.

Now, are the liquidators resisting your discovery efforts?

Mr. LEHRMAN. That would be the understatement of the year.

Senator KERRY. Why do you think they are trying to keep these documents secret?

Mr. LEHRMAN. For one reason, we are pursuing a racketeering claim against the bank, which now becomes the estate. To the extent that we can document our racketeering claim, there is less money in there for the estate.

That is inconsistent with the duties of a trustee, which is what these provisional liquidators are analogous to. There are—

Senator KERRY. Well, are the liquidators requesting protective orders to avoid public disclosure of BCCI documents?

Mr. LEHRMAN. Yes.

Senator KERRY. Have orders been granted?

Mr. LEHRMAN. Yes.

Senator KERRY. Why? Why should these documents be kept from public disclosure?

Mr. LEHRMAN. The purported rationale is that these documents contain sensitive information which the liquidators haven't had a chance to go through yet, and that disclosure would somehow endanger the status of the bank.

In our litigation, the counsel for the bank resisted disclosure on the grounds that disclosure would reveal confidential, customer information. And the liquidators say that the creditors of the bank, the \$20 billion worth of creditors, are the customers of the bank. It has been our experience, our limited experience with bank customers, that those—the very same bank customers whose confidentiality is sought to be protected by former attorneys, and now by the present provisional liquidators, are the very people who committed the crimes that closed the bank down in the first place.

Senator KERRY. Would you say that the liquidators have a conflict of interest with the Bank of England?

Mr. LEHRMAN. That would be our judgment.

Senator KERRY. Why do you say that?

Mr. LEHRMAN. Because on one hand, the liquidators were appointed by regulators in three jurisdictions in which the bank was headquartered—precisely because of the, quote “widespread fraud” close quote, perpetrated by the customers, management, and shareholders of the banks.

These are the very same people whose interests—to the extent that the liquidators seek to block disclosure—that the liquidators are protecting.

Senator KERRY. Well, it disturbs me that the liquidators should continue to use lawyers who worked for BCCI as part of the legal team in this process. It seems to me to be a very direct conflict.

Mr. LEHRMAN. Our understanding—we've been advised by counsel for the Republic of Panama, which is pursuing a parallel racketeering action against BCCI for BCCI's alleged efforts to remove General Noriega's money from the—or rather, the Republic of Panama's money into Swiss bank accounts in Noriega's name, that attorneys hired by the provisional liquidators have now taken the legal position that two of the three BCCI entities have no jurisdictional connection with Florida.

On the other hand, in the confidential proceedings, there are documents submitted by the provisional liquidators which are subject

to the confidentiality order which take the exact opposite position. I can't reveal the——

Senator KERRY. Well, give me a simple, lay-person's explanation of what's at stake here. I mean, could American creditors be short-changed as a consequence of the bankruptcy proceedings in New York?

Mr. LEHRMAN. Again, short-changed would be an understatement. The whole point of the proceedings in New York is to remove all of the assets of BCCI in the United States, and bring them into a central location, in a foreign jurisdiction where, allegedly, the money would be parceled out to all the creditors of the bank who include the very customers who committed the frauds that closed the bank down in the first place.

Senator KERRY. You have well articulated the nub of this thing. You have a legal proceeding in New York that may, in effect, frustrate American creditors, as well as enrich the very people who committed this crime in the first place.

Is that accurate?

Mr. LEHRMAN. I couldn't argue with that.

Senator KERRY. And the legal process is, in fact, may stand in the way of our ability to get at the truth, and to be able to try to protect the interests of the smaller person who winds up paying the price here. Is that accurate?

Mr. LEHRMAN. That's accurate.

Mr. DOUGHERTY. Senator, at great expense to underwriters, when we were given less than 2-days' notice, Judge Marino entered orders in the RICO case, in which Lloyd's has the initiative against the bank, giving us the authority, in July, to get these records, July 31, 1991.

We came back to our office, I think on a Thursday, after a Wednesday hearing, and got a 150-page fax from Sherman and Sterling, commencing the bankruptcy proceeding.

At great expense, to protect the interest of underwriters, we participated in the bankruptcy proceeding. You are aware that depositions were scheduled, accelerated discovery.

When the depositions were scheduled, the U.S. attorney's office in New York didn't even go to the depositions, and sent a letter saying we're not coming.

Senator KERRY. Well, I will tell you, the people's the lawyer, is supposed to be the Attorney General. And we have a lot of different layers of peoples' lawyers in this country, between U.S. attorneys and district attorneys and so forth.

Somebody ought to be taking note of the way in which the public may, once again, be victimized in this process. And they ought to be raising a hullabaloo about this, and tyr to guarantee that whatever liquidation procedure takes place, that criminals are not going to be enriched by it, and that the appropriate protections are going to be put in place to guarantee that the citizens of this country are not going to be out another buck as a consequence of this.

I have taken more time than I meant to. We wanted to look at the coffee scheme. And Senator Brown is going to present that.

Senator BROWN. Thank you, Mr. Chairman.

I wanted to backtrack a little bit on coffee.

As I understand it with the International Coffee Organization, during this period of time had a functioning agreement that attempted to allocate the market by setting quotas for production or for export sales from a variety of countries, and dealt with quotas that might be purchased by importing countries; and that the key enforcement mechanism here, if I understand it, is a certificate of origin for the coffee, which the receiving country then keeps a tabulation as to how much coffee has come in from that country, and how much is allowed. Is that a fair summarization of how the mechanics work here?

There is an agreement that allocates consumption and production—that is, consumption and importation that a receiving country has to have a certificate of origin, and keep track of how much comes in?

Mr. VALLS. Senator, the agreement, what it does is allocate controls to the producing countries. It does not allocate quotas to the consuming countries. The producing countries, based on the quotas allocated, send it to those—to the consuming countries that are members of the agreement.

Senator BROWN. Who keeps track, then—who keeps track and how do you keep track of whether or not the producing countries have overshipped their allotment, or their quota?

Mr. VALLS. The ICO in London, receives from the importing country, the certificate of origin back. And they are the ones who keep track.

Senator BROWN. So any time coffee, for example, during this period, would come into the United States, a certificate of origin was required, and that information then was communicated back to the ICO?

Mr. VALLS. Correct.

Senator BROWN. How was it that they were able to bring coffee into this country without a certificate of origin?

Mr. VALLS. That is because they use a completely different system. They smuggle the coffee out of those Central American countries. And now we can show you through this place up on the board, the color of this place, that is, how those people were able to manipulate the quota systems in Central America and into the United States.

Senator BROWN. To appreciate that, if you would focus on two things: No. 1, how they got it out without a certificate of origin; and No. 2, how they got it in here without a certificate of origin?

Mr. Lehrman or whoever wishes? Mr. Lehrman, can you help us with a quick summary?

Senator KERRY. Mr. Lehrman, could you go up to the board and explain that? Take the microphone that is farthest over there and just drag it over there with you.

Mr. Lehrman, if you would just pick the mike up. OK, there you go, right there at the end, you can just do it, and sort of hold it sideways, stand at the end of the table. Just pick the mike right up in your hand here, and you can explain that. And Mr. Valls can hold the card for you.

Take them both together, just take the whole thing. There you go. And Mr. Valls—that is about as far as it goes. So if you stand

on that side—Mr. Valls, would you go on the other side there? That is it. Now we are getting coordinated, okay.

Senator BROWN. There is a certificate of completion of the education program to testify before the committee.

Mr. LEHRMAN. To understand how coffee was smuggled into the United States, you have to realize how it was shipped into the United States.

The coffee is shipped in containers not quite the size of this room, but almost as big, approximately 8,000 cubic feet. In international trade, as the BCCI officer explained, everything is predicated on documents. You don't have people physically following bags of coffee from Central America through the Central American ports to the United States. So as the bags of coffee are loaded into the containers, and the Customs officials in the origin countries check on them, and the Customs officials in the entry countries check on them, they rely on documents. Because it is impossible to search an entire containership, with 500 or 1,000 of these containers almost the size of this room.

The way Bilbeisi was able to smuggle thousands and thousands of bags of coffee into the United States with BCCI's assistance, is controlling the manifests which accompanied the shipment of these containers from Central America to the United States. In short, Bilbeisi's contact in the origin country would prepare a phony manifest listing the containers which were full of Bilbeisi's coffee as either empty or short-shipped.

When the containers were unloaded in the American port of New Orleans, Miami, or Tampa, Bilbeisi's contact on the American side had the manifest, which was contained in a sealed envelope on board; took it out of the envelope; ripped up the true manifest; and presented the manifest to Customs.

Senator BROWN. Presented the phony manifest.

Mr. LEHRMAN. Presented the phony manifest.

As far as Customs was concerned, the containers nearly the size of this room containing Bilbeisi's coffee, were empty or short-shipped. Short-shipped is a term meaning that the container—the cargo never reached the origin port.

So the three men who helped Bilbeisi do this for 2 years, described to us, in sworn statements, how almost funny it was when the crane lifted one of these full containers from the cargo ship—which looks very different than an empty container being offloaded—and the Customs agent, looking at a manifest of 500 or 1,000 containers and deciding which container to look into, like an IRS auditor, would never look into one of these purportedly empty containers.

For 3 years, at no point did a Customs official ever look into any of these purportedly empty or short-shipped containers.

Senator BROWN. Do you have any idea how many containers this involved, either short or—

Mr. LEHRMAN. It would have involved several containers on each shipment. And there were approximately 20 or 30 shipments per year.

Mr. VALLS. Senator, in one shipment they shipped 45 containers.

Senator BROWN. So there were 20 or 30 shipments a year?

Mr. LEHRMAN. That's correct.

Senator BROWN. And they ranged from one up to 45 containers per shipment?

Mr. LEHRMAN. Per shipment.

Senator BROWN. And this went on for 3 years?

Mr. LEHRMAN. For 5 years.

Senator BROWN. For 5 years, and they never had a single container checked?

Mr. LEHRMAN. Not only did they never have a single container checked, they were prepared in the event that a Customs agent said gee, that one looks kind of heavy, let me kind of take a look at that. Of course, it would open, and there would have been several hundred bags of coffee. In that instance, Bilbeisi's contact at the origin point sent a dummy telex to the contact in the destination port in the United States saying, "Urgent, this container full of coffee was destined for Honduras. It wound up on the ship by mistake. Please send it back."

At no point did Bilbeisi's people ever have to produce that telex, because none of these containers were ever checked.

Senator BROWN. Do you have a feel for how many—what the total dollar amount of the smuggling was over those 5 years, if those records are available?

Mr. LEHRMAN. We know that over \$110 million of those letters of credit were initially issued because many of the records, most of the records have been withheld, or—we contend—destroyed.

We do know that Bilbeisi paid approximately \$35 million in Central America at the illegal, nonquota price for the coffee he brought in. The amount of profit that he made off that coffee is unknown.

Senator KERRY. Would you yield for just a question?

Senator BROWN. Yes.

Senator KERRY. I take it, any of these containers could just as easily have had drugs in them?

Mr. DOUGHERTY. Or weapons.

Senator KERRY. Or weapons.

Mr. LEHRMAN. Well, the containers are almost the size of this room. And it's common knowledge that coffee is used to foil drug sniffer dogs. So they could have contained anything.

Senator KERRY. And if none of them were ever expected, it sort of underscores why we have a drug problem.

But I will leave that for now.

Senator BROWN. But if you would complete the story, the coffee is now in the country.

Mr. LEHRMAN. Right.

Senator BROWN. It has been sold to roasters?

Mr. LEHRMAN. That is correct, roasters or brokers in New York.

Senator BROWN. Now, would they have any reason to ask about the origin of the coffee or question the lack of a certificate of origin?

Mr. LEHRMAN. The roasters of the coffee—do you want to take this?

Mr. VALLS. Senator, once the coffee comes into the United States, and these coffees came in with unmarked bags, they were taken to a warehouse in Miami. The bags were replaced. They were marked

with numbers to show that the coffee was a quota coffee, phony numbers.

Once it is in the warehouse, a certified warehouse, the purchasers—that is the roasters, or the brokers in New York or Chicago—do not care where that coffee came from. They do not ask us questions.

Senator BROWN. I have a technical question.

A few years ago, when I used to work for a living, I was involved in meat sales. I know the way meat came in is—the normal practice for meat was that title transferred, F.O.B. the dock—now, not always. Obviously it could be delivered F.O.B. the customer's doorway, or warehouse, or whatever. But normal practice for meat at that time was that title would transfer on delivery at the dock. That the customer would then have the risk associated with the ownership of that, occasionally, at the dock. And that the customer would arrange—at least at times—to pick it up at the dock.

You are telling me this went to a warehouse, and then was picked up at the warehouse?

Mr. VALLS. It was shipped from the warehouse to wherever the final destination was—either by piggy-back train—

Senator BROWN. Rather than being picked up at the dock?

Mr. VALLS. Rather than being picked up at the dock. Because the Bilbeisi operation in this case, went from the Central American countries directly to the warehouse in Miami. They needed to get it to the warehouse in order to change, to put quota numbers on those bags, to be undetected until it was unloaded and then refixed at the warehouse.

Mr. DOUGHERTY. And then, Senator Brown, with respect to some of the coffee that went to Chock Full O'Nuts—as I stated in my opening statement—the president of Chock Full O'Nuts was actually bribed, given kickbacks by Munther Bilbeisi, straight out of the books and records of Coffee, Inc., in order to facilitate with the active participation of a knowing buyer—the chief executive officer, prohibited by the SEC from accepting gratuities, was taking money from Munther Bilbeisi's company. Which, in the books and records of Coffee, Inc., was referred to as commissions paid to Arthur Berman, the then-president of Chock Full O'Nuts.

So there is no question that at least Chock Full O'Nuts, through its president, knew that this coffee was being smuggled for a long period of time.

Senator BROWN. With BCCI, if they were financing these shipments, normal practice would be for them to at least have a certificate of origin, would it not, included in their papers, and a manifest?

Mr. VALLS. That is correct. Normal practice, yes. That would require a certificate of origin. It would require a letter of credit in which they would show the certificate of origin, a phytosanitary certificate, and the ordinary documents that are needed for this import.

As you can see in all of the BCCI letters of credit that were sent up to purchase this coffee in Central America, once it was brought—once it was shipped, in order to bring it smuggled into the United States, they had to amend the letters of credit. And BCCI supplied them with that service.

Senator BROWN. Well, is there any way a normal bank would not know that there was not a certificate of origin or a proper bill of lading, or a proper manifest? I mean are those not all parts of the package, the paper package you put together to finance one of these?

Mr. LEHRMAN. Yes, the short answer is yes.

Senator BROWN. So BCCI—if I understand what you are saying—BCCI had to be an active participant in the conspiracy to smuggle coffee.

Mr. LEHRMAN. That is correct.

Mr. DOUGHERTY. Senator, on July 10, in Los Angeles, in the RICO action, we took a series of depositions that were videotaped. And one of the bank employees who was the assistant for the letter-of-credit gentleman, Mr. Rafi Ahmad, was given the files. As perhaps the former prosecutor would, we gave him the letter of credit files because he had never been produced when he was moved from Miami to Los Angeles.

And we said to this individual who was charged with the LC opening and closing of the files, the question that you just asked: Mr. Ahmed, take a look at these files. Is there anything irregular about them? Yes. What is it? That there's no certificates of origin. Every one of these files are cooked. There are pieces missing. What does that mean to you, to ask, what does that mean to you as a person who worked in the LC department of the Bank of Credit and Commerce, it means to me that the coffee was smuggled.

Senator BROWN. Let us back up—the LC department?

Mr. DOUGHERTY. The letter of credit department. In other words, the bank's own employee answered affirmatively to the question you just asked Mr. Lehrman, on July 10 when he was confronted with the very files that his superiors worked from.

Senator BROWN. Earlier, you all mentioned—I think the words were—there were two prices, when we had a coffee quota agreement in effect: an agreement coffee-price level, and a nonagreement coffee-price level.

Now I appreciate sometimes that it is difficult to compare qualities, and so on, but can you give me any feel for the difference in price between agreement quota price, and nonquota price?

Mr. LEHRMAN. In one letter of credit, Bilbeisi happened to buy quota coffee, along with nonquota coffee. This was in 1984. In this particular shipment, for the same grade coffee, quota coffee was \$1.40 a pound, nonquota coffee was \$.40 a pound.

So at that particular time, the nonquota price would have been roughly 30 percent or less of the quota price. However, the relationship between the two fluctuated. Generally speaking, the non-quota price was half the price of quota coffee.

Senator BROWN. Well, if the figure of \$110 million over this period of time is correct—and I think you have indicated that that is probably low—for the total amount that would have been involved here.

Mr. VALLS. That is what we know about.

Senator BROWN. We are looking at more than a \$50 million smuggling profit.

Mr. LEHRMAN. Actually, that would understate the figure.

Senator BROWN. Of at least a \$50 million in smuggling profit.

Mr. DOUGHERTY. Of which there is only one criminal indictment against Munther Bilbeisi for unpaid federal income tax, facilitated by the bank in his Florida corporation, Coffee, Inc., and he, individually, for \$3.5 million.

In other words, it could be argued that although the Government indicted him for \$3.5 million, they could have indicted him for a substantially larger amount for that one, taxable year—for just one taxable year.

Senator BROWN. Well, let us put it on the table.

Is there any way, in your view, that the U.S. Customs Service could have not been involved in this conspiracy?

Mr. DOUGHERTY. Senator, we have documents that are shocking, that show that U.S. Customs knew, in June of 1983—now they are part of the record. I could hand them to you—that show on June 15, 1983—I have the document here—

Senator BROWN. Knew that coffee was being smuggled into the country?

Mr. DOUGHERTY. Absolutely, and they knew that Munther Bilbeisi was doing it, and they knew that it was being done with Mr. Otano and Villalba on June 15, 1983.

And there is a subsequent memorandum that discusses the method of coffee smuggling. And it was signed by agent Gonzales, F. Gonzales, Sr., Special Agent. And the anger of my client is that since they knew it in 1983 and they did nothing about it, if U.S. Customs had indicted them, Lloyd's would not be in the position of doing in a way, what the U.S. Government should have been doing. We would never have had a coffee loss, because he would have been indicted.

And that leads to the question, Senator—when you see the other records that indicate from U.S. Customs computers currency transaction violations, as of April of 1987, where Munther Bilbeisi was cashing at least \$50,000 at a time at BCCI's office in Miami and Boca Raton, without completing the currency transaction forms; and Customs had in its computers knowledge of this violation since 1983; and that the bank and Bilbeisi were continuing to do it—why was there no indictment for 4 years?

The one piece of information, it can be argued, is that someone in the Justice Department determined that since Bilbeisi and the bank, and General Noriega had a direct relationship in coffee smuggling, that indicting Bilbeisi and the bank would have uncovered earlier the relationship of coffee smuggling with General Noriega. And it can be argued that someone did not want to indict General Noriega earlier. Because indicting Bilbeisi and the bank would have uncovered the relationship between the bank and General Noriega.

Senator BROWN. Let me summarize quickly, and maybe you would correct me—

Mr. LEHRMAN. I am just trying to—

Senator BROWN. Sure, go ahead.

Mr. LEHRMAN. The documents that Mr. Dougherty is referring to are Exhibit Nos. 4 and 5 in packet number 6.

Senator BROWN. There is clear proof here that coffee was smuggled out of a variety of countries; that more than \$110 million, at least \$110 million of coffee was smuggled; that the profits off of

that were at least \$50 million or more; that the U.S. Customs Service was aware of the smuggling and did nothing to stop it; that the U.S. Customs was aware of the currency transactions violations, it did not react; and to this date there has not been a single, Customs Service agent indicted in this area?

Mr. DOUGHERTY. Yes, and you have to also understand that to our—with our cost, that every time that we would bring this information to Customs in Miami, and subsequently to New Orleans, and at the expense of underwriters fly this mounds of records that we have brought here, pursuant to the subpoena. And then have to tell U.S. Customs agents this 4-year story in 3 hours or a day, or 2 days, Customs in New Orleans would say that's Customs in Miami's responsibility. Customs in Miami would give us no response. And the next thing that happens is the statute of limitations is gone.

And someone says—

Senator BROWN. Did you notify the U.S. attorneys offices and they took no action?

Mr. DOUGHERTY. You have it right here. And someone in London—and then I have to answer the questions that I'm answering to you, too, in the underwriters' office on Lyme Street, Mr. Dougherty, can you explain this to me? With the numbers involved, with all of the information that's been brought to the attention of U.S. Customs and recognizing that we have, for 300 years, insured most of the world's cargos, why there is no interest in the U.S. Customs to enforce its own Customs laws?

No sir, I cannot.

Can you tell me why U.S. Customs never informed the poor republics of Central America, who are attempting, lawfully, to grow coffee, as opposed to heroin, cocaine, and marijuana, so that they could enforce those laws? No sir, I can't.

Can you explain to me when the bank participates with a coffee smuggler, and an arms dealer, why there's absolutely no interest in the Justice Department to prosecute the bank? You're recommending a RICO case, Mr. Dougherty? Yes, I am. Has the United States Justice Department shown any interest? No. Well, if the United States Justice Department has shown no interest, and we have paid several millions of dollars, how much more is this going to cost, with what results?

Senator KERRY. Now they would probably argue to you today, well we just indicted them.

Mr. DOUGHERTY. The day before the statute ran.

Mr. LEHRMAN. For tax fraud—not for the arms deals, not for the coffee smuggling.

Mr. DOUGHERTY. And then Mr. Bilbeisi's lawyers get up in front of a Federal judge—one of whom has not had a hearing in 3 years because he's been processing daily, criminal cocaine cases, some of which have resulted from the bank's activities—and they're overwhelmed with criminal, cocaine cases in the southern district of Florida—and some lawyer, the seventh or eighth lawyer for Mr. Bilbeisi will get up and say, Judge, it's an issue of fact, because you've never established that all of these instances were coffee smuggling. And the best instance of that is, the U.S. Government didn't see fit to indict them.

Senator BROWN. Mr. Chairman, will we have the Customs Service review this and back up here to explain—

Mr. DOUGHERTY. Maybe Mr. Rosenblatt and Special Agent F. Gonzales can explain to your satisfaction why, when they knew it, they never indicted him?

Senator BROWN. I have one last question I would like to cover, if I may.

We are trying to put together a puzzle here, that seems to have lots of links to it.

In your review of this situation, did you run across any links in this smuggling operation, any links to the First American Bank, to the National Bank of Georgia, or to the law firm—Clark Clifford's law firm?

Mr. DOUGHERTY. No, but I'd like to amplify that.

The firm of Holland & Knight—one of the finest firms in the State of Florida—was in the same building as BCCI, Miami. I don't know whether they had three or four floors, and BCCI had five floors.

The floors of the bank and Holland & Knight were stacked on top of each other. During the interrogation that I took place—that I conducted in California, of the bank's officers—including the chief trader, whose deposition has been taken, Mr. Rizvi. He was the responsible officer who invested all of the daily money of the bank, Senator Brown, in Abu Dhabi. And then he went to Panama.

And he was with—as Senator Kerry would appreciate—Amjan Awan, and Bilgrami.

Senator BROWN. I appreciate anybody who can even pronounce the name, much less—

Mr. DOUGHERTY. Well, you have five people from Pakistan who are working with the bank. And all of a sudden they're sent to Panama. And they work there—they're the only Pakistanis in Panama. And they worked there for 4 years. And the question is did you know that money laundering was going on? Oh, no. Did you receive any courses in violations of the United States law? No. Who were your lawyers? And he identifies your lawyers—his lawyers.

Was General Noriega one of your clients? No. Then what did you do? Well, then I went to Miami. And was there a law firm in the building? Yes. And then you bought 36 branches of BCCI—of an existing Colombian bank, and you never knew, from the gross sudden profits of activity in Colombia that there was money laundering? No. Did you attend a single seminar? No.

And the question is, did you have the advice of attorneys throughout the United States? Yes. So the question for you is, Senator, that we haven't got—and you have greater resources than we—is to subpoena the files of the law firms that represented the bank, and determine—in the minutely-detailed, multimillion dollar fees—how much each law firm charged the bank; and on what dates, for compliance with the U.S. Code—that would be a very significant question; and whether or not that law firm that you've identified ever undertook to do it, or directed other law firms to do it.

Senator KERRY. Well, next week we are going to have an opportunity to ask some of those questions of both people in the bank, as well as some of the lawyers.

Mr. DOUGHERTY. I think, Senator Kerry, one of the problems that we've had has been the blocking of our investigation, as your committee, with records that have not been produced or represented to be produced, so that we could integrate this a lot sooner.

Senator KERRY. Well, there is no question that throughout this effort, you know, a lot of people have. I have two guys on the staff here, who have spent most of the last couple of years trying to get some of those records. And we understand the stonewalling.

But it is very, very hard. There has, indeed, been a sort of institutional stonewalling. Because you are running into it with the liquidators. You run into it with the court. You run into it with the bank, and with a lot of law firms.

One of the great difficulties is that obviously a law firm can say to you, oh, yes, you know, we are going to cooperate. We will give them—and they sort of anteupe a few documents. And you are sitting there. And unless you have an insider or somebody who is specifically telling you what document you are looking for, or where it is, you do not know until you get further down the document trail that there may be more documents, or that it has not been fully forthcoming.

Or, that they have been shifted, cleverly and quickly, from BCCI Miami branch, to London, or to Amman, or somewhere. And I am convinced, at this moment, that there are an awful lot of documents out there that tell an extraordinary story that are sitting in foreign countries, as a consequence of the delay here in seizing and in moving, and in investigating. And you are paying some of the price of it; we are paying some of the price of it.

It is very difficult to get all of those.

Mr. DOUGHERTY. Senator, can I make two points with you?

You, on opening statement, referred to the issue of Iraq, and arms transactions. I did wish you and Senator Brown to know that in the most recent discovery response from Mr. Bilbeisi, we have records that will be placed in the evidence—with your permission—to show that Mr. Bilbeisi attempted to sell parts for F-14 jets, American-made Grumman F-14 jets to Iran; that there are records that show that Mr. Bilbeisi, in Hollywood, Florida, during the Iran-Iraq year, Senator Brown was receiving inquiries from the first minister of Iraq to attempt to buy American-made red-eye, side-winders, other surface-to-air missiles, tanks.

We even knew—when we were investigating early—the telex traffic, to show the coffee shipments. We came across a telex that showed—an incoming telex to Mr. Bilbeisi's office in Boca Raton from South Africa, offering to sell enriched uranium to a Middle East country.

Senator BROWN. Any indication as to which country?

Mr. DOUGHERTY. In the context of the incoming telexes, it would have to be argued that it was either Iraq or Iran. That information was given to two FBI agents who looked at it before our involvement and confrontation with Iraq 2 years ago. And there didn't really seem to be any interest to take the totality of all of the pieces of a man who claims to be a coffee merchant, retired, who is

receiving incoming telex traffic for each coffee transaction in Central America, any interest in 20 mm cannons, armored personnel carriers, tanks—none—with a man who did have a former CIA agent working for him in the coffee business; and at different times a retired Three-Star Army General travelling with a coffee smuggler to Honduras, El Salvador, and Guatemala, during the times of the—what is called and referred to as the—Iran Contra Affair.

Senator BROWN. You do not mean U.S. retired Army general?

Mr. DOUGHERTY. I mean that a Lieutenant General of the U.S. Army—and you may not have been here—James Vaught, a distinguished, United States Flag Officer, who organized the ill-fated Iran extraction of our hostages from our embassy, when the helicopters crashed in the desert. That was his plan.

That that man, upon his retirement from the U.S. Army, who went from an NCO to a Three-Star Army General, from South Carolina, suddenly appears at Mr. Bilbeisi's residence, and attempts to go into Central America and sell Turkish or South Korean-made weapons with Mr. Bilbeisi's employees in Honduras, Guatemala, and El Salvador.

We have his sworn statement here. The following year, Mr. Bilbeisi attempts to sell—or listens to Adolfo Colero's shopping list of Soviet-made weapons.

Now, the question is, when this information is brought to the Justice Department, and there's absolutely zero interest, with a man who flagrantly violates the U.S. Code, who U.S. Customs knows is violating sections of the U.S. Code, why? And we even have, now, received a copy of a passport of the Government of El Salvador which shows Mr. Bilbeisi as a Salvadorian, that was issued by the Salvadors, by the Government of El Salvador's embassy in Geneva, arising out of his activities in selling weapons to El Salvador.

Now, what is a Jordanian in a false name using a Salvadorian passport today? How did that happen? How could that all happen, without the United States Immigration Department, the U.S. Customs, the Justice Department, the Central Intelligence Agency, the National Security Council all being unaware? It does just not happen that a distinguished United States Army officer attempts to broker weapons.

Senator KERRY. Do you have any idea how—how do you know that a CIA man or former CIA person went to work for Bilbeisi?

Mr. DOUGHERTY. His name is William Toten. He lives in Alexandria, VA. He was subpoenaed to give testimony 1 year ago. I conferred with his attorney. We'll introduce the copy of the subpoena and the name of the attorney. And his attorney admitted that he worked for the agency, and stated—to save a lot of time—that he would not permit me to ask any questions concerning the length of his employment, what he did with the Central Intelligence Agency, or what he did with Mr. Bilbeisi selling coffee shrimp.

And Senator Brown, there is a—in a record that we received last week—a very simple document called Decoding. And it's a vertical line that lists commodities like coffee and shrimp. And you correlate it to weapons.

Now, what is a coffee merchant from Jordan doing with a sheet that codes commodities for weapons? It is, I have said to many

people involved, it's like taking three, gigantic crossword puzzles that have pieces missing, and they're all thrown in a big bin. And you shake it up and throw it out on the floor. And then someone has to sort out the puzzle of BCCI, the puzzle of Munther Bilbeisi and his other activities.

Senator KERRY. Well, all good arms merchants need a nice cover enterprise, do they not?

Mr. DOUGHERTY. They do. They certainly do.

Senator KERRY. His happened to be coffee, no?

Mr. DOUGHERTY. That's what he says. That's what the man says. And it—

Senator KERRY. Let me ask you something, because I do not want this Mr. Toten—it is the first time I have heard his name, incidentally—I do not want him swept into a rug of sort of a sense of something going on here.

I mean, is there any allegation that somehow he has done anything wrong?

Mr. DOUGHERTY. We haven't taken his testimony. All of the telex traffic shows that William Toten, a former agent of the CIA—according to his attorney—was selling blackened shrimp, castrated sheep, and coffee beans. [Laughter.]

Senator KERRY. And is the telex traffic that you have uncovered in the course of all the document demands that you have made. Is that correct?

Mr. DOUGHERTY. That's correct.

Senator KERRY. OK, but again, there is no allegation at this point of anything but questions about what he was doing?

Mr. DOUGHERTY. Yes, and we also know, on that point, Senator, that that same individual participated and received a fee—a \$50,000 fee—for his services in concluding Mr. Bilbeisi's litigation for a tank commission. He was paid \$50,000. And there's a copy of that check.

So what is an ex-CIA agent, who then becomes a commodity broker, receiving a fee to conclude a \$700,000 settlement?

Senator KERRY. BCCI used cashier's checks to enable Bilbeisi to take his smuggling profits without paying U.S. taxes. Is that accurate?

Mr. DOUGHERTY. Yes, our records would indicate that between 1983 and 1987, I think the actual quantum of them was around \$11 million.

Senator KERRY. OK, now was there any reason that BCCI should have known what it was issuing cashier's checks for? That it was, in fact, part of that? Because it is not unusual for a bank to issue a cashier's check.

Mr. DOUGHERTY. Yes, they should have known it was unusual. When the bank employees were interrogated by us, did you have any problems with writing out, on March 3, 1986, 86 cashier's checks to Louis Altamar for \$25,000? Yes. I mean didn't the thought ever occur to you that you take \$25,000, multiply it times 86 and make out one cashier's check? Yes. Why didn't you do that? Well, that's the way Mr. Bilbeisi wanted it. Why? So that he could take those checks—according to Louis Altamar, not the bank employee—he could take those checks and buy smuggled coffee without using letters of credit.

Senator KERRY. If a client comes into a bank and says I want 80 checks in this amount, is there an automatic reason that a teller or somebody is going to make a judgment about what they want them for?

Mr. DOUGHERTY. There are requirements of the U.S. Code that those transactions be recorded—which were not, by BCCI.

Senator KERRY. That is what I am getting at.

Mr. DOUGHERTY. Number two, there is a requirement of the U.S. Code that any individual who takes more than a certain amount of cash or currency—or cashier's checks—out of the United States, commits a crime, when the bank has reason to know—actual knowledge—that the person, the payee of the check, the employee of Bilbeisi, is going to fly to Honduras or Guatemala with \$3 million worth of cashier's checks, they know what's going to happen. And when that employee tells them, when he brings some of those checks back for refund, where he's gone and what he's done, the bank is more than on actual knowledge of a criminal conspiracy.

Senator KERRY. In your effort to try to get discovery to find out what had happened with respect to these checks, did you have trouble with the bank in getting them to produce the cancelled checks?

Mr. DOUGHERTY. The court file is from me to you, on that issue alone. The people that drew the checks are now in Turkey.

Senator KERRY. And that is because if you were to have seen the endorsed side—not just the face side—but if you saw the endorsed side, then the fraud would have been self-evident?

Mr. DOUGHERTY. Yes, sir. If we had received, in 1987, all of the cashier's checks in their original form, and the endorsements, we could have completed the investigation and moved for summary judgment at that time.

Senator KERRY. I also just want to clarify for the record—because I do not want any unfair insinuations cast here—you have raised a question about General Vaught's participation. But so far as you know, or anyone knows, is there anything that indicates, again, any illegal activity on the part of General Vaught?

Mr. DOUGHERTY. No.

Senator KERRY. It is perfectly possible that he could simply—I mean, this is where he wound up. He was employed because he had a good business opportunity. But he did not—there is no showing that he was aware of anything.

Mr. DOUGHERTY. Absolutely not.

Senator KERRY. I just want the record to be very clear.

Mr. DOUGHERTY. Absolutely not. We brought a sworn statement, and the general's testimony was that no arms transaction was completed, and that he disassociated himself with Mr. Bilbeisi, Senator Kerry, when it became apparent to him that Central American officers were demanding kickbacks. And General Vaught's testimony was clear—

Senator KERRY. Who were the two generals who got paid money in Guatemala?

Mr. VALLS. It was General Alejandro Gramajo, the ex-Minister of Defense, and General Mata, who was, at the time, the head of—

Senator KERRY. He was, previously, Colonel Mata, was he not?

Mr. VALLS. Correct, chief of staff.

Senator KERRY. He is now general?

Mr. VALLS. Yes, he is retired now.

Senator KERRY. Let me go into one last inquiry—up until now, everything that you have set forth here has been documented by the discovery process, by the confessions themselves, or participants in this smuggling scheme.

Mr. DOUGHERTY. That is correct.

Senator KERRY. By bank checks, by canceled bank checks, by memoranda, so that all of your testimony to date, before this committee, is, in fact, testimony based on evidence that is admissible in court, and that you have learned on a first-hand basis. Is that accurate?

Mr. DOUGHERTY. That is accurate.

Mr. LEHRMAN. Not only admissible in court, Senator, it has all been filed with the court. So if we wish to conceal what we told you today, we couldn't do it.

Senator KERRY. Correct, and all of it, obviously, subject to pains and penalties of perjury.

Let me just ask you one thing that is not based on documents, but it is an area that has concerned me in the course of this investigation. And you said something to me, literally 5 minutes before we came in here, that is curious. And I want to just acknowledge right up front, it is your speculation, it is not factual.

There are rumors around, there is a lot of street talk around about payoffs, and about who has benefitted in this process. And one of those allegations regards sort of, you know, lists or names of individuals in this country who have received sums of money either through BCCI directly, or otherwise.

Now, do you have any knowledge of that? Or do you have any sense as to whether any of the players in this scheme that you have laid forth here might be able to shed light on those payments?

Mr. DOUGHERTY. I have both direct and indirect knowledge.

Senator KERRY. OK, would you share the direct knowledge with us, first?

Mr. DOUGHERTY. The direct knowledge is, even the most recent article published by Harper's Magazine, of this month, that makes this—it's by the author—the statement of fact that the Federal Reserve possesses a source document that would identify all of the individuals—politicians, other people who possess power and influence, who have received substantial sums of money from the bank, both in the United States and in England.

Senator KERRY. Now, that is not direct knowledge. Again, that is pretty—that is indirect knowledge. I mean, you have read in a magazine that somebody is asserting this.

Mr. DOUGHERTY. Number two—

Senator KERRY. The record ought to show also that the Fed has denied that that list exists in testimony before this committee.

Mr. DOUGHERTY. I was about to say it.

I am also told, by way of hearsay, that when the Price Waterhouse reports were prepared in the months prior to the action taken by the Bank of England, that there is a Price Waterhouse report, itself, that identifies the individuals—both within the

world, and therefore within the United States—who have received large, political payoffs.

Senator KERRY. Now, is there a possibility that some people might not have been indicted because they could name some of those people?

Mr. DOUGHERTY. Yes, that is the next thing that's my inference. And I would say this—

Senator KERRY. Now this is purely your speculation.

Mr. DOUGHERTY. I'm going to state this purely as my opinion. That if you look at the activities of Bilbeisi as one case, we know that an individual in Boca Raton, and a specific bank officer whose name is Malek, at a branch office in Switzerland—excuse me, Swiss Cottage in London, England—set up phony accounts for three, ex-Bilbeisi employees. They are attached to the affidavits of the three men that worked for him.

Those false names were Franjuli, Labaro, and Chevere. And over a million—several millions of dollars were transferred from the United States by BCCI people in Boca Raton personnel, Boca Raton in Miami, to BCCI, London, to facilitate two functions of this bank, which were: first, to enable individuals to make money in a criminal enterprise—in this case, coffee smuggling; second, to take that capital and evade United States income tax laws; third, to allow the interest from that capital to similarly evade United States income tax laws.

An example was what was done with the Bilbeisi threesome.

Senator KERRY. OK, well let me try to stay on track here. OK, so you have—

Mr. DOUGHERTY. I'm getting to it, Senator.

Senator KERRY [continuing.] You have is the continuing criminal conspiracy, as to this fraud.

Mr. DOUGHERTY. Yes.

Senator KERRY. Where does that lead you?

Mr. DOUGHERTY. All right, since that was done in this case, and the common bankers were involved—as I know—in other, similar tax evasion schemes, the question is, why was referred to as Main Justice—Mr. Mueller and the Tax Division—have not indicted the bank officers?

Senator KERRY. Which bank officers?

Mr. DOUGHERTY. The bank officers of BCCI, why they have not indicted them for violations of United States law.

And the answer to that would be—

Senator KERRY. Which bank officers, where?

Mr. DOUGHERTY. Here. Why no criminal indictments—

Senator KERRY. Here where?

Mr. DOUGHERTY [continuing.] In the United States of America.

Senator KERRY. All through the United States.

Mr. DOUGHERTY. The southern district of Florida.

Senator KERRY. All the bank officers?

Mr. DOUGHERTY. Why have the bank officers who participated in income tax violations in the southern district of Florida not been indicted?

And an answer, a possible, plausible answer is if those individuals are indicted, and extradited to the United States, they would be in a position to bargain for their reduced sentence, to name

names of other individuals who did use political influence—or at the least, to name the individuals who participated in other income tax violations.

Senator KERRY. OK, let me ask a question now.

There was an indictment, recently, correct?

Mr. DOUGHERTY. There was——

Senator KERRY. An indictment in Tampa.

Mr. DOUGHERTY. There was.

Senator KERRY. And that indictment was not of the kinds of officers or the level of officers, then, that you are referring to?

Mr. DOUGHERTY. Exactly.

Senator KERRY. Is it possible that they do not have a case against those officers, that they cannot indict them?

Mr. DOUGHERTY. No, they can make a case. And the documents that we have shown you, if they indicted Bilbeisi, and they indicted his accountant, Gruschoff, and they have actual knowledge of the names of the individuals who facilitated it—not only for Bilbeisi—why weren't those bank officers indicted at the same time?

Senator KERRY. Well, it is a question we will ask.

I do not have the answer to it.

Let me thank you, both of you—all three of you for your testimony today. I think it has been very helpful in laying out, as we said we would at the beginning, one particular sort of opening or window, if you will, on how BCCI functioned.

Obviously, there is a lot more to tell. You have scratched the surface of the questions about the number of branches in Medellin. It is pretty hard to buy branches of a bank in Medellin, Colombia, without knowing what kind of proceeds are going through those banking accounts.

Similarly, the Cayman Islands and other activities at BCCI present their own set of questions. But this is particularly interesting, because this is on the shores of the United States. Much of the activity came out of Florida. And because it obviously raises some serious questions about capacity to enforce some of the laws we have on the books—and willingness to.

Now I do not know what happened here. As Senator Brown has suggested, it is yet another area of inquiry that we have to try to find out what happened.

But I want to thank you for being here. Lloyd's has, as I said at the outset, expended \$6 million to pursue and produce the documents that you are sharing with us, and the evidence that you have shared with us. And we are very grateful, obviously, that you are able to do that. I think it is very helpful to us. And it is the committee's hope, obviously, that we will be able to shed more light as we proceed down the road.

On next Tuesday, we will be meeting in the Hart Auditorium for the hearings, in fact, all next week I think we are over in Hart. And we will be hearing from a 13-year veteran of BCCI, a gentleman who is one of the significant players here in the United States, within the BCCI banking structure. And that will be Tuesday. And we will announce the process for the rest of the hearings in the course of next weeks.

So we will stand adjourned until Tuesday.

We have a statement submitted for the record by Senator Helms which I ask be included.

[The prepared statement of Senator Helms follows:]

PREPARED STATEMENT SENATOR JESSE HELMS

Mr. Chairman, when we last left the subject of BCCI, the Bank of Credit and Commerce International, you and I spoke of this matter in terms of writing a book. Back in August, I said that this book would be unbelievable. Today we add the first of another five chapters to our story, this chapter dealing with accusations of coffee smuggling, insurance fraud, tax evasion, and ties to the Noriega criminal network. Our witness this morning is Mr. James Dougherty, a Florida lawyer who investigated Munther Bilbeisi, our featured player in this chapter.

Mr. Chairman, from documents already made available to the public, we have learned that Mr. Bilbeisi was the type of client that BCCI was only too willing to serve. A big spender with ties to the Jordanian royal family and government, Munther Bilbeisi worked hand-in-hand with BCCI to develop a coffee importing business. Mr. Bilbeisi's business was successful enough to attract the attention of American firms such as Chock Full O'Nuts and Chase and Sanborn. Yet it appears that Bilbeisi wanted more.

According to a Justice Department indictment, Bilbeisi, with the help of BCCI, bribed his accountant to help him hide illegal coffee trades to American firms. As documents made available to the committee note, the export documents noted that the coffee would go to Jordan or Syria. In reality the low quality Central American beans would end up in the United States, where they fetched a premium price. This way Bilbeisi could avoid the higher U.S. coffee tariff, and pocket the difference. The bank that helped him pull this off by issuing \$105 million in letters of credit—BCCI.

Of course, when you avoid tariffs, you do not have to pay income taxes. According to the indictment, passed down by a Miami Grand Jury, between 1984 and 1987, Mr. Bilbeisi avoided over \$840,000 income tax. The indictment also states that Mr. Bilbeisi's company, Coffee Inc. reported net losses of \$1 million in 1984 and 1985, while, in reality, it earned \$2.8 million in taxable profit. The bank whose officials received payments for helping Bilbeisi in avoiding income taxes—BCCI.

An internal report for BCCI also noted that a certain bank loaned Mr. Bilbeisi and his firms over \$5.5 million, some of which "was paid directly or indirectly to various persons and companies identified by the U.S. Government as being closely connected with or controlled by Manuel Noriega." Other loans "may have acted as some form of security or collateral for activities involving Gerardo Harris, an associate and confidante of Manuel Noriega." The bank that made these loans—BCCI.

Mr. Dougherty has told the press that he is aware of other documents that link Mr. Bilbeisi and BCCI to the international arms trade. Based on his role as an investigator hired by Lloyd's of London to track down a highly questionable insurance claim, Mr. Dougherty has examined Mr. Bilbeisi's role in various illicit international deals. His testimony promises to be very interesting in helping us flush out this chapter of the story of BCCI.

Senator KERRY. We will leave the record open for further questions from members of the committee.

INTERVIEW OF FERNANDO RAMON MARIN AMAYA

The interview of Fernando Ramon Marin Amaya was convened at 1:13 p.m., in room SD-415, Dirksen Senate Office Building.

Present: Jonathan M. Winer, Legislative Assistant/Counsel to Senator John Kerry; Vicente Valls, International Alltrade Consultants, Inc., translator; and Fernando Ramon Marin Amaya, independent attorney working for the Attorney General's Office of the Republic of Guatemala, witness authorized to testify by the Guatemalan Attorney General.

Mr. WINER. This is a deposition of Mr. Fernando Ramon Marin Amaya, who is an authorized representative of the Guatemalan Government, conducted on behalf of the Subcommittee on Terrorism, Narcotics and International Operations in connection with our ongoing investigation into the BCCI Affair.

Mr. Marin Amaya is a Spanish speaker from Guatemala, and we, accordingly, will conduct this deposition through a translator.

Will the translator please identify himself?

Mr. VALLS. My name is Vicente Valls—V-A-L-L-S. I will attempt to translate as best as possible for Mr. Amaya.

Mr. WINER. Mr. Amaya, under what authority are you here today?

Mr. AMAYA [translated by Mr. Valls]. I work for the Attorney General's Office of Guatemala as an independent professional, and I am helping at the present time in the investigation of the BCCI and its connections with Guatemala.

Mr. WINER. When did this investigation begin?

Excuse me. Let me say that at the beginning of each deposition, we ordinarily swear in each witness. I forgot to do so here.

Do you swear to tell the whole truth and nothing but the truth throughout this deposition?

Mr. WINER. The witness is now sworn in.

If you would, begin again with your authorization and when the investigation began.

Mr. AMAYA [as translated by Mr. Valls]. I am an independent lawyer, and I work for the Attorney General's Office of Guatemala in the investigation of different cases in the criminal section of the Attorney General's Office, and especially investigating the case of BCCI in Guatemala.

Mr. WINER. When did your investigation of BCCI begin?

Mr. AMAYA [as translated by Mr. Valls]. It started in 1991, approximately at the middle of 1991.

Mr. WINER. And what steps have you taken in the course of this investigation?

Mr. AMAYA [as translated by Mr. Valls]. It all started with an article that came out in "Time" magazine and its connections, the BCCI connection with Guatemala. At that time, we flew, after that, to Miami, to investigate and obtain whatever necessary documents we could.

Mr. WINER. And have you obtained any documents in the course of that investigation?

Mr. AMAYA [as translated by Mr. Valls]. We have obtained a series of documents; in them, the negotiations of coffee that took place of Munther Ismael Bilbeisi financed by BCCI; the purchase and sale of the helicopters, which was financed by, as an intermediary through BCCI; and also all of the documentation that deals with a loan by BCCI to the Government of Guatemala of \$30 million in 1988.

Mr. WINER. What documents have you brought with you today?

Mr. AMAYA [as translated by Mr. Valls]. The documents that I have brought to leave with this Senate hearing are depositions that have been taken in Guatemala; also the formal charges and the lawsuit brought by the Republic of Guatemala against the responsible people in the sale and purchase of the helicopters.

Mr. WINER. What laws were allegedly violated in Guatemala?

Mr. AMAYA [as translated by Mr. Valls]. In the specific case of the purchase and sale of the helicopters by the government, they have violated, in the specific case of the helicopters, they have violated the law of property and criminal laws in Guatemala. The criminal laws violated in Guatemala are that they have received payments to Guatemalan officials and commissions to public officials of the Government of Guatemala. At the same time, we are bringing a new order of arrest against an individual by the name of Munther Ismael Bilbeisi for the evasion of taxes in the country of Guatemala and violations of the Customs laws in Guatemala.

The new Government of Guatemala initiated in the month of March 1991, an investigation as to the transactions that took place by Munther Ismael Bilbeisi, coffee transactions. On September 12 of the present year, a decree was handed on the order of arrest for Munther Ismael Bilbeisi. At the present time, they have detained and put in jail certain individuals of Guatemalan origin and they have obtained also from the Ministry of Public Finance an order to, an assessed order to collect on the taxes owed by the company named "Coffee, Inc." in Guatemala.

Also, they are investigating how the loan was utilized. The loan that was utilized by the Government of Guatemala was given by BCCI to the Government of Guatemala.

At the same time, they are also beginning a new investigation about other purchases and other discoveries of purchases of coffee that come up to a total of 16,422 quintals of coffee that the company, Coffee, Inc., exported illegally from Guatemala, falsifying documentation to make it look like it was Salvadoran coffee.

With this new discovery, they will attach this to the present criminal proceedings that Mr. Bilbeisi has, and they will also bring a new order to collect from the Ministry of Finance and Treasury on taxes owed.

Mr. WINER. What were the names of the Guatemalan officials who have been charged in connection with this matter?

Mr. VALLS. Can I ask you one question?

Mr. WINER. Yes.

Mr. VALLS. Which matter, because we have a coffee matter and a helicopter matter?

Mr. WINER. The helicopter matter.

Mr. VALLS. OK.

Mr. AMAYA [as translated by Mr. Valls]. Officially, the Attorney General of the nation has accused a Mr. Milton David Cerezo Garcia, Jose Francisco Valdez Bocanegra—

Mr. WINER. And the positions of each person?

Mr. VALLS. I'll start all over then.

Mr. AMAYA [as translated by Mr. Valls]. Milton David Cerezo Garcia, brother of the ex-President of the Republic, Vinicio Cerezo, which was the head of Immigration during the term; Jose Francisco Valdez Bocanegra, an employee of Mura, International, in Guatemala; Mauricio Coronado Lara, the ex- Consul of Guatemala to Miami; Munther Ismael Bilbeisi, owner of Mura, International; Louis Charles Altmar, an employee of Munther Ismael Bilbeisi and Mura, International; Sandra Giovana Duran de Mari, wife of Milton Cerezo; Hector Alejandro Gramajo Morales, the ex-Minister of Defense of Guatemala; Marco Antonio Vargas Espinoza, from the military, a colonel that participated in the negotiation of the helicopters; Marco Vinicio Cerezo Arevalo, the ex-President of Guatemala; Roberto Mata Galvez, the ex-Chief of Staff of Guatemala; Jesus Alberto Coppo Gayoso, an employee and Vice President of Mura, International.

Mr. WINER. Was the former President of the Republic, Vinicio Cerezo, charged on any matter in connection with this?

Mr. AMAYA [as translated by Mr. Valls]. He has been charged criminally in these proceedings. They have left to the discretion of the judge in this case to determine what exact criminal charges will be brought against each of these individuals.

Mr. WINER. What do you now understand former President Cerezo to have done in connection with this matter?

Mr. AMAYA [as translated by Mr. Valls]. In this specific business, the ex-President, Marco Vinicio Cerezo Arevalo, directed in conjunction with the Estado Mayor the negotiation for the purchase of the helicopters. In the documentary proof that we have brought in these proceedings, there is an assignation of \$270,000 that was made by Mr. Munther Ismael Bilbeisi through the Bank of BCCI through Bank Leumi of Israel, Miami agency, in which you can notice that Mr. David Cerezo Garcia received a commission for the purchase and sale of the helicopters.

Mr. Milton Cerezo Garcia, when he was initiated as the head of Immigration and was sworn in, declared that the sum which he could count on and all of his properties approximately was 12,000 quetzales. At the exchange in those years at two and a half to one, we're talking approximately \$5,000. The salary of Mr. David Cerezo Garcia approximately was 3,000 quetzales a month, which is approximately \$1,200 a month.

At the present time, the account of Mr. Milton Cerezo Garcia has over \$600,000 deposited at Bank Leumi. That proof has been necessary to be able to associate the ex-President, Marco Vinicio Cerezo Arevalo, in the negotiation of the helicopters, of the sale of those items. Also, they have determined that there are transfers from the bank account of Milton Cerezo to the account of Vinicio Cerezo at another bank.

Mr. WINER. Are you saying that there is no way ex-President Cerezo could have accumulated that amount of money legally while he was President?

Mr. AMAYA [as translated by Mr. Valls]. The President of Guatemala has an approximate salary of 25,000 quetzales per month. That, multiplied through all of the 5 years as the President, is a much lower amount to what he actually possibly has in his accounts in the United States, bank accounts.

We are also indicating the ex-President, Vinicio Cerezo, to have negotiated illegally the sale of the national airplane company, Aviatega, for which time he is also being taken to the courts. Especially in the Aviatega proceedings, the ex-President, he has just received an order from the courts that the process initiated against him cannot be as an administrative process, but it will be, it is being brought as a criminal process, putting the burden on the Congress of the Republic to take away the immunity of the President, of the ex-President, to initiate the present process against him.

Mr. WINER. What was BCCI's role in the helicopter affair?

Mr. AMAYA [as translated by Mr. Valls]. It was the intermediary bank at which Mr. Munther Ismael Bilbeisi was able to sell the helicopters to the Government of Guatemala. They utilized a smaller bank in Miami, they utilized a smaller bank in Miami to utilize, to be able to utilize financing from Ex-Im Bank in the United States with the object of being them the beneficiary in the sale of the helicopters and in the letter of credit that was admitted by the Bank of Guatemala.

Mr. VALLS. He likes to add that BCCI was brought into the negotiation of the helicopters by Munther Ismael Bilbeisi.

Mr. WINER. Do you have any evidence that leads you to believe that BCCI officials understood the transaction was improper?

Mr. VALLS. The only evidence that he can actually supply was that the BCCI officials knew that there was no end user certificate from the United States and the payments from BCCI to officials of the Guatemalan Government.

Mr. WINER. For what purpose would helicopters armed with machine guns have been used by the Guatemalan military in this period?

Mr. AMAYA [as translated by Mr. Valls]. The helicopters, the military helicopters, would have been used to combat the guerrilla problem in Guatemala; although, the three helicopters that were actually sold to Guatemala did not have any military equipment, but they were configured to be used, to be added to it.

Mr. WINER. What documents that you brought with you would you now authenticate for us?

What I'd like you to do is to go through the documents one by one, to describe each document and, thereby, to authenticate it as a true copy of that document.

Mr. AMAYA [as translated by Mr. Valls]. The first document is a deposition of the individual, Jesus Alberto Coppo Gayoso.

Mr. VALLS. Each one of the documents do you want him to go through?

Mr. WINER. Yes.

Mr. VALLS. Or do you need an explanation of each one of the documents?

Mr. WINER. No.

Mr. VALLS. OK.

Mr. AMAYA [as translated by Mr. Valls]. The second document is also a deposition of Mr. Jesus Alberto Coppo Gayoso in front of the Attorney General's office.

The third document is the first lawsuit brought by the Government of Guatemala for the sale of the helicopters.

The next document is an amendment to the first lawsuit brought by the Government of Guatemala for the sale of helicopters in which it actually names the individuals.

The next document is the order of capture that was, the order of capture of Munther Ismael Bilbeisi for smuggling and evasion of taxes.

The last document that I have here is a deposition given by Mr. Louis Charles Altamar, done in front of the Attorney General's office of Guatemala.

[The documents referred to follow:]

REPUBLIC OF GUATEMALA
CITY AND DEPARTMENT OF GUATEMALA
EMBASSY OF THE UNITED STATES
OF AMERICA } ss:

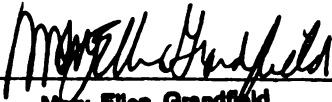
MARY ELLEN GRANDFIELD

I,
Consul of the United States of America
at Guatemala, Guatemala, duly commissioned
and qualified, do hereby certify that

FERNANDO RAMON MARIN AMAYA
whose true signature and official seal
are, respectively, subscribed and affixed
to the foregoing (annexed) certificate
(document) was on the...18th.....
day of...September.....19.91 the date
thereof, ...LAWYER AND NOTARY PUBLIC...

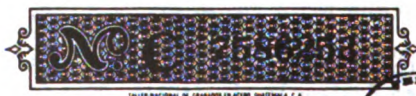
duly commissioned and qualified, to whose
official acts, faith and credit are due.

IN WITNESS WHEREOF I HAVE hereunto set my
hand and affixed the seal of the Consular
Service of the United States of America at
Guatemala, Guatemala, this day of **OCT 10 1991**


Mary Ellen Grandfield
VICE CONSUL OF THE UNITED STATES
OF AMERICA



EN 5 HOJAS
Primera



REGISTRO

Nº 536778

QUINQUENIO
DE 1988 A 1992

ACTA NOTARIAL: En la ciudad de Guatemala, el día miércoles dieciocho de septiembre de mil novecientos noventa y uno, me encuentro constituido en mi oficina profesional ubicada en la sexta calle cuatro guión diecisiete de la zona uno, Edificio Tikal (PH) número N guión ochocientos nueve (BUFETE CONDE, MARIN Y ASOCIADOS), cuando son las ocho horas con treinta minutos y soy requerido por el señor JESUS ALBERTO COPPO GAYOSO, quien dice ser de cincuenta y dos años, Peruano de Nacimiento, Ingeniero Industrial, casado, de tránsito por el país pero con oficinas en octava calle seis guión cero seis de la zona uno de esta ciudad oficina cuatrocientos cinco y con residencia en Ginebra, Suiza, y se identifica con el pasaporte peruano número un millón quinientos cincuenta y cuatro mil trescientos sesenta y cinco extendido en Miami el catorce de enero de mil novecientos noventa y uno y quien dice ser de los datos de identificación personales ya relacionados y comparece en forma voluntaria sin coacciones ni presiones de ninguna índole, en el pleno uso y goce de sus capacidades mentales y volitivas así como en forma espontánea con el objeto de hacer una declaración ante el infrascrito Notario de su relación con el señor MUNTER ISMAEL BILBEISI y la relación de trabajo que en cierta época tuvo con dicha persona y para lo cual se utilizará el sistema de preguntas y respuestas para ser más claro y objetivo, desarrollándose la misma de conformidad con los extremos siguientes: PREGUNTA:

MINISTERIO DE
FINANZAS PUBLICAS

Que sabé usted acerca de las negociaciones de café que el señor MUNTHER ISMAEL BILBEISI realizó con su empresa COFFE INC. así como de los fraudes que dicho señor cometió?.

RESPUESTA: Yo no he tenido relación directa ni indirecta con las actividades comerciales con dicho señor ya que yo trabajé en la empresa MURA INTERNACIONAL, pero si me he podido dar cuenta de ciertas cosas por mi relación de trabajo con la empresa.

PREGUNTA: Que otras cosas se refiere? Bueno, he sido informado por ejemplo de los esfuerzos desesperados que dicho señor realizó luego de especular con los precios de café y vió que su negocio se caía por los suelos. Considero, conociendo la personalidad de dicho señor que es posible que haya recurrido a cualquier acción en donde pudiera obtener algún beneficio o provecho de dicha situación. Por ejemplo citaré que en mi última visita Ammán, Jordania fui enterado de teniendo mucho presión por deudas de Bancos y de otra índole dicho señor se dedicaba a la importación de vehículos de Polonia, si mal no recuerdo marca FSO, pero posteriormente pudo resolver sus problemas luego que su negocio se le incendiara. Dicho señor entiendo que ha sido como la oveja negra de la familia y que siempre ha requerido tener una apariencia de vida de opulencia ante los demás aunque entiendo que es una simple apariencia.

PREGUNTA: CONSIDERA QUE EL SEÑOR BILBEISI PUEDE OBTENER



EN 5	HOJAS
begin	



OFICINA NACIONAL DE ARCHIVOS Y BIBLIOTECA



REGISTRO

Nº 536779

QUINQUENIO
DE 1988 A 1992

VENTAJA DE CUALQUIER PERSONA Y A CUALQUIER COSA? Considero

que sí, por ejemplo cuando vió que un negocio que estábamos realizando en Guatemala se había concretizado él me quiso sacar y presionarme para que me saliera, y él quería salir en caballo blanco entregando el material que el Gobierno de Guatemala había comprado en mil novecientos ochenta y ocho, pero a raíz de que tenía órdenes de captura (es decir problemas legales según entiendo por los problemas del negocio de café) dicho señor no tuvo más que dejar que terminara mi gestión dentro de Mura Internacional.

PREGUNTA: SE PUEDE DECIR QUE TRATAR CON DICHO SEÑOR ES PROBLEMÁTICO? Si, tratar con él si lo es ya que él siempre trata de imponer su criterio. Por ello yo tuve serias discusiones con él porque yo no soy de las personas que me dejo gritar ya que tengo mi dignidad y considero que las personas deben tener cierto respeto hacia mí.

PREGUNTA: CONSIDERA USTES QUE EL RECLAMO HECHO POR EL SEÑOR MUNTER ISMAEL BILBEISI A LA COMPAÑIA LLOYD'S ERA FRAUDULENTO? No conozco certeramente de que tipo de reclamo sea y especialmente los términos precisos, pero considero que la respuesta puede estar dentro de las que he brindado precedentemente, considero que siempre él ha tratado en sus negocios de sacar algunas ventajas máxime cuando le apremian sus necesidades económicas.

PREGUNTA: SABE USTED QUIENES SON LOS SEÑORES RICHARD POSTMA,

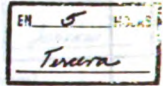
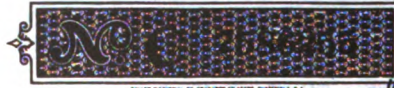
MINISTERIO DE
FINANZAS PÚBLICAS



DAVID BASS Y ARTHUR KOSKI?. Dejemé decirle que si conozco al
 Doctor Postma, sé que ha sido el Abogado del señor Bilbeisi y
 que le ha defendido varios casos a dicho señor; en cuanto al
 señor Bass exactamente no recuerdo y finalmente al Doctor
 Koski si bien no le conocí directamente si estuve en sus
 oficinas en algunas oportunidades cuando acompañé al señor
 Bilbeisi ocasionalmente pero nunca pasé de la oficina que

recuerdo tiene ciertos cuadros egipcios así como ciertas
 obras de arte pero nunca tuve una relación directa con él.

PREGUNTA: EL ABOGADO RICHARD POSTMA MANIFIESTA QUE ES ABOGADO
 DE BILBEISI, QUISIERA QUE POR FAVOR AMPLIARA MAS ACERCA DE EL
 Y SI USTED CONSIDERA QUE EL CONOCIA A BILBEISI PERFECTAMENTE
 Y DE SUS NEGOCIOS?. Bueno dejeme decirle que considero que
 como al sacerdote y al abogado no hay que mentirle considero
 que el señor Bilbeisi le habrá contado a su abogado la verdad
 de las cosas; entiendo además que él había sido abogado de
 dicho señor en otros casos de seguros también y que siempre
 habían ganado los reclamos pero no podría ahondar en que
 casos y personas. Entiendo además que ellos mantenian buenas
 relaciones porque recuerdo que él en alguna oportunidad
 cuando estabamos negociando con la Compañía Mura
 Internacional a quien él asesoraba también tuvo que venir a
 la ciudad de Guatemala a verificar si era cierto que el señor
 Bilbeisi tenía problemas legales, estuvo creo un día y quien
 fué su contacto en Guatemala recuerdo que fué el señor



REGISTRO

Nº 536780

QUINQUENIO
DE 1988 A 1992MINISTERIO DE
FINANZAS PUBLICAS

Francisco Valdéz Bocanegra, creo que estuvo hospedado en el Hotel El Dorado. Considero que Bilbeisi tenía mucha confianza en su abogado. Quisiera agregar que el Abogado Postma es de las personas que no trabajan si de antemano no se le han pagado o adelantado sus honorarios.

PREGUNTA: PODRIA CONSIDERARSE QUE LOS DOCUMENTOS QUE EL SEÑOR BILBEISI PRESENTO EN EL JUICIO DE RECLAMO CONTRA LA COMPAÑIA DE SEGUROS NO SON CIERTOS? No conozco a que documentos se refiere, pero con la mentalidad de dicho señor usted podrá responderse y si esto lo sabia o no su abogado, también usted puede responderse, ya que en último caso quien declara, afirma y presenta prueba es Bilbeisi y él es quien en todo caso será el responsable ante un Juez o ante Jurado.

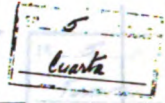
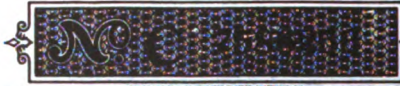
PREGUNTA: EL DOCTOR POSTMA ERA ASESOR DE MURA INTERNACIONAL? Si, él asesoraba ciertas cosas, exclusivamente en el ramo profesional, no en las negociaciones propiamente dichas.

PREGUNTA: CONOCE USTED AL SEÑOR JONH LADICOS? No estoy muy seguro, pero quizás sea el que era el capitán del yate de Bilbeisi y a quien dicho señor le encargó posteriormente venderlo, pero no estoy seguro de su nombre y si es él.

PREGUNTA: USTED VIO EN LA CASA DEL SEÑOR BILBEISI EN BOCA RATON OBJETOS DE ARTE? Bueno que vi algunos si pero no se a que se refiere.

PREGUNTA: ES DECIR SI VIO OBJETOS MUY CAROS Y DELICADOS COMO JARRONES, ALFOMBRAS PERSAS, ETC.? Bueno exactamente no sé que

26 me quiere preguntar pero realmente si recuerdo en alguna
 27 oportunidad haber visto algunos objetos, pero no puedo
 28 decirle con certeza que hubiesen sido objetos de arte
 29 delicados y finos, es decir conozco yo porque poseo y puedo
 30 distinguir que es cada cosa y en su lugar. Por ejemplo dicen
 31 que cuando su esposa la señora que era azafata y que estaba
 32 viviendo con dicho señor, el abrigo que parece ser que
 33 reclamaba como perdido tuvo que correr según dicen a comprar
 34 uno para justificar que efectivamente era otro y no el que
 35 reclamaba como perdido. Déjeme decirle que en una oportunidad
 36 estando con el Doctor Postma dicha señora le habló al Abogado
 37 y le preguntó que si del reclamo que estaba presentado ante
 38 la compañía de seguros Munther obtendría algún beneficio
 39 económico que ella seguía con él pero que si no era posible,
 40 ella no seguiría perdiendo su tiempo con Bilbeisi.
 41 PREGUNTA: LAS COMPAÑIAS MURA INTERNACIONAL, COFFE INC. Y
 42 ORION SYSTEMS SON PROPIEDAD DEL SEÑOR BILBEISI? Yo diría que
 43 sí, es decir entre ellas se manejaban como una sola, tenían
 44 una sola contadora o tenedora de libros, incluso doña Gloria
 45 se encargaba de firmar cheques en dichas compañías y cuando
 46 no tenía dinero de una le pagaban a uno con cheques de las
 47 otras, de ello un cheque que se me pagó a mí de mil dólares
 48 de Coffe Inc. y tal vez otros gastos que no recuerde
 49 exactamente. Déjeme decirle que cuando el señor Bilbeisi
 50 estaba apurado de dinero sacaba plata de donde hubiese y



REGISTRO

Nº 536781

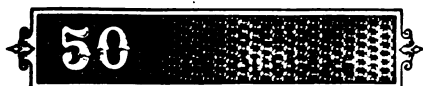
QUINQUENIO
DE 1988 A 1992MINISTERIO DE
FINANZAS PUBLICAS

1 justificaba sus gastos inclusive de las maneras más
2 inverosímiles que usted se imagina diciendo que había pagado
3 no se cuanto a alguien y otras cuentas a no se quien; en fin
4 su cretividad imaginativa para poder sacar y hacer aparecer
5 gastos era increíble, de todo tipo y monto.

6 PREGUNTA: LA COMPAÑIA UTICA LIMITED ES PROPIEDAD DE BILBEISI?
7 No señor, dicha compañía de la cual soy parte, está en
8 sociedad con otras personas es una compañía de GIBRALTAR y
9 cuando usted lo quiera puedo enseñarle los registros legales
10 de la misma.

11 PREGUNTA: USTED MANIFIESTO ANTERIORMENTE QUE EL SEÑOR
12 FRANCISCO JOSE VALDEZ BACANEGRA TIENE ALGUNA RELACION CON EL
13 SEÑOR BILBEISI? Sí, el como se lo dije anteriormente recibí
14 al Doctor Postma cuando él vino a investigar a Guatemala los
15 problemas de MUNTER tenía en este país. Tengo entendido que
16 ellos han seguido de amigos y se comunican entre si e
17 inclusive este año en unos de mis viajes a Guatemala estando
18 en el Hotel El Dorado, se me dijo que dicho señor estaba
19 haciendo negocios con él, inclusive yo hablé con la esposa
20 del Ingeniero Valdéz y le advertí de que tuviera cuidado su
21 esposo con la relación de trabajo que podría tener con
22 Bilbeisi ya que era comprometedor cualquier tipo de negocios
23 con él porque inclusive escapaz de hacer cualquier cosa en un
24 momento de perjudicar a alguien.

25 PREGUNTA: USTED CONSIDERA QUE EL SEÑOR FRANCISCO JOSE VALDEZ



PREGUNTA: USTED CONSIDERA QUE EL SEÑOR FRANCISCO JOSE VALDEZ

BOCANEGRA TIENE RELACIONES DE TRABAJO FRECUENTE CON EL SEÑOR

BILBEISI? Desconozco si efectivamen te él trabajaba para él

pero ambas personalida des son parecidas y podría ser; déjeme

concretizar , considero que si talvéz es cierto porque

inclusive yo he hablado con mis contactos en Ammán y se me ha

dicho que el señor Bilbeisi manifiesta que efectivamen te él

tiene al señor Valdéz como su representan te en Guatemala

pero agrego que yo no puedo asegurar esto ya que sólo han

sido las opiniones de terceros.

PREGUNTA: CONOCE USTED AL SEÑOR DAVID DUNKI? Claro que sí,

es un tipo muy soñador y una buena persona, le confio que le

gusta jugar de espía bueno en broma.

PREGUNTA: CONOCE USTED A MARK SILVERIO? No señor, no le

conozco.

PREGUNTA: EL SEÑOR BILBEISI TENIA RELACIONES COMERCIALES CON

EL BCCI? Sí señor, inclusive yo acompañé a dicho señor a las

oficinas del Banco para que él hiciera asignacione s así como

él firmaba con su puño y letra cualquier gestión en dicho

Banco, considero que las negociacion es que dicho señor tenga

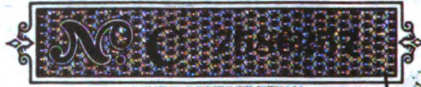
o en su oportunidad pudo haber realizado con dicho Banco eran

comerciales , no puedo afirmar otra cosa más que eso porque

Bilbeisi esos aspectos los manejaba confidencia lmente, pero

además tengo entendido que dichó señor presentó una demanda

én contra del Banco porque dicen que el Banco le tomó



5
Quinta

REGISTRO

Nº 536782

QUINQUENIO
DE 1988 A 1992

cuatrocientos mil dólares de una asignación por unas deudas
de café que Bilbeisi tenía con ellos por cuestiones de la
empresa Coffe Inc., detalles de todo eso no los conozco.

PREGUNTA: QUIERE USTED AGREGAR ALGO MAS? Efectivamente
quiero manifestar que la presente declaración la he hecho de
manera espontánea, sin presiones de ninguna índole, en el
pleno uso y goce de mis facultades mentales y volitivas y que
efectivamente la he realizado con el único y exclusivo
objeto de esclarecer mi situación con el señor Bilbeisi en
cuanto lo que se me ha preguntado y respondido, pero que
además quiero dejar bien claro que la presente declaración se
ha hecho de buena voluntad pero que no estoy dispuesto a
estar perdiendo mi tiempo en presentarme en tribunales para
aclarar la misma y que si la presente le he manifestado ante
un Abogado y Notario es para que sea tomada en cuenta y que
deseo dejar bien expreso que no acudiré a ninguna cita legal
y Juez alguno ya que lo manifestado es lo único que tengo que
decir.

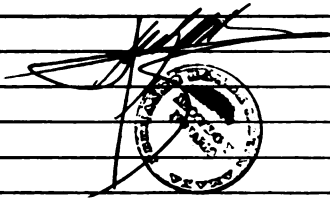
No habiendo más que hacer constar se finaliza la presente en
el mismo lugar y fecha de su inicio la cual es leída por el
compareciente y quien bien enterada de su contenido, objeto,
validez y demás efectos legales la acepta, ratifica y no
firma lo hace únicamente el infrascrito Notario quien de lo
expuesto da fé, finalizando se cuando son las diez horas en
punto, se hace constar que la misma esta contenida en cinco

MINISTERIO DE
FINANZAS PUBLICAS



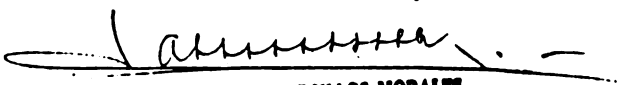


26 hojas de papel sellado del menor valor y actual quinquenio
 27 las cuales se identifican correlativa mente desde la número C
 28 siete millones quinientos ochenta y seis mil doscientos
 29 cincuenta y tres y de registro quinientos treinta y seis mil
 30 setecientos setenta y ocho que es la primera hasta la número
 31 C siete millones quinientos ochenta y seis mil doscientos
 32 cincuenta y siete y de registro quinientos treinta y seis mil
 33 setecientos ochenta y dos que es la presente. DOY FE.-



I, EFRAIN ROBERTO VALLECILLOS MORALES, SWORN LEGAL TRANSLATOR, duly authorized in the Republic of Guatemala to translate from the English language into the Spanish language, pursuant to Ministerial Resolution number three, dated January eight nineteen hundred eighty seven, GIVING TO SUCH TRANSLATIONS PUBLIC FAITH AND LEGAL VALUE, DO HEREBY CERTIFY: To have had at sight a document written in the Spanish language, contained in four page(s); said document corresponds to an AFFIDAVIT. The contents of said document faithfully translated by me into the English language to the best of my ability and knowledge read as follows:

"ATTORNEY GENERAL'S OFFICE. GUATEMALA, C.A. In the City of Guatemala on September thirteenth nineteen hundred ninety one, at eleven hours and fifty minutes appear before the Attorney General's Office at its headquarters, located on dieciocho calle diez guion treinta y seis de la zona uno of the City, before the Head of the Controllers Section, José Antonio López Mendoza, Attorney and General Secretary Nery Orellana Leiva, JESUS ALBERTO COPPO GAYOSO, with the purpose of making known to this Institution the following facts. FIRST: Being duly sworn to tell only the truth, and having offered to do so. He has been advised of the penalties for perjury. He declares to be the person named above, fifty years old, married, a Peruvian national, Industrial Engineer, with residence in Geneva Switzerland at 1 Place


Lc. EFRAIN R. VALLECILLOS MORALES
 LEGAL TRANSLATOR
 SWORN TRANSLATOR
 Reg. 02-87

he was able to resolve this matter after his business caught fire. QUESTION: If you know the attorneys Richard Postma, David Gass and Arturo Kosqui, what kind of relationship have you had with them? ANSWER: I know Doctor Postma, with whom I have been in some meetings with Bilbeisi, on the matters of the selling of equipment by Mura International, and I have met the other lawyer when I accompanied Bilbeisi to his office, I believe it is doctor Kosqui. QUESTION: Say if the Companies Utica, Mura International, Inc., and Oriun system, as well as Coffee Inc. belong to Bilbeisi. Answer: All of the above mentioned, with the exception of Utica, Limited, belong to Bilbeisi. Munther Bilbeisi has not had nor does he have now any relation with Utica. Question: Which entity or enterprise was the one that initiated, promoted, and finalized the negotiation of the helicopters S76-A. Answer: When I met Bilbeisi he had already done the negotiation, a year before, through Mura International. Te offer of the helicopters and other material to Guatemala. This same company continued the negotiations, subscribed the contract and delivered the equipment. Question: Who intervened in the negotiation and what role did each one have?: Answer: Before my intervention Munther Bilbeisi, Mauricio Coronado and Louis Altamar had participated; I do not have any knowledge if in that time another person intervened in the negotiation. After being in charge of the negotiation,

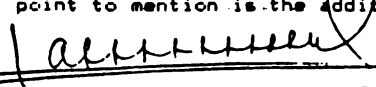

 Efraim Morales

LOS MORALES

LEGAL INTERPRETER
 SWORN TRANSLATOR
 Reg. 62-67

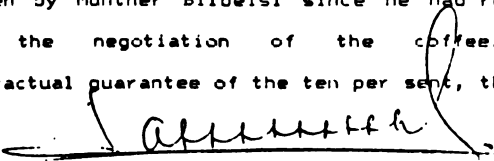
Altamar and Coronado continued it, who signed with me the contract of buying and selling and at a certain moment as part of the two mentioned Mario Imeri participates. Many people have visited us offering their professional services, to me and to Bilbeisi, I have not had the direct need of any person during the negotiation. Question: Do you know that Jose Francisco Valdez, Mauricio Coronado, Luis Altamar were given signed assignments by Bilbeisi in the year nineteen hundred ninety eight as well as an account at Lumi Bank of Israel in Miami? Answer: Bilbeisi did sign and directly proceeded with BCCI, the assignments for Coronado and Altamar as payment for their services in the transaction. Mr. Valdez was given payment for his counseling services. I do not know about the account at Leumi Bank of Israel. I do not that in addition to these assignments there was one for the amount of four hundred thousand Dollars that was to BCCI, for the payment of a debt, as I know, Munther Bilbeisi had with said bank for the operations of Coffee, Inc. It is necessary to indicate that every time I have visited that bank, which has been occasionally, I have gone with Munther Bilbeisi who was the only person with an authorized signature before the above mentioned bank to act on behalf of the company, that the assignments as any other instrument go through the process of rectification of signatures of the bank that carries out the transaction. I

also know that Bilbeisi tried to recuperate the four hundred thousand Dollars from BCCI, with the allegation of technicalities on the documents but up to date I have had no knowledge of any claim done by the bank for paying the assignments mentioned, I mean that as a fact it has accepted because they were made by him. Question: What do you know about the negotiations of helicopters? Answer: When I entered the negotiation there was an offer in progress of the helicopters at a price. A group of people had traveled to Jordan appointed by the ministry of Defense to carry out the inspection of the equipment that had been offered. During my intervention especially in the negotiation of the contract the Major Office of the Army as well as myself have been very careful to guarantee the spare parts to Guatemala that may allow the normal operations of the units that were sold, training of personnel for an adequate operation and the guarantee of delivery in operation in Guatemala and a last inspection by a receiving commission in Jordan to certify the condition of the helicopters before Guatemala makes any payment on the letter of credit, I am pleased to say that all the contractual conditions were met, that the helicopters arrived in Guatemala, were assembled and put in operation before receiving ten per cent of the guarantee. These helicopters have operated satisfactorily up to this date. A special point to mention is the additional delivery


Lk. EFRAIN ROBERTO MORALES
 LEGAL INTERPRETER
 SWORN TRANSLATOR
 Reg. 62-67

of parts for over a million dollars that was made to Guatemala without asking for any compensation. I would like to take this opportunity to clear the documents that have been presented to me and which make reference to those commissions. The letters signed by Munther Bilbeisi appear with a date prior to my participation in the negotiation and it makes it difficult for me to indicate the circumstances they were carried out, however, I will not believe that the people to whom they were sent asked or received said communications. As for the letters that Munther Bilbeisi presents as a ratification made by me of the letters signed by him, as I have proved, they are alterations of the letters of commissions to the other representatives of commission, what can clearly be seen by the alineation of the part adulterated. I have heard in Guatemala comments about the price of the helicopters. I have not been part of the negotiation between the Jordanian authorities and Munther Bilbeisi, for these three helicopters, and I would say that the offer of prices had been presented before my participation. I consider that it is important to indicate that the price of this equipment as well as of the automobiles, are of public domain, since they are indicated on a blue book that is issued quarterly. In said book the value of used equipment is given for banking purposes and it is a good guide for knowing if the price is just or not. In

the declaration on a press conference by the representative of the Ministry of the Defense, it was proven that the price assigned in that book for the equipment that was bought it was higher than the price paid by Guatemala, in other words, I consider that it is important to say that the price of selling it is always related to the international market more than to subjective aspects. After doing this transaction satisfactorily of these three units, I represented Utica Limited in a new offer for six helicopters from the Jordanian Air Force, this negotiation was not concluded due to the economical difficulties within other factors that existed at the moment of the negotiation. The activities of the banks in the negotiation was the following: Capital Bank gave a Financing Loan to the Government of Guatemala, with that loan the Bank of Guatemala open a letter of credit for the payment of the equipment such as spare parts, insurance and transport. In the contract Mura requested that this letter of credit were confirmed by BCCI; in such a way to be able to guarantee the ten per cent demanded by this bank. Capital Bank did not accept BCCI confirmation of the letter of credit issued by them. The BCCI acted as of the letter of Credit. This bank was chosen by Munther Bilbeisi since he had relation with them in the negotiation of the coffee. As for the contractual guarantee of the ten per cent, this was

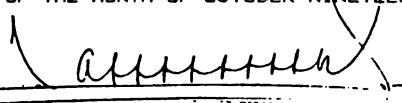

Lt. EFRAIN ROBERTO V. ENCILLOS MORALES
 LEGAL INTERPRETER
 SWORN TRANSLATOR
 Reg 02-87

substituted by a retention for the same amount, which is allowed by the Guatemalan Law. Question: Who else had participation in the negotiations? Answer: Jose Valdez, Attorney, offered Bilbeisi counseling services on the banking aspects, Roberto López offered Bilbeisi his personal counseling and his group concerning public relations. The job of all these people was not significant nor their support was real since all the proceedings were strictly done pursuant to the Institutions taking part. There have not been outside the professional fees any wrong payment to my knowledge. After this negotiation I know that the relationship between Bilbeisi and José Valdez Bocanegra, which confirms their friendship without knowing the nature of this relationship. The authorization of the technical representative was obtained for the negotiation and delivery. Munther Bilbeisi had close communication with members of Sikorsky, who have been continually in Amman due to the relation with the Jordanian Air force. As for the authorization this has not been necessary because it is not a part of the negotiation. It was supervised by the engineer Hames Romer who worked for Sikorsky in Amman, he traveled to Guatemala to act in the reception and later accepted to subscribe a contract for maintenance with the Major Office of the Army. With nothing more to add these presents come to a close at thirteen hours with twenty five minutes at the

place and date indicated. Well aware of its contents, validity and legal effects, he ratifies it accepts it and signs it, Together with the undersigned who attest. (There appear three illegible signatures).

END OF TRANSLATION

IN WITNESS THEREOF, and at the request of interested party, for the legal uses they may deem convenient, and without assuming any responsibility whatsoever for the contents of the translated document I Hereby issue this sworn legal translation contained in five page(s).- IN THE CITY OF GUATEMALA, ON THE NINTH DAY OF THE MONTH OF OCTOBER NINETEEN HUNDRED NINETY ONE.


L. EFRAIN ROBERTO VALLEJOS MORALES
 LEGAL INTERPRETER
 SWORN TRANSLATOR
 Reg. 02-87

I, EFRAIN ROBERTO VALLECILLOS MORALES, SWORN LEGAL TRANSLATOR, duly authorized in the Republic of Guatemala to translate from the English language into the Spanish language, pursuant to Ministerial Resolution number three, dated January eight nineteen hundred eighty seven, GIVING TO SUCH TRANSLATIONS PUBLIC FAITH AND LEGAL VALUE, DO HEREBY CERTIFY: To have had at sight a document written in the Spanish language, contained in two page(s); said document corresponds to a NEW ACCUSATION. The contents of said document faithfully translated by me into the English language to the best of my ability and knowledge read as follows:

"ATTORNEY GENERAL'S OFFICE

OFFICE OF THE GOVERNMENT OF THE REPUBLIC OF GUATEMALA

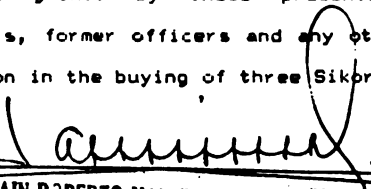
ATTORNEY

GUATEMALA, C.A.

NEW ACCUSATION

HONORABLE FIRST JUDGE OF THE FIRST INSTANCE OF PENAL INSTRUCTION.

THE ATTORNEY GENERAL'S OFFICE, based upon the norms of punitive character that the Political Constitution of the Republic of Guatemala, its Organic Law, and the Penal Proceedings Code grant. By these presents appears to denounce officers, former officers and any other person who had participation in the buying of three Sikorsky


 MR. EFRAIN ROBERTO VALLECILLOS MORALES
 LEGAL INTERPRETER
 SWORN TRANSLATOR
 Reg. 68-87

Helicopters. And for that effect we assign our headquarters address to receive citations and services at Dieciocho Calle diez guion treinta y seis, Zona Uno of this City. Respectfully before your Honor

DECLARES

I. This Office became aware of the transaction of buying and selling, carried out by the State of Guatemala, through publications reported by "Time Magazine" edited in the United States and through information from other sources of social communication of this country. These transactions were done between the Presidential Office and the individuals: Mauricio Eduardo Coronado Lara; Alberto Coppo Gayoso, an Industrial Engineer; and Louis Charles Altamar, as Representatives of Mura International Company, Corporation. The commercial relationship consisted on the buying and selling of three Sikorsky helicopters made in the U.S.A. acquired from the Jordanian Air Force. The amount paid was that of five million one hundred seventy five thousand American Dollars.

II. The Attorney General's Office presented the testimonial and documentary evidence, based on the above mentioned publications. We initiated the pertinent investigations. Consequently, from such actions, upon making the corresponding study, we arrived at the conclusion of the commission of a crime and punishable acts.

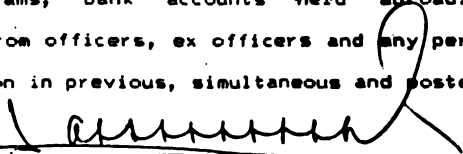
III. This accusation is to bring suit to clear the foregoing acts. These acts may have been simultaneous and posterior to the above mentioned transaction. And, to resolve the culpability and responsibility incurred by officers, ex officers and any other person.

LEGAL BASIS:

The legal basis precept the ordinance of penal adjective to which the intervention of the Attorney General is obliged in the handling of proceeds of public action... it may intervene before the respective authorities, even before the initiation of the proceedings, in the findings and investigations that may be convenient... the exercise of the corresponding penal action, essentially the Attorney General... whomsoever may have knowledge of the commission of a crime in any form, he shall bring it forth before a Judge. Articles: 16, 18, 331 of the Penal Code. It corresponds to the District Attorney's Office, to promote action of justice and of public administration when it concerns the public interest and order. Article 24, item 3rd. of the Decree 512 of the Congress of the Republic.

OF THE MEANS OF INVESTIGATION

I. The dossier which contains official letters, notes, letters, cablegrams, bank accounts held abroad. These documents are from officers, ex officers and any person who had participation in previous, simultaneous and posterior


LL. EFRAIN ROBERTO VALLECILLOS MORALES
 LEGAL INTERPRETER
 SWORN TRANSLATOR
 Reg. 02-87

acts in the contract of buying and selling of the Sikorsky helicopters;

II. Acknowledgment of the declaration presented by Louis Charles Altemar signed at the headquarters of the Attorney General's Office;

III. Presumptions

Due to the above mentioned, we request to his Honorable Judge

PETITION:

I. That with these records initiate the formation of the respective expedient sand to hold as presented the documents annexed, duly mentioned on items I and II of this trial brief;

II. To receive services at the above mentioned address;

III. To have as offered the means of investigation presented on this brief;

IV. To initiate the corresponding instructions of prosecution To order the necessary actions that may be deemed pertinent beginning from the documentation annexed;

V. To order all urgent precautionary measures that your Honor may deem relevant; Citation of Law and Articles: 11, 18, 19, 24, 26, 31, 38, 39 54, 60, 67, 181, 210, 241, 244, 246, 260, 292, 305, 311, 318, 333, 335, 342, of the Penal Code; 25, 26, and 33 of Decree number 512 of the Congress of the Republic.

I ANNEXED A DUPLICATE AND THREE COPIES OF THIS BRIEF, AS WELL AS THE DOCUMENTS RELATED, DUPLICATE AND LEGAL COPIES.

Guatemala, September 18 1991.

END OF TRANSLATION

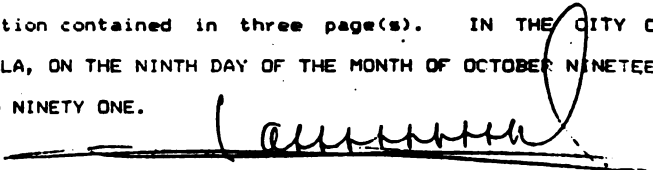
IN WITNESS THEREOF, and at the request of interested party, for the legal uses they may deem convenient, and without assuming any responsibility whatsoever for the contents of the translated document I Hereby issue this sworn legal translation contained in three page(s). IN THE CITY OF GUATEMALA, ON THE NINTH DAY OF THE MONTH OF OCTOBER NINETEEN HUNDRED NINETY ONE.

JOSE ANTONIO LOPEZ MENDOZA, Attorney.

Head of the Controller Section."

END OF TRANSLATION

IN WITNESS THEREOF, and at the request of interested party, for the legal uses they may deem convenient, and without assuming any responsibility whatsoever for the contents of the translated document I Hereby issue this sworn legal translation contained in three page(s). IN THE CITY OF GUATEMALA, ON THE NINTH DAY OF THE MONTH OF OCTOBER NINETEEN HUNDRED NINETY ONE.



Mr. EFRAIN ROBERTO VALLECILLOS MORALES
LEGAL INTERPRETER
SWORN TRANSLATOR
Reg. 02-87



**PROCURADURIA GENERAL DE LA NACION
MINISTERIO PUBLICO**

GUATEMALA, C. A. DENUNCIA NUEVA

SEÑOR JUEZ PRIMERO DE PRIMERA INSTANCIA PENAL DE INSTRUCCION.

EL MINISTERIO PUBLICO, con fundamento a las normas de carácter imperativo categóricas, que le confieren la Constitución Política de la República de Guatemala, su Ley Orgánica y el Código Procesal Penal, por el presente memorial comparece a incoar DENUNCIA en contra de funcionarios, exfuncionarios y demás personas que tuvieron participación en la compra de tres helicópteros Sikorsky. Para el efecto señala para recibir citaciones y notificaciones la sede de sus oficinas centrales situadas en dieciocho calle diez quín treinta y seis de la zona uno de esta ciudad. Respectuosamente al señor juez.

EXPONE:

I. En virtud de publicaciones de la "Revista Time" de los Estados Unidos de América y asimismo por informaciones de otros medios de comunicación social del país, el Ministerio Público se enteró de la compra venta efectuada por el Estado de Guatemala, por medio del Estado Mayor Presidencial y los señores: Mauricio Eduardo Coronado Lara, Ingeniero Industrial Alberto Coppo Gayoso y Louis Charles Altamer, representantes de la Compañía Mura Internacional, Sociedad Anónima, de tres helicópteros Sikorsky de manufactura Norteamericana, a la Fuerza Aérea de Jordania, por una suma de cinco millones ciento setenta y cinco mil dólares americanos.

II. El Ministerio Público, en base a dichas publicaciones inició las investigaciones pertinentes y, como consecuencia, se aportaron las evidencias testimoniales y documentales, de cuyas actuaciones, al realizar el estudio correspondiente se desprende la comisión de hechos y



actos punibles.

III. Para el efecto de aclarar los hechos anteriores, simultáneos y posteriores a la negociación indicada y, determinar la culpabilidad y consiguiente responsabilidad en que hayan incurrido ex-funcionarios, funcionarios y demás personas, es que se promueva esta denuncia.

FUNDAMENTO DE DERECHO:

Preceptúa el ordenamiento adictivo penal que es obligada la intervención del Ministerio Público en todos los trámites del proceso de acción pública... podrá asimismo intervenir ante las autoridades respectivas, aún antes de la iniciación del proceso, en la comprobación e investigación que fueren convenientes.... el ejercicio de la acción penal correspondiente, esencialmente al Ministerio Público... Quien tuviere conocimiento de un hecho delictuoso en cualquier forma, tiene que ponerlo en conocimiento del juez. Artículos:16,68,331 del Código Procesal Penal. Corresponde a la Fiscalía, promover la acción de la justicia y de la administración pública en cuanto concierne al interés o al orden público. Artículo 24 numeral 3o. del Decreto 512 del Congreso de la República.

DE LOS MEDIOS DE INVESTIGACION:

I. Expediente que contiene oficios, notas, cartas mensajes telegráficos, número de cuentas bancarias del exterior, de las personas, ex-funcionarios y funcionarios que tuvieron participación en hechos anteriores, simultáneos y posteriores al contrato de compraventa de los helicópteros Skorsky;

II. Acta levantada en las oficinas centrales del Ministerio Público, de



C

**PROCURADURIA GENERAL DE LA NACION
MINISTERIO PUBLICO**

GUATEMALA, C. A.

la declaración prestada por el señor Louis Charles Altamir:

III. Presunciones.

Por todo lo anteriormente expuesto, al señor Juez atentamente se formula la siguiente,

PETICION:

I. Que con el presente memorial de denuncia se inicie la formación del expediente respectivo y se tengan por presentados los documentos que se adjuntan, debidamente señalados en los numerales I y II de este escrito;

II. Que se tenga lugar para recibir notificaciones al señalado en el cuerpo de este memorial;

III. Se tenga por ofrecidos los medios de investigación indicados en el apartado fáctico de este escrito;

IV. Que se inicie la instrucción sumarial correspondiente, mandándose practicar para el efecto cuanto diligencia se considere pertinente y se desprenda de la documentación acompañada;

V. Que se ordenen todas las medidas cautelares y de urgencia que el señor juez estime conducentes;

IV. Que se le dé la intervención correspondiente a esta Institución.

Leyes citadas y artículos:

11, 18, 19, 24, 26, 31, 38, 39, 54, 60, 67, 181, 210, 214, 244, 246, 260, 292, 305, 311, 318

, 333, 335, 342, del Código Procesal Penal; 25, 26 y 33 del Decreto número

512 del Congreso de la República.

ACOMPAAO DUPLICADO Y TRES COPIAS DEL PRESENTE MEMORIAL, ASI COMO LOS

DOCUMENTOS RELACIONADOS, DUPLICADO Y COPIAS DE LEY.

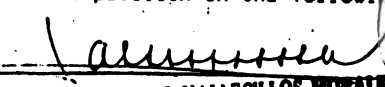
26		Guatemala, 18 de septiembre de 1991
27		<i>Jose Antonio Lopez Mendez</i>
28		LIC. JOSE ANTONIO LOPEZ MENDEZ
29		Jefe Sección Fiscalía
30		
31	Juzgado Primero de Primera Instancia Petal de Instrucción	Razon: Se reciben
32		333 folios ofrecidos
33		como medios de Investi-
34		gación. Construcción
35		<i>[Signature]</i>
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I, EFRAIN ROBERTO VALLECILLOS MORALES, SWORN LEGAL TRANSLATOR, duly authorized in the Republic of Guatemala to translate from the English language into the Spanish language, pursuant to Ministerial Resolution number three dated January eight nineteen hundred eighty seven, GIVING TO SUCH TRANSLATIONS PUBLIC FAITH AND LEGAL VALUE, DO HEREBY CERTIFY: To have had at sight a document written in the Spanish language, contained in four page(s); said document corresponds to ACTION No. 3773-91. - - - - - JD contents of said document faithfully translated by me into the English language to the best of my ability and knowledge read as follows: "ATTORNEY GENERAL'S OFFICE. GUATEMALA C.A.

HONORABLE FIRST JUDGE OF FIRST INSTANCE OF PENAL INSTRUCTION. ACTION No. 3773-91. 5th. Service Officer. THE ATTORNEY GENERAL'S OFFICE makes reference to the above indicated action which contains an accusation as consequence of the buying and selling of three Sikorsky helicopters. We appear pursuant to the following:

FACTS

I. That on September twenty of the current year, the accusation to prosecute was presented by this institution duly identified ut-supra. on number VII) of the corresponding resolution, it determines a deadline of EIGHT DAYS to expand on its petition on the following: "1st.)


Lt. EFRAIN ROBERTO VALLECILLOS MORALES
 LEGAL INTERPRETER
 SWORN TRANSLATOR
 Reg. 62-87

Name of the person or persons whom it accuses on the buying and selling of three Sikorsky helicopters", to that respect, the following persons are accused: a) MILTON DAVID CEREZO GARCIA, b) JOSE FRANCISCO VALDEZ BOCANESRA, Aka, JOSE FRANCISCO VALDEZ, c) MAURICIO CORONADO LARA, d) MUNTHER ISMAIL BILBEISI; e) LOUIS CHARLES ALTEMAR, Aka LUIS ALTEMAR; f) SANDRA GIOVANA DURAN DE MARI; g) HECTOR ALEJANDRO GRAHAJO MORALES, h) MARCO ANTONIO VARGAS ESPINOZA, i) MARCO VINICIO CEREZO AREVALO, j) ROBERTO MATA GALVEZ; k) JESUS ALBERTO COPPO GAYOSO..... As for the second item, that in order to arrive to the finalization of the transaction (contract of buying and selling) Mura International, mainly its legal representatives, following instruction of Munther Ismail Bilbeisi, of Jordanian origin, paid a series of commissions..... such declaration may be established on the annexed documentation. As for the third item, we annex the original, copies, certifications, and legalized photocopies which will be used as basis to deepen the investigation, as well as their respective translations. As for the fourth item, it is not possible to annexed the present due to the fact that we are working on its translation. However, we annex the mass media publications of the country, and Time Magazine dated June twenty four of the current year on a non legal translation.

As for the fifth item, as of the moment we only know the

addresses of the following individuals: JESUS ALBERTO COPPO
 GAYOSO, in Geneva, Switzerland at 1 Place des Florentines,
 1204 or at octava calle seis guion cero seis Zone one (Sixth
 Street 6-06 Zone 1) Suite four hundred and five of the
 city; LOUIS CHARLES ALTEMAR may be located at his residence
 at eleven fifty (1150) NW Seventy Second (72nd) Avenue
 Miami Florida thirty three thousand one hundred twenty
 (33126) United States of America. As for the sixth item,
 makes reference to the expedient, (which was annexed to the
 accusation) besides the ones being presented on this writing
 and, as for the testimonial evidence, they are being
 presented on this extension. and, as for the seventh item,
 on this brief we are presenting the details referred to
 seventh.

LEGAL BASIS

The precept of the penal adjective which makes the
 intervention of the Attorney General's Office in the
 proceeds of public action... as well as the exercise of the
 corresponding punitive action. Likewise, the Judge shall
 move at his own initiative, as essential subject of
 investigation. He will prove and establish the facts seeking
 coincidence between the historical truth and the formal
 Juridical and he shall resolve, according to the judicial
 records.... Likewise, the Judges shall, within the process,
 issue measures that may not be specifically

[Signature]
 Lk. EFRAIN RODRIGUEZ VILLALBA
 LEGAL INTERPRETER
 SWORN TRANSLATOR
 Reg. 82-87

mentioned by the law which may be according to law for a better fulfillment of the Jurisdiction, and, finally, it is of concern of this Office, to promote the action of Justice when it concerns the public interest and order. Articles: 16, 38, 125 of the Penal Code; 24 number three of Decree number 512 of the Congress of the Republic.

PETITION

I. To have as presented this brief, annexing it to the previous.

II. To have as motioned the intervention of the Attorney General's Office, carrying out every act that may be necessary for the clarification of the act that was timely denounced;

III. To have the petition formulated on the denouncement brief as extended, having fulfilled the requirements requested on the resolution dated September twenty of the current year, with the exception of what was required on item four, due to the reasons presented on the factual item of this brief.

IV. To continue notifying this institution, whatsoever resolution at the mentioned address on the accusation dated September eighteenth of the current year.

LAW

Laws and articles: 251 of the Political Constitution of the Republic of Guatemala; 11, 18, 19, 24, 25, 26, 30, 31, 32,

36, 39, 41, 44, 49, 53, 54, 60, 63, 68, 73, 100, 124, 128,
 130, 173, 181, 220, 216, 244, 246, 260, 253, 258, 270, 271,
 273, 275, 279, 290, 292, 293, 297, 305, 311, 315, 318, 337,
 335, 336, 337, 340, 342, 354, 356, 404, of the Penal Code,
 24, 25 and 26 of Decree 512 of the Congress of the Republic,
 9, 50, 51, 52, 57, 58 of the Judicial Organism Law.

ANNEXED A DUPLICATE AND THREE COPIES OF THIS BRIEF, AS WELL
 AS THREE COPIES OF THE ANNEXED DOCUMENTS. Guatemala, October
 4 1991. José Antonio López Mendoza, Attorney, Head of the
 Controller Section."

END OF TRANSLATION

IN WITNESS THEREOF, and at the request of interested party,
 for the legal uses they may deem convenient, and without
 assuming any responsibility whatsoever for the contents of
 the translated document I hereby issue this sworn legal
 translation contained in three page(s).- IN THE CITY OF
 GUATEMALA, ON THE NINTH DAY OF THE MONTH OF OCTOBER NINETEEN
 HUNDRED NINETY ONE.


Lt. EFRAIN ROBERTO VALLECILLOS MORALES
 LEGAL INTERPRETER
 SWORN TRANSLATOR
 Reg. 02-87



**PROCURADURIA GENERAL DE LA NACION
MINISTERIO PUBLICO
GUATEMALA, C. A.**

SEÑOR JUEZ PRIMERO DE PRIMERA INSTANCIA PENAL DE INSTRUCCION:

PROCESO No. 3773-91 OFICIAL: Sto.

El MINISTERIO PUBLICO, se refiere al proceso arriba identificado y que contiene denuncia como consecuencia de la compraventa de tres Helicópteros Sikorsky. Respetuosamente comparece de conformidad con los siguientes,

H E C H O S:

I.- Con fecha veinte de septiembre del año en curso, se le dió trámite a la denuncia presentada por esta Institución debidamente identificada ut-supra. En el numeral VII) de la resolución correspondiente, se fija al Ministerio Público el improrrogable plazo de OCHO DIAS para que amplíe su solicitud en los siguientes puntos: "1o.) Nombre de la persona o personas a quienes sindica por la compra de tres helicópteros Sikorsky" al respecto se sindicaron a las siguientes personas: a) MILTON DAVID CEREZO GARCIA, b) JOSE FRANCISCO VALDEZ BOCANEGRA o JOSE FRANCISCO VALDEZ, c) MAURICIO CORONADO LARA; d) MUNTER ISMAIL BILBEISI; e) LOUIS CHARLES ALTEMAR o LUIS ALTEMAR; f) SANDRA GIOVANA DURAN DE MARI; g) HECTOR ALEJANDRO GRAMAZO MORALES, h) MARCO ANTONIO VARGAS ESPINOZA; i) MARCO VINICIO CEREZO AREVALO, j) ROBERTO MATA GALVEZ; k) JESUS ALBERTO COPPO GAYOSO. En cuanto al punto 2o., se consigna que para arribar a la finalización de la negociación (contrato de compraventa) se dieron por parte de la Compañía Mura Internacional, Sociedad Anónima, principalmente sus representantes legales, obedeciendo

W.DORW



26 instrucciones del señor de origen Jordano, Munther Ismail Gil-
 27 beisi, una serie de prevendas, comisiones, lo que se pue-
 28 de establecer con la documentación que se acompaña. En rela-
 29 ción al punto 3o.) Se acompañan originales, copias certifica-
 30 das y fotocopias legalizadas, de los documentos que sirven de
 31 base para profundizar en la investigación, además con las res-
 32 pectivas traducciones. En cuanto al punto 4o.) por el momento
 33 no es posible, acompañar la misma, en virtud de que se está --
 34 trabajando en la respectiva traducción, sin embargo se acompa-
 35 ñan las publicaciones de los medios de comunicación social del
 36 país, y de la Revista TIME del veinticuatro de junio del año -
 37 en curso en traducción simple.
 38 En relación al punto 5o.), por el momento únicamente se cono-
 39 cen las direcciones de las siguientes personas: JESUS ALBERTO
 40 COPPO GAYOSO, en Ginebra Suiza en 1 Place des Florentines, --
 41 1204 o en octava calle seis quión cero seis de la zona uno, of-
 42 cina cuatrocientos cinco de esta ciudad; LOUIS CHARLES ALTEMAR
 43 puede ser localizado en su residencia situada en once cincuen-
 44 ta (1150) NW setentidos (72) Ave Miami Florida treinta y tres
 45 mil ciento veintisis (33126) Estados Unidos de América. En -
 46 cuanto al punto 6o.) se refiere al expediente (que se acompañó
 47 a la denuncia) más las que por este memorial se están aportan-
 48 do y, en cuanto a las evidencias testimoniales, se están apor-
 49 tando en esta ampliación tales evidencias. Y, finalmente en
 50 cuanto al punto 7o.) en este acta se están aportando y acom-

26 memorial de denuncia, teniéndose para el efecto por cumplidos los
 27 requisitos exigidos en resolución de fecha veinte de septiembre
 28 del año en curso, a excepción de lo requerido en el punto cuar
 29 to, por las razones invocadas en el apartado fáctico de este -
 30 memorial;

31 IV.- Que se citen a las personas mencionadas en el cuerpo de -
 32 este memorial, para recibir sus declaraciones en la forma que
 33 el Juez considere pertinente, y por acompañado los documentos
 34 adjuntos.

35 V.- Que se continúe notificando a esta Institución, cuanta re-
 6 solución se dicte en el lugar señalado en la denuncia de fecha
 7 dieciocho de septiembre del presente año.-

3 CITA DE LEYES:

3 Leyes citadas y artículos: 251 de la Constitución Política de
 3 la República de Guatemala; 11,18,19,24,25,26,30,31,32,36,39, -
 4 41,44,49,53,54,60,63,68,73,100,124,128,130,173,181,210,216,244
 5 246,260,253,258,270,271,273,275,279,290,292,293,297,305,311,-
 6 315,318,333,335,336,337,340,342,354,356,404 del Código Proce-
 7 sal Penal; 24,25, y 26 del Decreto 512 del Congreso de la Repú
 8 blica; 9,50,51,52,57,58 de la Ley del Organismo Judicial.

9 VAN DUPLICADO Y TRES COPIAS DEL PRESENTE MEMORIAL, ASI COMO DU
 10 PLICADO Y TRES COPIAS DE LOS DOCUMENTOS ACOMPAÑADOS.

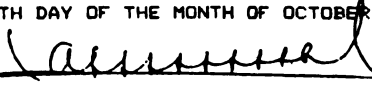
Guatemala 4 de Octubre de 1,991

Lic. José Antonio López Andoza
 Jefe de la Sección de Calificación

I, EFRAIN ROBERTO VALLECILLOS MORALES, SWORN LEGAL TRANSLATOR, duly authorized in the Republic of Guatemala to translate from the English language into the Spanish language, pursuant to Ministerial Resolution number three, dated January eight nineteen hundred eighty seven, GIVING TO SUCH TRANSLATIONS PUBLIC FAITH AND LEGAL VALUE, DO HEREBY CERTIFY: To have had at sight a document written in the Spanish language, contained in two page(s); said document corresponds to an ARREST ORDER. The contents of said document faithfully translated by me into the English language to the best of my ability and knowledge read as follows: " ATTORNEY GENERAL'S OFFICE AGENCY. Guatemala, C.A. BRIEF No. 92-91. Puerto Barrios, Izabal, September 12, 1991. Carlos Alberto Alvarez López, Attorney. - Head of Controller Section of The Attorney General's Office. Guatemala.

I Hereby annex copy of order of arrest issued by Judge First of First Instance of Sentence of this city, which is dated September 2 of the current year against the accused: ISMAEL MUNTER BILBEISIE or MUNTER BILBEISIE, accused of SMUGGLING AGAINST THE PUBLIC TREASURY PERTAINING TO CUSTOMS. Said proceeding was initialized due to a complaint presented by this institution before the Second Tribunal of First Instance of Instruction of this city, but due to inhibition of the same it was sent to the First Tribunal of First Instance and it in turn sent it to be accumulated to

the other proceedings previously initiated. With nothing more to add, sincerely, (illegible signature), Manuel Alfonso Ramirez Villeda, Attorney. Agent of the Attorney General's Office. (There appears the impression of a rubber stamp which reads): "Secretaryship of the Attorney General's Office. September 19, 1991. Time: 14 hours and 30 minutes. Registry: A-0146." (The second page reads): "Puerto Barrios, September 2, 1991. To: Chief of the National Police., To: General Director of Public Finance Guard, To: Chiefs and sub-Chiefs of the National Police and Public Finance Guard. CIRCULAR LETTER TO ALL THE REPUBLIC. No. 140-91. Secretary. RADUA ISMAEL MUNTER BILBEISIE, Aka MUNTER BILBEISIE, Aka MUNTER ISMAIL BILBEISI, from Tampa Florida, United States of America: Charge: SMUGGLING AGAINST PUBLIC TREASURY PERTAINING TO CUSTOMS AND TAX EVASION. Presented before a Court where the process is being handled; avoiding all kinds of oppression. (illegible signature), (illegible). END OF TRANSLATION. IN WITNESS THEREOF, and at the request of interested party, for the legal uses they may deem convenient, and without assuming any responsibility whatsoever for the contents of the translated document I Hereby issue this sworn legal translation contained in two page(s). IN THE CITY OF GUATEMALA, ON THE NINTH DAY OF THE MONTH OF OCTOBER HUNDRED NINETY ONE.


LIC. EFRAIN R. BERTO MILECILLOS MORALES
 LEGAL INTERPRETER
 SWORN TRANSLATOR
 Reg. 03-87

PROCURADURIA GENERAL DE LA NACION
MINISTERIO PUBLICO

GUATEMALA, C. A.

OFICIO No. 92-91.-

Puerto Barrios, Izabal, 12 de Septiembre de 1,991.-

Licenciado;
Carlos Alberto Alvarez López
Jefe de la Sección de Fiscalía del
Ministerio Público.-
Guatemala.-

Atentamente me dirijo a usted con la finalidad de adjuntarle al presente, la copia de la Captura ordenada por el Juzgado Primero de Primera Instancia de Sentencia de esta ciudad, la cual tiene fecha 2 del mes de Septiembre del corriente año, en contra del sindicado; ISMAEL MUNTER BILBEISIE O MUNTER BILBEISIE, -- por los delitos de CONTRABANDO A LA HACIENDA PUBLICA EN EL RAMO DE ADUANAS; dicho proceso se inició por querrela presentada por esta Institución ante el Juzgado Segundo de Primera Instancia de Instrucción de esta ciudad, pero por Inhibitoria del mismo se cursó al -- Juzgado de Primera Instancia y éste lo mandó acumular a los otros -- procesos ya iniciados con anterioridad.-

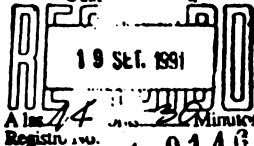
Sin otro particular, aprovecho la oportunidad para suscribirme de usted como su atento y seguro servidor.-



Licenciado; Manuel Alfonso Ramírez Willeda.-
Agente Auxiliar del Ministerio Público.-

Secretario del Ministerio Público

Gual



A las 7:40 Minutos
Registrado.

A-0146

Puerto Barrios, septiem/2 de 1937



3 SET. 1937

As Director General de la Policía Nacional,
 As Director General de la Guardia de Hacienda,
 As Jefes y sub-Jefes de la Policía Nacional y Guardia de Hacienda.
 CIRCULAR A TODA LA REPUBLICA.

Lo. 110. - El Sr. RADUA ISMAEL BERNABE DELGADO o BERNABE DELGADO o BERNABE ISMAEL DELGADO, Criolario Tampa Florida, Estados Unidos Norte Americanos; Delito: CONTRABANDO A LA HACIENDA PUBLICA EN EL PAIS DE ADUANAS Y EVASION DE IMPUESTOS, por haber sido ponencia disposicion de este Tribunal dando trancencia proceso; en la cual se le dio de vuelta. Nos. Kelen. Alvaro.

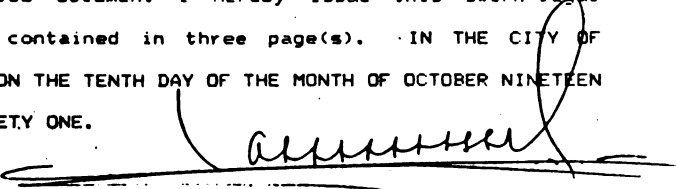
[Handwritten signature]
 DON HERNANDEZ DELGADO BERNABE DELGADO
 Jefe de la Inspeccion Deptal.



beginning, at thirteen hours and forty five minutes. Well aware of its legal effects, object, he ratifies it, signs it with the undersigned who Attest. (There appear three illegible signatures), (Stamp) "Nery Orellana Leiva, general Secretary. (There appears the impression of a rubber stamp which reads): "ATTORNEY GENERAL'S OFFICE. Controllers Section." -----

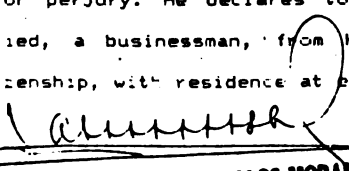
END OF TRANSLATION

IN WITNESS THEREOF, and at the request of interested party, for the legal uses they may deem convenient, and without assuming any responsibility whatsoever for the contents of the translated document I Hereby issue this sworn legal translation contained in three page(s). IN THE CITY OF GUATEMALA, ON THE TENTH DAY OF THE MONTH OF OCTOBER NINETEEN HUNDRED NINETY ONE.


Lk. EFRAIN RUEDA REYES
 LEGAL INTERPRETER
 SWORN TRANSLATOR
 Reg. 62-87

I, EFRAIN ROBERTO VALLECILLOS MORALES, SWORN LEGAL TRANSLATOR, duly authorized in the Republic of Guatemala to translate from the English language into the Spanish language, pursuant to Ministerial Resolution number three, dated January eight nineteen hundred eighty seven, GIVING TO SUCH TRANSLATIONS PUBLIC FAITH AND LEGAL VALUE, DO HEREBY CERTIFY: To have had at sight a document written in the Spanish language, contained in two page(s); said document corresponds to an AFFIDAVIT. The contents of said document faithfully translated by me into the English language to the best of my ability and knowledge read as follows:

"ATTORNEY GENERAL'S OFFICE. GUATEMALA, C.A. In the City of Guatemala on September fourth nineteen hundred ninety one, at eleven hours and twenty minutes appear before the Attorney General's Office at its headquarters, located on dieciocho calle diez guion treinta y seis de la zona uno of the City, before the Head of the Controllers Section, José Antonio López Mendoza, Attorney and General Secretary Nery Orellana Leiva, Louis Charles Altamar, with the purpose of making known to this Institution the following facts and circumstances. Being duly sworn to tell only the truth, and having offered to do so. He has been advised of the penalties for perjury. He declares to be the person named above, married, a businessman, from Haiti, of the United States citizenship, with residence at eleven fifty 1150 NW


Mr. EFRAIN ROBERTO VALLECILLOS MORALES
 LEGAL INTERPRETER
 SWORN TRANSLATOR
 Reg 02-87

Seventy second (72nd) Ave., Miami Florida. 33126. He identifies himself with his passport issued by the Agency in Miami, United States of America number Zero-four-zero-one-zero-zero-eight-zero-zero-(040100800), document that was had at sight and immediately returned to him. FIRST: He declares that for any proceeding he may be called to attest through the U.S. Assistant Attorney, Andres Rivero, before a Court of the United States for the Southern District of Florida, Dade County. SECOND: He declares that it is of his free will to declare that in the year nineteen hundred eighty five, in the month of November, Munther Ismail Bilbeisi hired him to act as a pilot and messenger, during which time he traveled through Central America following orders from Bilbeisi, with the purpose of paying coffee accounts in Honduras and Guatemala. In Honduras the payments were made to Carlos Dubón, a business man, as well as to Andara Flores who is a business man in Comayagua. The purpose of those payments was for tax evasion in general in the Republic of Honduras. As to Guatemala, in nineteen hundred eighty six he also paid high sums of money, approximately over two million dollars to the following persons: Wallace Papadopolio and Arnoldo Esquivel López who are Guatemalan nationals, he also had knowledge of a transfer for the amount of six hundred thirty eight thousand dollars that Bilbeisi and his company Coffee Inc. made on behalf of COIRSA, International

Representation Company, said amounts were for the exportation of Guatemalan coffee which was smuggled from Guatemala to the United States of America, whose purpose was to evade taxes and making it appear as being Salvadorian coffee in transit using for payment the Bank of Credit and Commerce International (BCCI) which had knowledge of the smuggling transaction that Coffee Inc. and Bilbeisi were doing. This bank offered its banking system and its banking operations, cashiers cheques, and letters of credit to carry out the illegal operations. He continues declaring that the coffee smuggled from Guatemala is the same Bilbeisi claims to Lloyds of London on a fraudulent claim. THIRD: In relation to the transaction of three helicopters Sikorsky he wishes to attest the following: That in the year nineteen hundred eighty six through him, The government of Guatemala needed military equipment, and Bilbeisi told him that he had military equipment. The Sikorsky company had informed him in the United States of America, he knew that the military equipment was in Jordan and the person attesting looked for the ex Consul Mauricio Eduardo Coronado in Miami who let him know about the military and civilian contacts in the Republic of Guatemala. He also knew that the ex Consul became in contact with General Mata Galvez, General Alejandro Gramajo, the former president of the Republic Vinicio Cerezo. That in nineteen hundred eighty seven, in



Mr. EFRAIN I.

MORALES

LEGAL INTERPRETER
 SWORN TRANSLATOR

July, General Gramajo authorized with his signature for several Guatemalan military officers travel to Jordan to check eighteen helicopters and sixteen airplanes, fourteen F five A and two F five B, d. However President Cerezo was to contract the buying of twelve F dash five A (F-5A) and four F dash five B (F-5B) aircraft, pursuant to a brief dated January twenty nineteen hundred eighty eight addressed to Mura International, whose proprietor is Bilbeisi. He indicated former President Cerezo that he wanted half of the payment in coffee and half in cash because the first offer from Bilbeisi to Cerezo was a total finance for the military equipment which he was not able to fulfill at the moment of the closing of the deal and the President did not accept those conditions. In this situation, due to the problems that arose, Milton Cerezo intervened and Bilbeisi appointed Alberto Coppo Gayoso as Vice-President International for Mura International, granted him all power to do business in Guatemala specifically the selling of the military equipment, having negotiated only three Sikorsky helicopters for the amount of five million one hundred seventy five thousand Dollars, but it shoes in the affidavit taken from Bilbeisi that the real price was approximately two million and a half. At the time Milton Cerezo was General Director of Immigration, that the Bank of Guatemala and the Major Office of the Army had to have influence in the taking of

the decision of the transaction according to Alberto Coppo Gayoso telling him that he had the sufficient force to bribe high members of the Guatemalan Army; governmental officers and officers at the Bank of Guatemala; and that in the year nineteen hundred eighty eight the contract of the transaction of three helicopters was signed between the Major Office of the Army and Alberto Coppo Gayoso, Mauricio Eduardo Coronado and himself. After signing the contract Mauricio Coronado and the person hereby declaring were fired by Bilbeisi, leaving Alberto Coppo Gayoso in charge of the negotiations with orders to carry the transactions to an end granting him power to bribe high military and civilian officers for that transaction and a following one that was to be carried out. Likewise he declares that Alberto Coppo Gayoso knows exactly whom he bribed. The person declaring says that he received a note and documents which were presented by Bilbeisi's lawyers in that proceeding filed in a Federal Court of the United States which show proof of the payments and bribes done by Bilbeisi and Coppo. FOURTH: The presence of the person declaring in Guatemala is with the purpose of clearing his name and his situation, besides telling the truth as to how everything came about. These declarations may be ratified by Bilbeisi because they comply with the truth. With nothing more to add, this affidavit comes to a close at the same place and date mentioned at the



PROCURADURIA GENERAL DE LA NACION
MINISTERIO PUBLICO
GUATEMALA, C. A.

1 En la ciudad de Guatemala el día cuatro de septiembre de mil
2 novecientos noventa y uno, siendo las once horas con veinte m
3 nutos comparecen ante las Oficinas que ocupa la Procuraduría
4 General de la Nación y Jefatura del Ministerio Público, situa
5 das en dieciocho calle, diez guión treinta y seis de la zona u
6 no de esta capital en presencia del Jefe de la Sección de Fis-
7 calía, Licenciado José Antonio López Mendoza y Secretario Ge-
8 neral Nery Orellana Leiva, el señor Louis Charles Altemar, con
9 el objeto de hacer del conocimiento de la Institución los he-
10 chos y circunstancias siguientes. A continuación se procede
11 de la siguiente manera, previamente protestado para que en el
12 curso de la presente diligencia se conduzca con solo la ver-
13 dad, así ofreció hacerlo haciendosele saber las penas corres-
14 pondientes establecidas en la ley sustantiva penal, en caso -
15 faltare a la verdad y manifiesta llamarse como quedó indicado,
de cuarenta y siete años de edad, casado, hombre de negocios,
originario de Haití, de nacionalidad de los Estados Unidos de
16 América, con residencia en once cincuenta (1150) NW setenti-
17 dos (72) Ave Miami Florida treinta y tres mil ciento veintiseis
18 (33126) Estados Unidos de América, se identifican con el pasa-
19 porte extendido por la Agencia de MIAMI Estados Unidos de Amé-
20 rica número cero-cuatro-cero-uno-cero--cero-ocho-cero-cero --
21 (040100800), documento que se tuvo a la vista y que inmediata-
22 mente le fue devuelto. PRIMERA: Manifiesta que para cualquier
23 actuación o diligencia pueda ser llamado a declarar por me-
24
25



SECRETARIO GENERAL



dio de Assistant U.S. Attorney, Andres Rivero, ante un Juez de
 la Corte United States District Court For the Southern District
 of Florida County of Dade. SEGUNDO: Continua manifestando
 que es su deseo libre y espontaneo declarar que en el año de
 mil novecientos ochenta y cinco en el mes de noviembre, el
 señor Munther Ismael Bilbeisi lo contrató para ejercer labores
 de piloto y mensajero, en cuya oportunidad viajaba a Centro -
 América por ordenes del referido Bilbeisi, con el objeto de -
 pagar las cuentas de café en la República de Honduras y Guate-
 mala. En Honduras se hacían los pagos a Carlos Dubón comer-
 ciante, así como también al señor Andara Flores, quien es co-
 merciante en Comayagua, el objeto de esos pagos era para eva-
 dir impuestos en general en la República de Honduras. En re-
 lación a la República de Guatemala, en el año de mil novecien-
 tos ochenta y seis también efectuó pagos por altas sumas de -
 dinero, aproximadamente por mas de dos millones de dolares a
 las siguientes personas: Wallace Papadopolio y Arnoldo Esqui-
 vel López quienes son ciudadanos guatemaltecos, además tuvo -
 conocimiento de una transferencia de seiscientos treinta y o-
 cho mil dolares que el señor Bilbeisi y su compañía Coffee In-
 corporated hizo a COIRSA, comercial internacional de represen-
 taciones sociedad anónima, dichos pagos fueron para exporta-
 ción de café guatemalteco ha el cual fue contrabandado de -
 Guatemala a los Estados Unidos de América, pues el objeto era
 evasión de impuestos fiscales y además dando la apariencia -



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1 de ser café salvadoreño en tránsito utilizando para los efec-
2 tos de pago al Banco de Crédito y Comercio Internacional (BCCI)
3 el cual tenía completamente conocimiento del negocio de contra
4 bando que efectuaba la compañía Coffee Incorporated y Bilbeisi
5 y el cual le facilitaba su sistema bancario y operaciones ban-
6 carias con cheque de caja transferencias bancarias y cartas de
7 créditos para efectuar las operaciones ilegales. Asi mismo
8 continua manifestando que estos cafeses contrabandeados de Gua-
9 tenala son los mismos en el cual el señor Bilbeisi reclama a
10 la compañía Lloyds of London en un reclamo fraudulento. TER-
11 CERO: Continua manifestando que en relación a una compra efec-
12 tuada en Guatemala de tres helicópteros Sykoskies desea decla-
13 rar lo siguiente: En el año de mil novecientos ochenta y seis
14 por medio de su persona o sea el declarante, que la República
15 de Guatemala necesitaba equipo militar, y el señor Bilbeisi
16 le dijo que tenía equipo militar, la compañía Sykoskies se lo
17 había informado en Estados Unidos de América, teniendo conoci-
18 miento que el equipo militar estaba en Jordania y el declaran-
19 te buscó al ex consul Mauricio Eduardo Coronado en Miami quien
20 le manifestó los contactos en militares y civiles en la Repu-
21 blica de Guatemala, tuvo conocimiento también que el ex consul
22 mencionado contactó con el General Mata Gálvez, el General A-
23 lejandro Gramajo, el ex presidente de la República Vinicio Ce-
24 rezo. Que en mil novecientos ochenta y siete, mes de julio,
25 el Comra General Gramajo autorizó con su firma para que varios



SECRETARIO GENERAL

25 oficiales militares guatemaltecos fueran a chequear a Jordani
 26 dieciocho helicópteros y dieciséis aviones, catorce F cinco A
 27 y dos F cinco B, d, sin embargo el presidente Cerezo iba con-
 28 tratar la compra de doce aviones F guión cinco A (F-5A) y cua
 29 tro aviones F guión cinco B (F-5B), conforme oficio dirigido
 30 de fecha veinte de /enero/ de mil novecientos ochenta y ocho
 31 dirigido a Mura International, cuyo dueño es Bilbeisi, éste le
 32 indicó al ex presidente Cerezo que quería el pago mitad en ca-
 33 fé y mitad en efectivo porque su primer oferta por parte del
 34 señor Bilbeisi al ex presidente Cerezo fue financiamiento to-
 35 tal para el equipo militar el cual no pudo cumplir en el momen
 36 to de cerrar el negocio y el pre ex presidente no aceptó esas
 37 condiciones. En esta situación ya intervino por los proble-
 38 mas que se habían suscitado en la negociación, los señores Mil-
 39 tón Cerezo y nombró Bilbeisi al señor Alberto Coppo Gayoso co-
 40 mo/
 41 vice presidente internacional de Mura International Sociedad
 42 Anónima, dándole todos los poderes para negociar en Guatemala
 43 la venta de equipo militar, habiéndose negociado solamente tres
 44 helicópteros Sykoskies por un total de cinco millones ciento
 45 setenta y cinco mil dólares pero que aparece en la declaración
 46 jurada del señor Bilbeisi que el precio real era de aproxima-
 47 damente de dos millones y medio. Estando el señor Vice Milton
 48 Cerezo Director General de Migración, continua manifestando
 49 el declarante que como tenía que influir en la desición de la
 50 compra, el Estado Mayor del Ejército y el Banco de Guatemala



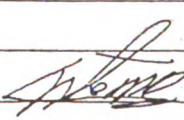
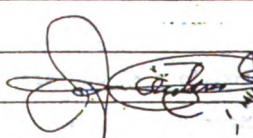

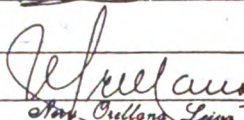

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según Alberto Coppo Gayoso indicándole éste que el tenía la fuerza suficiente para sobornarlo a altos militares de Guatemala, funcionarios de Gobierno y funcionarios del Banco de Guatemala; y en el año de mil novecientos ochenta y ocho se firmó el contrato de la compra de los tres helicópteros entre el Estado Mayor del Ejército y Alberto Coppo Gayoso, Mauricio Eduardo Coronado y el declarante. Después de haber firmado el contrato Mauricio Coronado y el declarante fueron retirados por Bilbeisi, dejando a Alberto Coppo al frente de las negociaciones con ordenes de llevar el negocio a un fin dándole poderes para sobornar a los funcionarios militares y civiles para esa compra y otra posterior que se había de llevar a cabo, así mismo manifiesta el declarante que Alberto Coppo Gayoso sabe exactamente a que personas sobornó, el declarante manifiesta que él recibió una nota y documentos los cuales fueron introducidos por los abogados de Bilbeisi en el caso que se lleva en la Corte Federal de Estados Unidos los cuales muestran las pruebas de pagos y sobornos hechos por Bilbeisi y Coppo.

CUARTO: La presencia del declarante en Guatemala es con el objeto de aclarar su nombre y su situación, además decir la verdad de como sucedieron todos los hechos, todas estas declaraciones pueden ser ratificadas por Bilbeisi por que se ajustan a la verdad. No habiendo que hacer constar más en la presente diligencia, se da por finalizada la misma en el lugar y fecha al principio indicado, cuando son las trece horas con



26 cuarenta y cinco minutos. Enterado el compareciente de los --
 27 /la ratifica/
 28 efectos legales, objeto, firma juntamente con los infrascritos
 29 que de todo lo relacionado dan fe. Testado: h,ca,e,n,n,ha,
 30 e,q,en,Genra,febrero,pre,d,vice, Omítase. Entrelineas: ene-
 31 ro,mo. Léase. Entrelineado: la ratifica, léase.
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 Don Orellano Leiva
 SECRETARIO GENERAL


Mr. WINER. Did you also bring with you today an opening statement?

Mr. VALLS. Yes, he did. It is in Spanish.

Mr. WINER. Is everything in that opening statement true and correct?

Mr. AMAYA [as translated by Mr. Valls]. Yes, it is.

Mr. WINER. I'd like to introduce that into the record at this time.

[The information referred to follows:]

Mi nombre es Fernando Ramon Marin Amaya, soy salvadoreño de nacimiento pero guatemalteco naturalizado, estoy establecido en Guatemala desde hace mas de quince años , estoy casado, tengo tres hijos y de profesion soy Abogado y Notario inscrito legalmente en el Colegio de Abogados de Guatemala. Actualmente tengo una oficina Asociada de ^Abogados y Notarios con otros 3 companeros mas con los cuales trabajamos independientemente en el ejercicio de la profesion. ^Estoy actualmente trabajando con el Procurador General de la Nacion en la investigacion de varios casos en la seccion de Fiscalia de y es por ello que me encuentro en este salon con el objeto de dar una explicacion en nombre y representacion del señor Procurador General de la Nacion con en relacion al caso del BCCI Y SU CONEXION CON GUATEMALA.

En 1986 en la Republica de Guatemala durante los meses de MARZO, ABRIL, MAYO Y JUNIO, se realizaron exportaciones ilegales de cafe por aproximadamente 15,900 sacos, los cuales fueron exportados a USA pero con apariencia de exportacion hacia terceros paises, haciendo aparecer dicho cafe como de origen salvadoreño y no guatemalteco con el proposito de evitar el pago de impuestos de exportacion y el control de divisas del mismo .

El BCCI facilito las operaciones de contrabando de cafe al haber prestado sus servicios al Señor Munther Ismael Bilbeisi y sus companias asociadas (entre ellas Coffe INC. and Mura Internacional) que nunca fueron inscritas legalmente en registro alguno en

Guatemala para operar.

Todas las operaciones ilegales de cafe fueron financiadas al señor Bilbeisi con fondos del BCCI por medio de pagos de cheques de caja así como transferencias bancarias a diversas personas, compañías, personal de aduanas y fabricantes de falsa documentación.

Todo ello sirvió con el objeto de evitar el control de inscripción en los registros nacionales de exportadores de cafe, Banco Central de Guatemala y Ministerio de Finanzas Públicas con el objeto de evitar el control de las exportaciones de cafe. Como Ustedes sabrán el control de las exportaciones de cafe es obligatorio ya que es la principal fuente de riquezas de Guatemala de ingresos de divisas en dolares de los Estados Unidos de America.

En estas exportaciones ilícitas amparadas bajo la sombra del BCCI, el Gobierno de Guatemala perdió en concepto de impuestos la suma aproximadamente de \$800000 y en concepto de ingreso de divisas la suma \$4000000 , no obteniendo ningún beneficio económico pese a que el cafe era de origen guatemalteco lo cual quedó demostrado con documentación escrita que las autoridades competentes salvadoreñas encargadas de las exportaciones de cafe han desmentido que el mismo sea de procedencia salvadoreña y en los registros aduanales no existe documentación alguna ya que la misma se falsificó completamente.

Por estas exportaciones ilegales de café el Gobierno de la Republica de Guatemala por medio del Procurador General de la Nacion ha iniciado acciones judiciales en contra de los responsables, es decir contra Munther Ismael Bilbeisi así como los complices en dichas operaciones ilegales, además en contra de su compania COFFE INC> DE LA CUAL ES EL UNICO PROPIETARIO y que utilizo en las exportaciones ilegales de café.

En estos juicios mencionados se ha llegado obtener la detencion de algunas personas principalmente guatemaltacas quienes han sido declaradas culpables por las sindicaciones penales hechas en contra de ellos y además existe una orden de arresto en contra del señor Bilbeisi por evasion de impuestos y defraudacion en el Ramo de Aduanas; además el Ministerio de Finanzas Publicas (Del Tesoro) ha concluido en una primera parte la orden legal del pago de impuestos por las exportaciones ilegales de café y existe una orden de cobro en contra de Coffe Inc.; así como actualmente se ha terminado de hacer la investigacion de un adendum del total de café exportado ilegalmente para lo cual saldra una nueva orden de cobro en contra de dicha compania.

El Gobierno de Guatemala tiene interes en recuperar los impuestos y las divisas dejadas de ingresar al país y prueba de ello es que ha hecho ya contactos con el Consul HONorario de Guatemala en Jordania para que investigue el patrimonio de Bilbeisi y se pueda llegar al cobro de lo que dicho señor debe a nuestro país. Pero

ademas esta estudiando la posibilidad de iniciar en los Estados Unidos de America un juicio en contra del BCCI por la complicidad en las transacciones ilegales ya mencionadas .

Pero el problema con el BCCI no llega hasta ahí sino que trasciende a mas; actualmente el Procurador General de la Nacion: Licenciado Acisclo Valladares Molina ha iniciado proceso criminal en contra de la entidad MURA INTERNATIONAL S.A , propiedad del señor Bilbeisi así como contra otras personas por la compraventa de 3 Helicopteros Sikorsky que dicha compañía vendió a nuestro país; dichos helicópteros son de manufactura americana y fueron comprados por intermedio de la compañía Mura Internacional a la Real Fuerza Aérea de Jordania.

La negociacion de dicho equipo de aviacion fue financiada por un banco en Estados Unidos de America, usando al BCCI como banco intermediario con el objeto de facilitar la operacion ya que así lo exigia el señor Bilbeisi y en consecuencia esconder al Gobierno de los Estados Unidos de America la transaccion, ya que este Gobierno no habia dado el visto bueno (aprobacion) a la venta .

En dicha negociacion segun lo ha explicado el Procurador General de la Nacion y con prueba que el tiene en su poder se soborno(pago comisiones indebidas) a oficiales militares y funcionarios publicos de esa epoca.

En esta fecha como precedente unico en la Historia del pais, la Procuradoria General de la Nacion por medio de su Procurador General ha iniciado juicios criminales en contra de altos jefes militares (el ex-Ministro de la Defensa Nacional y el ex- Jefe del Estado Mayor Presidencial) asi como contra el ex-Presidente de la Republica de Guatemala y su hermano, ademas de otras personas por estar involucradas en la negociacion de los ya mencionados helicopteros; pagos indebidos que se hicieron atraves del BCCI por medio de cheques de gerencia asi como por transferencias bancarias hacia OTROS bancos y hacia terceras personas por ordenes del señor Bilbeisi.No puedo dejar de explicar que este juicio y otros han causado ya en el pais mucha conmocion asi como desconcierto y que estan marcando un precedente en la administracion del actual Presidente en su lucha contra la impunidad.

Pero la relacion con el BCCI no termina ahi sino que en 1988 dicho Banco fue acreedor de Guatemala ya que el mismo le dio la suma de 30 MILLONES de dolares para pago de la balanza de pagos del Gobierno de Turno, es decir fue un prestamo puente que utilizo el Gobierno para satisfacer ciertas necesidades economicas de la epoca. Pero si bien es cierto que fue una operacion bancaria normal , dicho Banco pese a haber avalado y apadrinado operaciones ilegales de exportaciones de cafe , se beneficio con la comision bancaria que el Gobierno le tuvo que pagar cuando le dio el prestamo . Hecho inmoral porque ya habia ocasionado anteriormente un dano al Gobierno de Guatemala.

CONCLUSIONES:

1. Sabiendo de antemano el Departamento de Aduanas de los Estados Unidos de America desde el ano de 1983 de las actividades ilegales que el señor Bilbeisi realizaba personalmente así como con sus companias, en donde especificamente se habia descubierto el contrabando de cafe, NO AVISO NI PUSO EN SOBREAVISO DICHAS OPERACIONES ILEGALES Y ES MAS SOPORTO QUE EL CAFE INGRESARA A ESTE PAIS , PERJUDICANDO CON ELLO A LOS GOBIERNOS DE GUATEMALA, EL SALVADOR , HONDURAS Y PANAMA que han sufrido igual situacion y con ello dichos gobiernos perdieron pago de impuestos e ingresos de divisas del producto nacional primero de exportacion, o sea el cafe.

2. Ademas el Gobierno de los Estados Unidos de America sabia de las actividades ilicitas del señor Bilbeisi en cuanto a la venta de armas y no obstante no puso sobreaviso al Gobierno de Guatemala de la no conveniencia de la negociacion del equipo de manufactura americana ya que estaba disenado para usarse en Jordania y no en Guatemala que cuentan con una topografia totalmente distinta así como del hecho en si que dentro del equipo que se estaba vendiendo se incluía equipo de uso restringido.

3. En todas las actividades ilicitas realizadas estaba detras el BCCI y dicho banco tambien ya era investigado y sabia de antemano el Gobierno de los Estados Unidos de las actividades ilegales que el ya mencionado Banco realizaba.

4. Ahora nos preguntamos porque un pais como Guatemala que necesita de ingreso de divisas y de impuestos debe salir perjudicado de actividades ilicitas realizadas por terceras personas y no haber recibido la ayuda necesaria del Gobierno de los Estados Unidos de America poniendo sobreaviso al otro de que tipo de personas e instituciones eran las ya mencionadas..

5. No seria mejor que el Gobierno de este pais compensara de alguna manera el olvido consciente o no que realizo y el cual perjudico enormemente a Guatemala o bien tomara en cuenta esta situacion a la hora de dar como por ejemplo ayuda economica a Jordania o bien al momento de exigir el cumplimiento de acuerdos internacionales en nuestro pais.

6. Guatemala, es respetuosa de los convenios internacionales, pero al mismo tiempo ha visto como el hermano mayor de las Americas ha violado sus propias leyes y esto ha ocasionado un dano irreparable a nuestro pais ya que impuestos y divisas se han perdido por una omision de ayuda oportuna.

7. Guatemala atraviesa una situacion economica bastante dificil pero ello no es motivo para que se le pueda brindar una ayuda en cualquier momento , y si este olvido es motivo para que el Gobierno de los Estados Unidos de America pueda remediarlo, nuestro pais esta esperando una respuesta al respecto ,un acuerdo de libre comercio, una condonacion de la deuda externa o por lo menos el pago de los impuestos y divisas que se se dejaron de percibir.

Mr. WINER. Are there any other documents you want to put before this Subcommittee at this time?

Mr. VALLS. Not really, because the document he has here is incomplete, and it will be completed this week. So he could introduce this and then send you the rest of it, if you want.

Mr. WINER. I think what we'll do is we'll leave the record open, and the subcommittee will accept any additional documents that you wish to send the subcommittee on behalf of the investigating committee of the Government of Guatemala, and make them part of the final record of the subcommittee.

Mr. VALLS. OK.

Mr. WINER. We very much appreciate you coming up here. This is very helpful to us.

With that, the deposition concludes today. But before we conclude, I have been reminded by the Court Reporter that the Translator was not sworn. Since we are relying on the accuracy of his translations, it would be appropriate to swear him as well, which we are now going to do.

Do you solemnly swear that each translation you have provided to this Subcommittee today has been true and correct to the best of your abilities and knowledge?

Mr. VALLS. I do.

Mr. WINER. Thank you very much.

[Whereupon, at 12:55, the subcommittee adjourned, to reconvene at 10:04 a.m., October 22, 1991.]

NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

TUESDAY, OCTOBER 22, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:04 a.m. in room SH-216, Hart Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry, Simon, Pressler, and Brown.

Senator KERRY. The hearing of the subcommittee on Terrorism, Narcotics and International Operations will come to order.

Today we are conducting our sixth in a series of hearings on the affair. Our witness today is a 13-year veteran and one of the top officers of BCCI in the United States, Mr. Abdur Sakhia.

Mr. Sakhia is going to be followed tomorrow by Mr. Bert Lance. Let me just correct, for those of you following this. It will not commence at 9 a.m.. It will commence at 10 a.m. tomorrow. The hearing on Thursday will still remain at 9 a.m.. In the Thursday hearing, Mr. Lance will be followed by Messrs. Clifford and Altman. Then on Friday the CIA and the State Department will testify regarding their experiences with BCCI.

Mr. Sakhia resigned from BCCI in 1989. He was once head of BCCI's Miami office and he was responsible for handling the Caribbean for BCCI. He also headed BCCI's coordination committee in the United States, something we will hear about in the course of testimony, a committee that dealt specifically with BCCI's expansion efforts in this country.

In addition, he held other important jobs that he will describe for BCCI, both in New York and London. He is a highly trained banker from Pakistan, and Mr. Sakhia has personal direct knowledge of all of the major figures, or almost all of the major figures, in and around the BCCI scandal, including BCCI's former chief, Mr. Agha Hassan Abedi, the creator of BCCI, and the number two man at BCCI, Swaleh Naqvi.

He in addition, will have knowledge regarding important front men for BCCI, like Mr. Gaith Pharaon and others, as well as knowledge of the interrelationship between BCCI and First American and National Bank of Georgia.

During his years at BCCI, Mr. Sakhia not only met with many of the world's chief central bankers, but he was part of an effort to

cultivate important political figures in the United States and around the world, including numbers of heads of state.

He will testify today about BCCI's efforts to specifically cultivate favor with those individuals, as well as payoffs that were made to some of these officials. He will also testify about his knowledge, personal knowledge, of BCCI's involvement in the Iran-Contra affair.

He will also testify about their plans for growth in the United States and how he at least perceived the relationship to First American and the National Bank of Georgia.

He will testify about strategy meetings at the bank in which BCCI discussed what it would do to try to prevent disclosure of many of the things that it was doing, particular the activities which people were trying to shed light on after the indictment in Florida for drug money laundering. And he will discuss even efforts to try to prevent this subcommittee from reaching the truth with respect to those matters.

Mr. Sakhia, I welcome you to the committee, and before I swear you in I want to turn to my colleague. But I do want to make it clear for the record that Mr. Sakhia is appearing here voluntarily, without subpoena, and that he has also provided assistance to a number of law enforcement agencies, including the Manhattan district attorney and the Justice Department here in Washington, and we will discuss that at the opening of his testimony.

Before I turn to swear you in, Mr. Sakhia, let me turn to my ranking member and colleague in this effort, Senator Brown from Colorado.

Senator BROWN. Mr. Chairman, let me thank you for your efforts in this light. Mr. Sakhia provides a vital link of information, not only about BCCI's operation, but the knowledge that others must have had about that operation. I believe his testimony today is going to give this committee a deep understanding, a far better understanding, of how this operation worked and how it moved forward.

It in effect provides a critical link for us in seeing how the tentacles of BCCI spread and how their operations worked. So I look forward with you to today's testimony and the information that I believe will come forward.

Senator KERRY. Thank you very much, Senator Brown.

**TESTIMONY OF ABDUR SAKHIA, FORMER BCCI OFFICIAL;
ACCOMPANIED BY MARK P. SCHNAPP, ESQ., COUNSEL**

Senator KERRY. Mr. Sakhia, could I ask you please to stand and raise your right hand.

Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SAKHIA. I do.

Senator KERRY. Would you state your full name for the record, please.

Could you pull that microphone a little bit closer, if you could get it very close. It works a lot better when it's close.

And if you could identify your counsel who is with you here.

Mr. SCHNAPP. Senator, my name is Mark Schnapp. I'm from the Miami firm of Greenberg, Charg. If I might address the members of the committee for a few moments before Mr. Sakhia begins his testimony.

Senator KERRY. Absolutely.

Mr. SCHNAPP. Thank you.

Mr. Chairman, Senator Brown: Mr. Sakhia appears here today as a witness and a victim of a massive scandal involving BCCI. When he left the bank, and that was in 1990, he was the head of global marketing, based in London. Prior to that, he had been head of the United States region, up until August 1989.

When I say that Mr. Sakhia is a victim of the fraud, he is a man who devoted his life to the development of this bank, along with many others. He's a man who will tell you that the bank was not only a job, it was a culture, and he'll explain that to this committee. And he is a man whose career has essentially been ruined by his association with that bank, as have many others who worked for that bank over the years.

Mr. Sakhia is one of the few who has remained behind in the United States to answer the questions of this committee and the many law enforcement agencies and regulators that have questions about what happened. He has appeared before agencies within the Department of Justice, before the Manhattan district attorney's office, and now he appears before the Senate.

The result is he's been harassed by BCCI former officials. There have been threats on Mr. Sakhia. Now he's in a situation where regulators, including the New York State Banking Authority, are threatening to take away his home.

Before we move on to the next scandal of the nineties, I think it's important that people who work for a bank, particularly a Third World bank, be able to speak to committees such as this one and let the United States people know what this has done to their lives.

Mr. Sakhia, as many others who worked for the bank, will live with the stigma of this bank forever. It will make it difficult for him and many others to seek employment after this is all done.

Mr. Sakhia is here to tell you about his experience with the bank, how it's affected his life, and with the hope that this will never happen again. At this point Mr. Sakhia is here to answer any questions this committee may have.

Senator KERRY. Thank you very much, Mr. Schnapp. We appreciate that and I think it is certainly the committee's intention to try to understand the personal aspects of this as well as the regulatory and legislative and banking and other aspects of it, and I think that helps to shed a considerable amount of light on it.

Mr. Sakhia, before I proceed to address a series of questions to you and to try to draw this story out, let me first of all just ask you. You have said that you appear here voluntarily, is that correct?

Mr. SAKHIA. Yes.

Senator KERRY. And you have also appeared specifically before what law enforcement jurisdictions?

Mr. SAKHIA. I have appeared before Manhattan district attorney and three different branches of the Justice Department—Washington, Atlanta, and Tampa.

Senator KERRY. Before grand juries in all cases?

Mr. SAKHIA. No, sir. In Washington I appeared before the grand jury, but I had discussions with the attorney's office in Tampa and in Atlanta.

Senator KERRY. And in New York you appeared before the grand jury of the district attorney's office?

Mr. SAKHIA. Yes, sir. And I've had long periods of time, I spent a lot of time with the Federal Reserve Bank in New York.

Senator KERRY. And in each case have you given sworn testimony?

Mr. SAKHIA. Yes, sir, I have.

Senator KERRY. So this is approximately the fifth time that you will appear to give sworn testimony?

Mr. SAKHIA. Yes, sir.

Senator KERRY. This is the first time that you have appeared in public to give such testimony, is that accurate?

Mr. SAKHIA. Yes, sir.

Mr. SCHNAPP. Senator, perhaps I can clarify something. On those appearances where he was called to testify before a grand jury, he has given sworn statements. In the interviews with the FBI or U.S. attorney's office, I don't believe on each occasion it was under oath, but it was essentially the same matters that were covered.

Mr. SAKHIA. Yes, that's correct.

Senator KERRY. And clearly, because you are with counsel here and you have appeared before these other bodies, you do not need any explanation as to what it means to testify under the pain and penalties of perjury; is that accurate?

Mr. SAKHIA. Yes.

Senator KERRY. But I do remind you, because I want the public to understand, that you testify today recognizing that, and that anything you were to say here that might differ from any of the testimony you have given previously under oath could subject you to that penalty. And you understand that, don't you?

Mr. SAKHIA. Yes, sir, I do.

Senator KERRY. Recognizing that, let me also ask you: Do you at this time have any agreements other than immunity? Are there any agreements for protection, any agreements for monetary award, any other kinds of agreements which have induced you to testify?

Mr. SAKHIA. No, sir.

Senator KERRY. Now, if I may, I'd like to just have you talk a little bit. Do you have an opening statement you want to make?

Mr. SAKHIA. Yes, sir, I have.

Senator KERRY. Then let's just let you do that, and then we'll proceed to ask questions.

Mr. SAKHIA. Mr. Chairman, Senator Brown: It is an honor and privilege to be here before this body for someone of my humble background. Thank you for giving me this opportunity.

Before I respond and we go into questions and answers, I would like to say a few words. Sir, volumes have been said and written in different forums, before various committees, grand juries, and by

the media. I have heard masterful articulations by top politicians, brilliant attorneys, very competent officials and executives.

In this regard, I am a man of modest education and training. But what I will say will be honest, forthright, and simple. I do not have the ability to articulate in a manner that others have.

Much untruth and half-truth has been revealed in both official inquiries and in the news media. I have seen all this with great pain and anguish. I'm happy to note, sir, that for a long period you have been in search of truth and have attempted to get to the bottom of this tragedy, and therefore I consider this as a privilege to be here before you.

The reason for my pain and anguish is that no forum, no legislative body, no law enforcement body, nor any media, has paid attention to the silent victims of this conspiracy. Any discussion of this tragedy must include discussion of thousands of innocent employees, both in this country and around the world.

Mr. Chairman, I have personally cooperated, as you said before, with various law enforcement, regulatory, and legislative bodies, both in this country and elsewhere. I have also directed and guided them where I was able to. This cooperation has put me and my family in physical danger. There have been attempts to falsely implicate me in wrongdoings. Others have conspired so that myself and some colleagues lost jobs which we lost after leaving BCCI.

Sir, I come from the Third World. I grew up there, I was educated there. We learned there that if you are raped or burgled are victim of other crimes, you do not report it to the authorities. You suffer in silence, because as a victim you are raped by the law all over again.

Mr. Chairman, the regulators in New York State, after extracting cooperation for over a year, are threatening to not only take away my home, but the lawyers have attempted to threaten me and say that, if I was to bring a lawsuit, this would create—this would cause me great discomfort.

Mr. Chairman, I am not afraid of the truth and I cannot silently walk away from my home. I am afraid, sir, that the approaches may be different in the Third World and this world, but the results are the same. You either suffer in silence or face the consequences twice.

BCCI is a tragedy of immense magnitude. The victims are depositors all over the world, 14,000 staff in 73 countries. The reserves of many nations have totally or partially disappeared.

But, sir, the players were few: European directors, a handful of Middle Eastern businessmen or middlemen, a handful of executives from the subcontinent, one firm of auditors, and high-priced American lobbyists and lawyers, the principal regulator, Bank of England. All of them must be made accountable.

I have heard a lot about the role of Mr. Abedi and some of his associates. They must most certainly be brought to book.

I'm aware of some investigation on the role of so-called Washington lawyers and some Middle Eastern middlemen, but I have not heard of any criticism of the European directors, who enriched themselves for many, many years.

I am also surprised, and I should say even shocked and horrified, at the total lack of accountability of Price Waterhouse, who bear

the primary, if not the sole, responsibility. They have been completely negligent, incompetent, and possibly, possibly corrupt and an accomplice in the fraud.

BCCI's tragedy seems to be remote to this forum and to many in this country because the bulk of the victims are far away and only a few of us, like myself, are U.S. taxpayers. But sir, if a tragedy like BCCI is to be avoided in the future, then firms like Price Waterhouse should be brought to justice. So should the directors of the bank, who were beneficiaries for so long, and all the Middle Eastern middlemen. The Gokul group, the Gulf group, should also be brought to the book.

So also the role of Bank of England has been no less contributory to the tragedy. I am sympathetic with the victims in Britain, who say that the Bank of England has been more racist and has done more harm to Asians in Britain than the National Front would have ever been able to. The Bank of England for years was aware of a lot of things and they kept quiet.

I would also like to take this opportunity to thank all the State and Federal regulators who have given us the opportunity to do business in this country and who helped us and guided us in good times and in difficult times. I apologize to them for being the source of embarrassment.

I also wish to convey my apology to the government and ruler of Abu Dhabi for that my senior colleagues betrayed their trust. My only regret is that, in this regard, their representative was prevented by Mr. Naqvi and Mr. Zafariq Wal when I wanted to meet him before leaving the bank.

I once again thank you, sir, for this opportunity and assure you of honest and sincere cooperation. I request you to use your good offices to mitigate the sufferings of innocent victims, the staff of BCCI in this country and elsewhere.

Thank you, sir.

Senator KERRY. Thank you very much, Mr. Sakhia.

Senator Simon has joined us. Do you have an opening statement, Senator?

Senator SIMON. I do not. Thank you, Mr. Chairman.

Senator KERRY. Mr. Sakhia, let me try to build the record here, if we can, and introduce you to a public that doesn't really have any sense of who you are, where you come from, and how you came to be in the position you're now in. So let's go back a little bit in time, if we may.

Tell us a little bit about yourself. Where were you born?

Mr. SAKHIA. Sir, I was born in a small town in India and at the age of six I migrated to Pakistan, in 1947. I had my initial education in Pakistan, where I had a college degree.

Senator KERRY. What were you trained in?

Mr. SAKHIA. I was trained in science. I had majored in chemistry.

Senator KERRY. Where did you go to college?

Mr. SAKHIA. Initially I went, my first degree in college was from Pakistan, in Karachi. Subsequently, after a year of working in Pakistan in a bank called United Bank, I was transferred to London, when I had a further education in West London College in London.

Senator KERRY. What did you study in London?

Mr. SAKHIA. I studied business management, systems, corporate planning, everything to do with management, because I didn't have any formal management education before.

Senator KERRY. What was your job in London at that time?

Mr. SAKHIA. I was working for United Bank as an officer in London.

Senator KERRY. What year are we talking about?

Mr. SAKHIA. From 1964 to 1966.

In 1966, I went back to Pakistan with United Bank. I had a series of quick promotions. I had started as a junior trainee in 1963. By 1969 I was assistant vice president. My gross emoluments had multiplied about 12 times in 6 years.

In 1969 I left United Bank and I joined Management Association, which in cooperation with Ford Foundation of the United States was setting up management consultancy and training services in Pakistan.

Senator KERRY. Where was that based?

Mr. SAKHIA. It was based in—it was to be based in Karachi, but I had training in Turkey for several months, then in the U.K., and then I traveled to Europe where other consultancies were operating. This was all sponsored and paid for by Ford Foundation.

Senator KERRY. So the Ford Foundation paid for your consultancy education, in a sense, or your consultancy work?

Mr. SAKHIA. My consultancy education.

I returned to Pakistan in early 1971, but things had dramatically changed in Pakistan with the war between Bangladesh and Pakistan, and also the socialist government had taken over toward the end of 1971.

Senator KERRY. Mr. Sakhia, let me ask you one thing. Sometimes your sentences are trailing off a little bit, and if you could just keep speaking right into the microphone I think it would be helpful.

Mr. SAKHIA. All right, sir.

I continued with this consultancy organization, the Management Association, until November 1973, when the Government of Pakistan requisitioned my services and I was made an advisor to the government for the National Bank of Pakistan.

Senator KERRY. Is that the time when Mr. Abedi's bank was closed or nationalized by the government?

Mr. SAKHIA. Well, about two months before the nationalization I joined the government as an advisor.

Senator KERRY. As an advisor to the government?

Mr. SAKHIA. As an advisor to the Government of Pakistan, specifically for National Bank of Pakistan.

I stayed as an advisor until late 1974, when they asked me to go to Saudi Arabia to start a joint venture between the National Bank of Pakistan and the Saudi businessmen. I spent almost 2½ years in Saudi Arabia as an advisor and I founded a bank called Bank Al-Jizira.

Senator KERRY. How do you spell that?

Mr. SAKHIA. A-l-J-i-z-i-r-a. This was the first joint venture bank in Saudi Arabia.

During my stay in Saudi Arabia, Mr. Abedi contacted me several times and once I met him in London, in about September or Octo-

ber 1976. At that time I was contemplating to move from Saudi Arabia because I had small children and——

Senator KERRY. Who did you know Mr. Abedi to be at that time? Had you met him at any time previously?

Mr. SAKHIA. Yes, sir. Between 1963 and 1969 I worked for United Bank and Mr. Abedi was the president of Mr. Abedi.

Senator KERRY. So you came to know him in the course of your employment for the National Bank?

Mr. SAKHIA. For United Bank, my first job.

Senator KERRY. United Bank. And how closely did you work with Mr. Abedi at the bank, United Bank?

Mr. SAKHIA. Well, sir, I was fairly junior. He was the president and I was a trainee, but he used to invite us for meetings every couple of weeks, every month, to see how our training was going and how we were performing.

And then I had, as I mentioned, a meteoric rise in that bank and I came into the executive corridors within 5 years of my employment. So at that time he became aware of who I was and what I was doing.

Senator KERRY. And it's fair to say that Mr. Abedi thought enough of you, based on that earlier exposure, that he wanted to get you involved with his subsequent banking effort?

Mr. SAKHIA. Yes, sir.

Senator KERRY. That inquiry took place in Saudi Arabia, is that correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Then what happened?

Mr. SAKHIA. So finally I joined BCCI in January 1977. I was based in London, England, from 1977 to about spring of 1979. In spring of 1979, I moved to Canada. At that time BCCI had a finance company in Canada called BCCI, Inc——

Senator KERRY. Go ahead.

Mr. SAKHIA. Which had only one office, in Toronto. I stayed in BCCI Canada for 2 years. We filed an application to convert the finance company into a commercial bank and we grew from one office to four offices and our size multiplied about ten times in assets or eleven times in assets.

In mid-1981 I was asked to move from Canada to London, back to London, or to go to Tokyo rep office or to go to Panama, and at that point I resigned from the bank because I did not want to move from Canada.

Incidentally, I'm a citizen of Canada, although I am a resident alien in the United States.

At that time Mr. Abedi brought in a lot of pressure on me and said we were a family and in a family we cannot divorce, we cannot separate, our association is for life. He agreed to send me to work on some acquisitions and expansion of the bank and, although I was still based in Canada and my family was in Canada, but I traveled to Spain, Brazil, Jamaica, Florida, to either file new applications for the bank or acquire banks or investment banks.

Senator KERRY. We're talking about 1980?

Mr. SAKHIA. 1981, second half of 1981.

In February 1982, Mr. Abedi asked me to go to Florida provisionally to help set up both the regional office for Latin America and

Caribbean and also set up an agency in Miami. I stayed in Miami from early 1982 to early 1987. In those 5 years, BCCI became the second largest foreign bank in the State of Florida.

We had developed offices in Jamaica, Barbados, Bahamas, Trinidad, and our footing by that time was \$850 million and we were making \$17 million in profit per year.

In March 1987, I moved to New York to start what was then called United States region. All the offices in the United States, that is in New York, California, Washington, Chicago, Houston, came under my jurisdiction.

Senator KERRY. What year, now, and what month?

Mr. SAKHIA. Spring of 1987, March-April 1987.

Senator KERRY. In the spring 1987, you had oversight responsibilities for all of BCCI in the United States?

Mr. SAKHIA. Except for Florida.

Senator KERRY. Except for Florida.

Mr. SAKHIA. Florida was part of Latin American region.

Senator KERRY. Let me just ask now, prior to that—I think we'll get into this a little bit later, but prior to that in your role as the regional manager in Miami—

Mr. SAKHIA. Yes, sir.

Senator KERRY.—you had occasion from 1981 on to have a significant series of meetings in New York and elsewhere, London, regarding BCCI's operations generally in the United States, didn't you?

Mr. SAKHIA. Yes, sir, that's correct.

Senator KERRY. OK.

Mr. SAKHIA. From spring 1987 to about March 1989, I was the general manager, based in New York. In March 1989, I moved to London to continue overseeing U.S. operations until about July 1989. In August 1989, I was again promoted, as the head of marketing for BCC group, which was operating in 73 countries.

Senator KERRY. Just to put this in a context, you moved to London in 1989 and the indictment of BCCI Florida for money laundering was in October 1988?

Mr. SAKHIA. Yes, sir.

Senator KERRY. So you were still in this country for a significant period of the initial response to the indictment?

Mr. SAKHIA. Yes, sir, that's correct. I was the seniormost BCC man in the United States.

Senator KERRY. Senior man at that time.

Mr. SAKHIA. I was the seniormost at that time in the United States.

From March 1989—from August 1989 to April 1990, I was head of global marketing, which means I was controlling the marketing operation in 73 countries, an asset base of \$24 billion.

In May 1989, we tried to resign from the bank, which I'm sure we will go more into details later on, and ultimately I left the bank in July 1990.

Senator KERRY. Now, just as an overview here before we start getting into specifics of why you left and what happened, let me just ask you some questions in sort of broad overview of this. I'd ask you for a yes or no answer.

Did BCCI during the time that you were involved with it engage in money laundering?

Mr. SAKHIA. Well, BCCI was indicted, yes, but I wasn't aware until the indictment. I had a general feeling that BCCI would be a tragedy waiting to happen.

Senator KERRY. But you now know and have evidence that it did engage in that, is that correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And you had fears about that when the purchase was made of the banks in Colombia, is that correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And you made that known to leading officials within the bank, did you not?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And there was some discussion of the potential for that to take place, was there not?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And notwithstanding that, that purchase took place, didn't it?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now, with respect to payoffs, did BCCI make payoffs to public officials?

Mr. SAKHIA. Well, I have heard a lot and I have enough knowledge, but not firsthand knowledge, but we had enough gossip in the bank and there was a lot of evidence.

Senator KERRY. We're going to go into this in greater detail. There is direct evidence, is there not, of checks being made out to certain individuals?

Mr. SAKHIA. Well, when we come to the checks maybe, it may be appropriate to discuss at that time.

Mr. SCHNAPP. Senator, perhaps I can interject. Some of the information that Mr. Sakhia had at the time that these events were occurring might have been through gossip, and I think that's what he's trying to say. Some of what he had heard as gossip or rumor or even his own suspicions were later confirmed by things like the indictment of BCCI in Tampa.

Senator KERRY. I understand. We want to try to be very careful here to, obviously, separate gossip from fact and not to wind up smearing anybody as a consequence of some sort of offhand comment.

But what I do want to do is draw the picture of your concerns and of the internal discussions in the bank and of what you observed which later you saw come to be confirmed by specific documents and evidence. So while you may not have had firsthand evidence of it at a specific moment a number of years ago, you have come now to understand it as a matter of fact.

Mr. SAKHIA. Yes, sir.

Senator KERRY. That's what I'm asking you.

Mr. SAKHIA. That's correct.

Senator KERRY. And as a matter of fact, you know now from documents and firsthand evidence that there was money laundering, accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And as a matter of fact, you know that BCCI hid the ownership, did it not, of the National Bank of Georgia?

Mr. SAKHIA. Well, I don't know whether BCCI or its directors or its management hid, because within the management of the bank it was very commonly known as one and the same bank. So if it was hid, it was hid by the front men or the lawyers, because within BCC we never considered that as a different entity. It was one and the same entity to us.

Senator KERRY. Well, we'll get into that in a little greater detail.

What about, did BCCI hide evidence or falsify evidence with respect to ownership issues?

Mr. SAKHIA. Again, now, again with hindsight, it appears that they hid the ownership from the authorities. My impression at that time was that the authorities were aware of and this was an arrangement with the authorities, because we used to openly meet, we'd openly correct, we openly operated as one institution.

Senator KERRY. And that institution was?

Mr. SAKHIA. National Bank of Georgia-First American Bank.

Senator KERRY. We're going to go into that in some detail.

When you left the bank in 1990, did the bank or did anyone take any actions against you at that time?

Mr. SAKHIA. All of us who were leaving from the senior positions, each of us was threatened in a different way. I was threatened that if I went back to the United States and sued the bank or any of the officials, I would be implicated through the firm of Clifford & Warnke into drug money laundering.

Senator KERRY. Who threatened you with that? Who said that to you?

Mr. SAKHIA. This came from the office of Mr. Swaleh Naqvi.

Senator KERRY. Mr. Naqvi.

Mr. SAKHIA. He didn't tell me personally, but he conveyed it to me in a typical BCCI culture—

Senator KERRY. Explain this typical BCCI culture. I mean, how did this get conveyed to you?

Mr. SAKHIA. We used to have a meeting with our British lawyers in my apartment in London. Mr. Massir Rehman, who has testified here before, and five other general managers, we used to meet every evening with our attorneys in my apartment in London.

One day while—in an apartment building you cannot enter unless somebody lets you in from the main entrance of the building and then I have to open my door. But while we are in a meeting, one very senior man of our ranking from Mr. Naqvi's division came straight into my apartment, and I was surprised at how he entered the building and how he entered my apartment.

Later on he said: You are being foolish to take on the bank and the government of Abu Dhabi, and so on. You should be concerned that you were the topmost BCC man and it is very easy to implicate you into a drug case.

I told him that in the defense of BCCI in the drug case all my papers and my procedures were used to defend the bank, that here is what Mr. Sakhia had done, who was the seniormost BCC man in the United States, so BCC is not responsible. How can you turn around, the same thing, and say that Mr. Sakhia is responsible

when you, in your defense of the bank, you were saying that Mr. Sakhia had done everything to prevent money laundering?

So I said: Well, I'll take my chances; I will go back to the United States because, the reach of the United States, I cannot hide anywhere in the world; if I'm guilty, I will have to deal with it. So I came back to United States.

Surprisingly enough, I landed in New York in the first week of August at about 10 p.m., and at that time we were living in a very small, temporary apartment in New York City. Because our home was rented, I was living in a temporary apartment where nobody knew, because my wife had just moved 3 days before.

But BCC knew where I was and when I was coming back. Within a few hours, the very early hours of the morning, I was contacted by Manhattan district attorney. There's no way they would have known unless somebody from BCCI had tipped where I was and when I was coming.

So I contacted my attorneys and I went up-front with the Manhattan district attorney and said: Look, I would like to, I will cooperate with you in every way you can—every way I can. And I came to—got later on the immunities, et cetera.

But this continued on telephones for several days, both my family, my parents in Pakistan, ourselves, that if we cannot get you physically we'll get you implicated in a lot of wrongdoings, because you have been there the front man all along. I said I'll take my chances, but they keep on threatening like that.

Senator KERRY. Now, in 1982 you testify that you left Canada and came to the United States, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. When you came to the United States in 1982 as a regional manager, what was your understanding of BCCI's holdings in the United States?

Mr. SAKHIA. Let me correct you, sir. I came—I was not regional general manager. I came as someone to just set up things. I was not confirmed until spring of 1984 as the regional general manager.

Senator KERRY. OK.

Mr. SAKHIA. So I was provisionally here. Let me just correct it for the record.

Senator KERRY. Fair enough, I stand corrected.

When you came in 1982 to do the process of setting it up—

Mr. SAKHIA. Yes, sir.

Senator KERRY [continuing.] What did you think you were dealing with? What were the entities that you were operating as a base for BCCI?

Mr. SAKHIA. BCCI's own offices were in San Francisco and Miami as agencies. At that time BCCI owned National Bank of Georgia and it was in process of completing the acquisition of what was then Financial General, which was later—

Senator KERRY. Financial General Bankshares.

Mr. SAKHIA. Yes, sir.

Senator KERRY. And Financial General Bankshares became subsequently First American Bankshares—

Mr. SAKHIA. Yes, sir.

Senator KERRY [continuing.] Is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And Financial General Bankshares' acquisition process was being handled at that time by whom?

Mr. SAKHIA. From London it was being handled by Mr. Naqvi and Mr. Abedi, but they used to be assisted also by Mr. Shahid, Mr. Shahid Jamil, in various aspects.

When there was the side acquisition of the branches of Bankers Trust in New York, this was first being seen as an acquisition by BCCI, and from London and Miami I had done lots of work on that. But later on the Bankers Trust was acquired—the branches of Bankers Trust were acquired by First American.

Senator KERRY. What was your—you said a moment ago that BCCI when you came in here, it was your understanding that they were in the process of buying First American, then Financial General Bankshares?

Mr. SAKHIA. Yes, sir.

Senator KERRY. How do you know they were in the process of buying it? What makes you say BCCI was buying it?

Mr. SAKHIA. Because in any management discussions, in any discussions on our future in the United States, we would think of three entities—BCCI, National Bank of Georgia, First American, then Financial General—in the same breath. Who would be going where, who would work in which entity, what area of business will be handled by which entity, allocation of businesses, markets, geographical territories, all took place as if this was one entity.

Senator KERRY. Describe that in greater detail, if you will. You say these discussions took place in great frequency about who was going to go where within all of these banks?

Mr. SAKHIA. Yes, sir.

Senator KERRY. So you in BCCI would actually sit there and meet and have a discussion about who would go to National Bank of Georgia or who would go to First American, is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. When did those discussions begin of that nature?

Mr. SAKHIA. Well, I was involved in these processes from almost late 1981. As I mentioned a moment ago, there was an acquisition of Bankers Trust branches, and we had still not formulated whether they would be acquired by BCCI, whether we will incorporate a separate entity, whether they will become part of the New York bank of First American.

So all of these discussions came up from late 1981 on an ongoing basis until the last I was there in BCCI in the U.S., almost mid-1988. So all the policies of the U.S. were discussed continuously.

Senator KERRY. Would these discussions take place at international meetings as well as at local meetings?

Mr. SAKHIA. In BCCI, let me again distinguish, there used to be meetings and conferences. The conferences would be on an international scale, but the subject matters like acquisitions and so on would not be discussed in conferences. These would be discussed in the specific management meetings, and only those people who would be concerned would be asked to participate in those meetings.

Senator KERRY. Now, what I want to do, Mr. Sakhia, is try and flesh out a bit what you have just told us, which is really at the

center of much of the controversy that we face right now. I know it takes a little bit of time, but I want to draw you out in greater detail about specific steps you took and specific events that took place over the period of time, over the period 1981, 1982, when you came here, through the indictment and subsequent controversy that has emerged.

So let me turn for a moment, if I can, to Miami and to your setting up the branch and how you did that and what happened. BCCI formally opened its branch in Miami in August 1982, is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. It had begun operations, however, a few months earlier, in April?

Mr. SAKHIA. Yes, sir.

Senator KERRY. General operations.

Mr. SAKHIA. Right.

Senator KERRY. Now, did you have a specific set of instructions about trying to reach out to major political figures and other people in the effort to put the bank on the map right away, in a sense?

Mr. SAKHIA. BCCI's strategy globally had been to be very well-known, to make an impact in the marketplace, to have contacts or relationships, what we used to call relationships, with all the people who matter, whether in the business circle, whether in the academic, the political circle, in the administration, high level individuals, universities. You name it, we would develop relationships with everyone of consequence.

Senator KERRY. How would you develop the relationship? What was it you had that was of interest to all these people in these important positions?

Mr. SAKHIA. We were an international bank with a worldwide network and, since we were not carrying any specific flag, we were not a British or a German or a Swiss bank, but we were a purely international bank. So if we were in Florida, we were a Florida's bank. If we were in Jamaica, we were a Jamaica's bank, and if we were in Barbados we were a Barbados bank. And we would represent the interests of that bank globally.

So everyone was enamored by this bank and wanted to use the relationships of this bank globally. So we could sell Florida to the rest of the world. And what happened was several Florida delegations went around the world; we were the only bank who could give them introductions to various markets without being an American bank or without being a Florida's bank.

Senator KERRY. Well, why couldn't another international bank do the same thing?

Mr. SAKHIA. Well, if they went to a German or a Swiss or a British bank, for their home countries they could provide. But if a Florida delegation went to the Caribbean or to Far East or to subcontinent or Middle East, they would not have that much inroad as we had made.

Also, the early eighties were a major turning point in the world financial scenario, whereby the Latin debts, the Third World debts, et cetera, the rise of capital in the Middle East, the rich connec-

tions in the Middle East, was all in vogue, and we were a bank representing the Middle East in that sense.

So we made that as a big selling point.

Senator KERRY. Was it also the fact that you lacked one regulatory center, that the bank could offer people easy movement of money?

Mr. SAKHIA. The lack of a regulatory structure was sort of a handicap more than a marketing tool, because when we wanted to deal with many official bodies, large corporations, various agencies, they would always ask us, who is the lender of last resort? And we would say, the richest man in the world, because we were owned partially by the ruler of Abu Dhabi, and also our financial statement, which I knew only after about 8 years that they were bogus, our financial statement used to be one of the best among the World Bank ranking in terms of ratios, in terms of liquidity.

Senator KERRY. And you're saying now that 8 years later you learned that those financial statements were false?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Those financial statements are the statements you referred to that were provided over the course of years partly by Price Waterhouse, partly by another firm, and then ultimately exclusively by Price Waterhouse, is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. When did the transition take place that Price Waterhouse became the exclusive certifier as to the accounts of the bank?

Mr. SAKHIA. I think from the accounting year of 1986 or 1987, I'm not sure. But I think it was 1986, when Ernst and Young resigned from the bank.

Senator KERRY. What kind of services did the Miami bank provide for different people?

Mr. SAKHIA. We were essentially, on the institutional and corporate side, we were very big in check-clearing, wire transfers, money market, foreign exchange. We had the largest foreign exchange dealing room of any bank in Florida.

Senator KERRY. But you weren't allowed to take deposits, correct?

Mr. SAKHIA. We were allowed to take deposits from nonresidents. We were not allowed to take the deposits of the individual U.S. residents.

Senator KERRY. What were the most important relationships that you developed for the Miami office with Latin America and the Caribbean?

Mr. SAKHIA. In the Caribbean, every major country I knew the heads of state, I knew the finance ministers, I knew the governors of the central bank, I knew heads of all the major banks in the area, the heads of foreign banks, I knew the people in various official agencies, like Caribbean Development Bank, Inter-American Development Bank, in Organization of American States. Everyone of consequence in this region, I knew.

Senator KERRY. You knew them?

Mr. SAKHIA. I knew them.

Senator KERRY. And you dealt with them?

Mr. SAKHIA. Yes, sir.

Senator KERRY. For example, what kind of services did BCCI Miami provide for the Government of Jamaica?

Mr. SAKHIA. Between 1982 and by middle of 1985, BCCI became the sole banker to all the Jamaican Government agencies for its non-Jamaican currency. We were bankers to the central bank, we were bankers to all official governmental organizations in Jamaica.

Senator KERRY. How did you secure that kind of position?

Mr. SAKHIA. I mentioned a moment ago that in the early eighties all the money center banks were in a flux on Latin debt or on the Third World debt. We picked out the import-export transactions and the current account transactions and we helped them finance those transactions, in return for their maintaining all the national reserves for us.

So about a third of Jamaica's international receipts and payments, at least a third of receipts and payments, went through BCCI.

Senator KERRY. Did you meet personally with Jamaican officials in an effort to try to provide this service?

Mr. SAKHIA. Yes, sir. I met everyone of consequence from prime minister down to the middle level officials in the ministry of finance and the central bank.

Senator KERRY. Did any Jamaican official ever make special requests of you?

Mr. SAKHIA. For the Government of Jamaica, the facilities for the Government of Jamaica, for the oil imports, for the agricultural imports, et cetera, they would even call me at home.

Senator KERRY. How did BCCI come to handle the accounts of Manuel Noriega?

Mr. SAKHIA. Again, sir, I'm speaking with hindsight. I did not have firsthand knowledge. BCCI opened its office in Panama, I think 1979 or 1980, and the relationship, what I know now, had begun with the predecessor of Mr. Noriega, General Torijos, something like that, and then the relationship had begun, then the relationship had begun with General Noriega, with the office in Panama and the office in London, not in the United States.

Senator KERRY. Which central banks did you develop a relationship with?

Mr. SAKHIA. I think we had about 14 central bank accounts: Jamaica, Barbados, Bahamas, Trinidad, Surinam, Aruba, Curacao, Belize, Eastern Caribbean Central Bank, Central Bank of Morocco, also the quasicentral bank of Panama, called the National Bank of Panama. It was not a central bank, but it's a quasicentral bank.

And also we developed relations with the Central American central banks, like Guatemala, Honduras, Costa Rica, El Salvador, but those relationships all were given to National Bank of Georgia. Although we developed those relationships as BCCI, but the businesses were handled by National Bank of Georgia, and we had sort of jointly developed that product, that they will deal with this territory, we will deal with this territory.

Senator KERRY. That was coordinated between you?

Mr. SAKHIA. Yes, sir.

Senator KERRY. When did that coordination begin?

Mr. SAKHIA. This was ongoing, all the way from 1982, that we had earmarked the territory, that all the business from Caribbean

and South America will go to BCC Miami office, all the business from Central America will go to National Bank of Georgia, all the business from Far East would go to California, all the business from Europe and the Middle East would go to First American.

This was part of the——

Senator KERRY. So there was a complete coordination that grew out of your early efforts in Miami, where you were striking up these relationships with Prime Minister Seaga, for instance; is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. With Trinidad-Tobago, Venezuela, Brazil, Argentina, Peru, correct?

Mr. SAKHIA. I continued to develop relationships with the South American countries, the Hispanic countries, until about middle of 1983.

You mentioned a moment ago that I had dissented on the Colombian transaction. Sir, at that time the Miami region was split into two regions. One was Caribbean, which stretched from Texas in the south to Trinidad, and the other was South American region. And I was taken out of the South American region.

So for about the first 15 months of my presence here I dealt with Brazil, Peru.

Senator KERRY. At this time, I would like to insert in the record BCCI documents reflecting its relationships with central banks.

[The information referred to follows:]

[illegible]

Senator KERRY. What I'm getting at is, though, that notwithstanding the fact that subsequently you pulled back from your involvement in some of those countries, initially you had a relationship with each and every one of those personally, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And you personally helped coordinate the movement of funds between what was considered to be, as you have described it, the BCCI family; is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And that family, it is your understanding, contained not only the BCCI branches and agencies, but contained First American and National Bank of Georgia?

Mr. SAKHIA. That's correct.

Senator KERRY. And this is in 1981 and 1982?

Mr. SAKHIA. From 1982 onwards. The First American acquisition was completed, if I remember, late 1982, early 1983.

Senator KERRY. Now, can it be argued that the First American or National Bank of Georgia relationship was simply an adjunct bank relationship, that this is a normal thing? You had a foreign bank in the United States and here you had American-based banks, and they were simply creating a kind of coordinating bank effort in order to be helpful?

Mr. SAKHIA. No, sir. We had similar relationships with the major American banks, but which was of a different nature.

Senator KERRY. What was different about it?

Mr. SAKHIA. We had a relationship with Bank of America, Security Pacific, American Express, Bank of New York, and many, many other banks.

Senator KERRY. And the International Monetary Fund and the World Bank?

Mr. SAKHIA. Yes, but if I could stay on the commercial banks for a moment.

Senator KERRY. All right.

Mr. SAKHIA. Those relationships were a customer-banker relationship. They would market to us for business, we would discuss with them the terms, et cetera. Here we were not marketing for Bank of America or Security Pacific. If we had business to give it to them, we would go to them and say: Look, you want this business? Or they would come to us and say: Can you give us some business?

But here we are marketing to the third parties, to the central banks of Central America. I'm writing them, I'm meeting them, and say: All right, you deal with our group, but maintain an account with National Bank of Georgia. I would go to a Brazilian embassy in Washington, market to them BCCI group, and then say: Open an account in First American in Washington.

I was not doing that for Security Pacific or American Express or Bank of America or any other bank. So it was a complete management marketing the group. And many times the officers of National Bank of Georgia or First American would use BCC financial statement to market their services, that we are one and the same group, because National Bank of Georgia was a smaller bank, First American at that time was a smaller bank. So they would say: But look at this group as a whole, don't look at us only, and then we

are now international; we are present in U.S., we are present in your country or in your region, and we will provide an important service.

Senator KERRY. What you're saying is that there was a marketing strategy that involved all of these entities.

Mr. SAKHIA. Yes, sir.

Senator KERRY. And the marketing strategy was highly intertwined.

Mr. SAKHIA. Right, sir.

Senator KERRY. What does that mean with respect to the question that the Fed might ask or we might ask about actual control? I mean, it is possible, is it not, to have a relationship that might be highly intertwined, but which doesn't necessarily rise to the level of control or ownership?

Mr. SAKHIA. Well, sir, again, I'm a country boy in that respect. My education is in the marketplace, not in the law college. But our staff is common.

Senator KERRY. I want you to bring the microphone a little closer, because I'm having trouble clarifying your words.

Mr. SAKHIA. Our staff is common.

Senator KERRY. The staff of what was common?

Mr. SAKHIA. Of BCCI, First American, NBG.

The decision of hiring, decision for acquisition of space—for example, I know that the New York office of First American was identified by BCC officers and approved by Mr. Abedi. He made the decision to rent that space.

The staff went from one location to the other. I'm aware of the hiring of the chief executive for First American New York was done by Mr. Abedi.

So marketing as a group together, the staff moving back and forth between the institutions, meeting of the staffs together, hiring of people, hiring of staff, all of this took place in the same way as it was happening between BCC California and BCC Florida. Although they were two separate regions and two separate general managers, but we would coordinate the California, New York, Miami, Atlanta, Washington in one entity.

As I would market for BCC Canada, I would market for First American New York and National Bank of Georgia, Atlanta in the same way.

Mr. SCHNAPP. Excuse me, Senator. May I have one moment? [Witness confers with counsel.]

Mr. SAKHIA. As far as we were concerned inside the BCC group, this was one entity. Now, what lawyers represented to who, I'm not privy to that. How the paperwork was done, what presentations were made to regulators or law enforcement, whatever, that I am not privy to. I was in a way junior from that level.

Senator KERRY. But you're saying that in operational meetings, those meetings where you sat and made determinations about bank policy, about acquisitions, about rental of space and so forth, you are telling this committee that there was a complete integration in your view of the operations of these banks?

Mr. SAKHIA. Yes, sir.

Senator KERRY. First American, National Bank of Georgia, and BCC?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Were any individuals from those banks present at those meetings?

Mr. SAKHIA. Well, Mr. Afridi and Mr. Elley from First American and Mr. Jamil from National Bank of Georgia—

Senator KERRY. Tariq Jamil?

Mr. SAKHIA. Tariq Jamil used to be present, depending on what we were discussing. To give you, sir, one example, every year during the World Bank-IMF meeting I used to invite the officials from the Caribbean governments and central banks to a luncheon, host a luncheon for them, to thank us for the business. And people from National Bank of Georgia would be there also, also from First American would be there.

Likewise, I used to sponsor a meeting with the central banks of the Central American countries, and all the arrangements, et cetera, would be done by us, and it would be hosted by the National Bank of Georgia, and I would be present there to set this up.

One such meeting took place in Savannah, GA, which was addressed by Mr. Abedi. Now, if Mr. Abedi was not involved in the management why would he meet the clients of National Bank of Georgia and sell them this group? And this took place in Savannah, Georgia, I think in 1983, just to give you one example of this, that Mr. Abedi's inviting the clients of National Bank of Georgia for a meeting to spend a day with him in Georgia. And then in the evening we had a dinner at a home outside Savannah.

But this is one example of the integrated approach to outside world and relationship and in marketing and for business of one group altogether.

Now, what the lawyers did and how it was presented to the regulators is not my privy.

Senator KERRY. You have at one point described to my staff the notion that Mr. Pharaon was merely a front; is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. That he was simply a nominee, but not the real owner; is that correct?

Mr. SAKHIA. That's my understanding.

Senator KERRY. And it's your understanding that there was a series of loans made which in effect made BCCI the owner ab initio, from the beginning; is that correct?

Mr. SAKHIA. Well, this fact I know after I left BCC, that there were loans, and I've seen the documents subsequently.

Senator KERRY. You were not aware of those when you were there?

Mr. SAKHIA. I was not aware at that time.

Senator KERRY. To the best of your knowledge—I'm going to ask one last question at this round here and then turn to my colleagues and then come back, because there's a considerable amount of territory to cover. But you mentioned the payoff issue and I want to get back to that.

It's my understanding that you have said that non-United States officials who received payoffs from BCCI included: the family of Indira Gandhi, President Ashad of Bangladesh, General Zia of Pakistan, most of the leaders in Africa, in Zambia, Zimbabwe, Kenya, Nigeria. Is that accurate?

Mr. SAKHIA. Well, the payoff either in the form of cash or hiring of their relatives, contribution to their favorite charities, payment for their medical bills. It took various shapes. So in some cases cash may have been given, in some cases their relatives were hired, in other cases their charities were funded, their projects were financed at favorable rates, loans at favorable rates.

So it took different shapes and forms. But in the end, yes, to buy influence.

Senator KERRY. That was the purpose of it?

Mr. SAKHIA. That was the purpose of it.

Senator KERRY. And you understood that to be the purpose of it?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And you personally, I believe, have knowledge of a payoff in Zimbabwe, is that accurate?

Mr. SAKHIA. Well, I was told—I drove one of my colleagues in London to a hotel, and he went with a briefcase and he came back without a briefcase, and I asked him: What happened to your briefcase? And he smiled at me and he said: This was for those people. I said: What, did you carry gold bars? He said: No, some cash.

So this was prior to independence of Zimbabwe, when they were negotiating for independence. Some officials, some politicians from Zimbabwe were staying at a hotel in London.

Senator KERRY. What about a payoff to the Nigerian central bank?

Mr. SAKHIA. During a meeting of the World Bank in Seoul, Korea—I think it was in 1985—I saw one of the BCC officers with a lot of cash, handing out to the staff of the central bank of Nigeria. This is what I saw personally being given to them.

Senator KERRY. Well, let's sort of, let's try to sum this up, Mr. Sakhia. You were with the bank for 13 years. You knew the way it was operating. You had firsthand knowledge of this. Was this a regular course of doing business, the way you understood it? Was it common knowledge that you guys could grease the skids wherever you wanted to?

Mr. SAKHIA. Senator, you have to understand this, that when you're in an operation, when you're dealing with a large territory—in my territory, we used to have 5,000 transactions a day. If you're working 80, 90 hours a week, these little isolated instances flash by and you don't take notice of it. It's a very little piece in a very big jigsaw.

Now, for years we are putting together and it's emerging as a pattern. But in a 90-hour week, traveling 150 to 180 days a year, overseeing such a large territory, participating in so many meetings, you are not aware of these little things that are happening. But when you sit back now for 14 months and see a lot of documents and things emerge, yes, it is emerging as a pattern of corruption, buying influence, buying relationships.

It is appearing to me now, but at that time, an individual instance you pass by and you ignore it.

Mr. SCHNAPP. Excuse me, Senator. [Witness confers with counsel.]

Mr. SAKHIA. But to answer very briefly, yes, there was a pattern to buy relationships and buy influence. The short answer is yes.

Senator KERRY. Just very quickly, on the Noriega account. Noriega's account was run out of the Miami branch, was it not?

Mr. SAKHIA. No, sir. Noriega's accounts were maintained either in Panama or in London and possibly, possibly in Luxembourg and Switzerland. But the main administration was done out of London.

Senator KERRY. But there was a passthrough? Mr. Awan, Amjad Awan, was dealing with it, was he not?

Mr. SAKHIA. Yes, Mr. Awan was the relationship officer, what is now in the media known as personal banker. He was the relationship officer and he continued even after he moved out of Panama to Washington, and then from Washington to Miami.

Senator KERRY. Did you know that he had this personal relationship with General Noriega?

Mr. SAKHIA. I knew the relationship and the contact, yes. Mr. Awan would brag about it.

Senator KERRY. And there were records of Noriega's accounts in the United States, were there not?

Mr. SAKHIA. I believe there were some files in Miami, because the regional office—the Panama office was controlled by Miami at one time, and then subsequent to the Senate subpoenas some of the files were sent from Miami to London.

Senator KERRY. I'm going hold off. I've got some other clarifying questions.

Let me turn to Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Mr. Sakhia, you testified that there was a pattern of influence and corruption. You've given examples outside of the United States. Was there this pattern inside the United States? Were similar activities pursued inside the United States and Canada?

Mr. SAKHIA. Well, in Canada in my period we were very small and we were in the beginning stage, and there was no such incident. In the United States, I am not aware of any corruption directly. And again, as Mr. Chairman had said we shouldn't go into the gossip, there was a lot of gossip. But mainly, to answer your question, no, we did not pay to any official or any politician or any regulator. No such payment or influence was bought.

Senator BROWN. Were there loans at preferable rates granted to people with political influence?

Mr. SAKHIA. I'm aware of one loan that was given to Mr. Young, Andrew Young of Atlanta. It was given out of Panama in mid-1980's, 1985, 1986, probably 1985, which after the indictment of BCCI was restructured as an advance fees for the services as a consultant. But the loan was actually made I think in 1985 or 1986. That is one loan I'm aware of.

Senator BROWN. What about loans such as the ones to Mr. Clifford and Mr. Altman? Are you aware of the arrangements involving those loans?

Mr. SAKHIA. Well, I have now become aware, but I wasn't aware at that time.

Senator BROWN. What about donations to charities?

Mr. SAKHIA. I'm aware of donations to two of Mr. Carter's projects. One was his library in Atlanta, or in Georgia, wherever it is; and to the Global 2000, by Mr. Abedi. These were two contributions I was aware of in terms of charitable contributions.

Otherwise, we from operating offices, we contributed to the Cancer Society and the Heart Foundation and others, which were pure charity charities.

Senator BROWN. Do you know the size of those contributions that you had mentioned to the presidential library and the other?

Mr. SAKHIA. The Presidential library, \$500,000, \$500,000 U.S. dollars, was donated to the library.

Senator BROWN. This would have been after the President, President Carter, was out of office?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Was there any suggestion that this somehow resulted in political influence, since he was out of office?

Mr. SAKHIA. Well, again, you have to understand the culture of the bank and the global picture of the bank. Mr. Carter travels with Mr. Abedi to so many parts of the world. He goes to Pakistan, he goes to Kenya, he goes to Zimbabwe, he goes to many other places, with Mr. Abedi, on Mr. Abedi's plane.

What the Kenyans and Pakistanis see is very different: that he is the former most important man in the world, he is a friend of Mr. Abedi. He visits BCC offices in those countries. The media in those countries see that.

So, although it does not give him any foothold in this country per se, but around the world it's a different picture.

Senator BROWN. What about loans to political campaigns or people in public office? Was there ever a discussion of making loans to those entities or currying favor?

Mr. SAKHIA. Again, no loans were made from BCC books. I later on became aware of loans to—from Washington, from First American Washington, to some campaigns, and one that comes to my mind was Mr. Hart's loan by First American.

Senator BROWN. Were there other loans that you know of?

Mr. SAKHIA. Again, I won't go into the gossip. The facts, I do not know the facts.

Senator BROWN. You mentioned a joint marketing effort. How did you coordinate this joint market effort? You've talked about meetings that occurred occasionally. Were there other means of communicating?

Mr. SAKHIA. We used to be, again, in regular touch with each other.

Senator BROWN. When you say "regular touch," phone, telex?

Mr. SAKHIA. Phone and correspondence and telexes, and the Senator's office has a lot of documents in that regard.

There used to be, from I think some time in 1984 to end of 1985, there was a U.S. coordinating committee, in which all the heads from different locations were members. I was the coordinator of that committee.

Senator BROWN. Excuse me, if you would. The U.S. coordinating committee?

Mr. SAKHIA. What was called by BCCI as a U.S. coordinating committee. I was the coordinator of that. And in every meeting we would ask somebody to chair the meeting.

Senator BROWN. Who all sat in on that meeting?

Mr. SAKHIA. From BCCI, Mr. Soubole from California, Mr. Shafique Rehman from New York, from Canada Mr. Allahdad, Mr. S.M.

Shafi from the Latin America region, and myself from Caribbean region. Those were the five principal BCC people.

Tariq Jamil from National Bank of Georgia, Mr. Afridi and Mr. Elly from First American Bank New York.

We used to meet almost once a month and discuss the marketing strategy, the coordination strategy, et cetera, regarding marketing and profit and growth.

Also, I used to have direct relationship with the First American in Washington and New York, because for a moment BCC's most successful operation in western hemisphere was Miami. We had not done so well in Canada, we had not done so well in California, we had done disastrously in New York. Latin America was still an upcoming operation. So everyone was to look to me, that: You give us a lead; you have the contacts, you have the success story.

And we were very well known in Florida. So even when we did not market, people came to us and our customers brought in other customers. And some of the business we could not handle because we were agency, so everyone will ask me to give them the business.

Even Mr. Altman used to tell me, and to Mr. Abedi: Why we are not getting enough business?

Senator BROWN. You said Mr. Altman. Now, I understood Mr. Altman and Mr. Clifford were unaware that BCCI owned the bank. But are you telling us Mr. Altman talked to you?

Mr. SAKHIA. About marketing, yes.

Senator BROWN. About marketing.

Mr. SAKHIA. But for me it is very hard to believe, very, very hard to believe, almost impossible to believe—I may be naive—that Clifford and Altman did not know.

Senator BROWN. Now, why do you say that?

Mr. SAKHIA. Well, besides marketing, we in late 1985 decided, BCC, Mr. Abedi decided, two very major decisions. One was to incorporate or buy a bank in Florida for BCC directly; and two, to merge the National Bank of Georgia with First American.

Now, again in various hearings and various testimonies I have heard about the purchase, but to my simple mind this was not a purchase; it was a merger. And to give you a layman's example: My father has asked me to buy one company, he has asked my brother to buy another company. Now my father tells me that: Son, you buy all of your brother's company—or you merge with brother's company. And I tell him: Dad, we can't merge it; we have to, because of the legal situation, we have to buy each other, and I don't have the money.

So he says: I'm going to give you the money. Fine, give me the money. He says: Well, I won't give it to you; I will keep it with me in your account. So fine. Now I assume that there's the money for me. I give him instructions to pay to my brother. My brother pays him back.

So money has never left my dad's hands. It is still in his pocket. All that has happened is some paperwork has taken place, but in the end we end up merging. Now, you call it buying, you call it integration, you call it merger. It's one and the same thing.

Senator BROWN. Well, in accomplishing this merger were Clifford and Warnke your attorneys involved? Did they participate?

Mr. SAKHIA. I believe so. The legal work was, again, coordinated with London, but I believe it was done by—I could be wrong, but I believe it was done by Clifford and Warnke.

Senator BROWN. As I understand it, you had mentioned earlier that you spoke—

Senator KERRY. Let me just insert for the record that the legal work on that particular transaction was done by White and Case in New York.

Mr. SAKHIA. It could be.

Senator KERRY. They were brought in for the transaction specifically.

Senator BROWN. Thank you.

As I understand it, you were advised by attorneys that if you spoke out that you might face charges of some sort; is that correct?

Mr. SAKHIA. Well, the threats have been that there's been so many wrongdoings by BCCI, that they would make sure that I get implicated in some wrongdoings.

Senator BROWN. Did they indicate the nature of the wrongdoings?

Mr. SAKHIA. Nobody has indicated, but I think the Senator, Mr. Chairman's office, is aware of one possible leak to the press, which we had agreed we would not discuss. But there's a possibility always exists that in some form some documents will come up.

Senator BROWN. Who was it who communicated this threat to you or this potential to you?

Mr. SAKHIA. Well, again it comes through so many hands. It doesn't come directly. Mr. Naqvi would not dare pick up a phone and tell me, or his assistant. But they'll communicate one to another to another. Sometimes some friend of my wife will tell me. Sometimes some relative of ours in Pakistan will tell somebody. Sometimes somebody will tell my brother in Spain.

So it takes different forms. It doesn't come directly.

Senator BROWN. Do you have any feel for where these came from?

Mr. SAKHIA. Well, they all originated from either Mr. Zafariq Val's office or Mr. Swaleh Naqvi's office.

Senator BROWN. Were there any attorneys involved in this process?

Mr. SAKHIA. Let me ask my counsel. [Witness confers with counsel.]

Sir, I'm aware of one report prepared by attorneys with the sources inside the bank. The information was given from inside BCCI, which is a very suspicious, which is a very dubious report, which tries to implicate me into wrongdoing, and it was done by attorneys, bank attorneys, and the information was provided by the bank to them, which tries to implicate me in one wrongdoing.

I'm aware of one. Some ex-BCCI staff have been questioned about other matters and have been asked to say if they knew of my wrongdoings and what they can tell them, and those staff have come back and told me that, look, they are being asked all sorts of questions by bank attorneys even after they had left the bank. So there has been a second attempt beside the first attempt.

Senator BROWN. Can you tell us who those attorneys were?

Mr. SAKHIA. I'm advised not to name these attorneys.

Mr. SCHNAPP. Senator, perhaps I am clarify what Mr. Sakhia is saying. The example we're referring to is an example of—this is just one example—of a report that was prepared. We're not stating that the particular attorneys themselves engaged in any wrongful conduct. What we're saying is that these attorneys gathered information into this voluminous report without documenting their sources. Their sources appear to be—well, are clearly people inside the bank.

And to the extent that the attorneys have gathered this document, prepared it and submitted it, as well as, we believe, somebody along the chain leaked it to the press, that's what the concern is. To the extent that the attorneys actually gathered the information and typed the document, we're not suggesting the attorneys did anything other than collect information.

But there are certainly people within the bank whose motives were suspect and were trying to shift the blame downward.

I believe Mr. Sakhia used as an earlier example a situation where at one point BCCI, in defending itself against the money laundering charges, used examples of policies he tried to implement to exercise greater control in the Miami region to defend against the money laundering case, and then at a later point in time other attorneys said to him: Well look, if you testify against the bank we're going to involve you in that case.

So his response was simply: Well, how can you use the same documents to defend yourself against money laundering charges and yet say I'm involved in money laundering?

So those threats have been communicated directly to him.

Senator BROWN. Just so I understand, you indicated that attorneys communicated to him that he may be charged with regard to this?

Mr. SCHNAPP. Senator, there are several examples. One example is the report I'm talking about, which suggests that Mr. Sakhia exercised some control over some transactions that took place in Miami. But the attorneys who gathered this information are reporting it from sources in the bank, so we know that this report exists. We've seen a copy of this report. It's filled with inaccuracies. But I'm not suggesting that the attorneys themselves were involved in that.

There was another example where I personally was present, where attorneys were suggesting that, if Mr. Sakhia takes any action with respect to the efforts of the New York State Banking Commission to foreclose on his house, that he might be concerned about things that they would bring out publicly. And our response simply was: We'll take whatever legal action we have to, and we're not afraid to face any public allegation against Mr. Sakhia. And that's why we're here today.

Senator BROWN. Can you tell us who those attorneys were that conveyed that message?

Mr. SCHNAPP. In which? In the meeting? I'd prefer not to at this point.

Senator BROWN. OK. One last thing with regard to First American. Did you ever have direct contact with the chairman of the board or the president of the bank in a way that would indicate, in

a context that would indicate, they knew of BCCI's ownership interest?

Mr. SAKHIA. You mean the chairman of First American?

Senator BROWN. Uh-hmm..

Mr. SAKHIA. I had little contact with the chairman, Mr. Clifford, but I had contact with Mr. Altman, fairly frequent contact with Mr. Altman. No, we did not discuss the ownership issue. But one incident again that comes to my mind: There was a meeting between Mr. Naqvi, Mr. Shahid Jamil, myself, and Mr. Altman over a dinner in Luxembourg, where we were trying to acquire one bank in Florida.

And this had gone on for about 5 or 6 months. Initially we were going to acquire the bank for BCCI directly. But in 1985 BCCI had made a big loss in exchange, in option trading, and Mr. Naqvi was advised, again I don't know by whom, but I presume by Clifford and Warnke, that it would not be appropriate to approach the regulators in the United States with the financial statement of BCCI on December 1985.

So we decided that the bank would be bought for a BCCI client as if it were—or a nominee. And between February 1986 and May 1986, the three nominees were changed. First we said Dr. Pharaon will be buying, then we said—I was communicated that, no, Kemal Adnan would be buying.

And in this meeting in Luxembourg in May 1986, Mr. Naqvi told Mr. Altman and myself that the bank would be bought by Sheik Fulaij, and he would send his net worth statement and power of attorney to Mr. Altman. Mr. Naqvi also said that he would give a file of the model agreement between Dr. Pharaon and BCCI in case of Independence Bank.

Now, my memory is a bit confused at this stage whether Mr. Altman went to London following Luxembourg and collected the file or Mr. Naqvi gave me the file. But one of us collected the file of that model agreement with the Independence Bank and BCCI, and both of us had seen that file, how the acquisition of Independence Bank was done, what were the loan agreements, what were the powers of attorneys, what were the management agreements, the whole works.

And we were going to do the same thing in Florida vis-a-vis acquisition of that bank we were looking at in Florida. So from that model, I was fully aware that we were using a nominee, front man, client, whatever we would call it, and this was what we had done in California. And this part I know had been communicated to Mr. Altman.

So as regard these two banks Mr. Altman was aware.

Senator KERRY. Would the Senator yield for a minute.

You said Mr. Naqvi made the decision about who would buy the bank? Is that what you said?

Mr. SAKHIA. Buy the Florida bank?

Senator KERRY. Correct.

Mr. SAKHIA. Yes. Mr. Naqvi communicated it to us.

Senator KERRY. Mr. Naqvi communicated it to you?

Mr. SAKHIA. Yes, sir.

Senator KERRY. But they were essentially telling you who was going to buy the bank?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Not some independent person coming to you and saying, we want to buy the bank?

Mr. SAKHIA. No. I have never met Sheik Fulaij in my life. I was buying a bank for him, but I had never met him. Until today I have never met him.

Senator KERRY. Well, is it possible that he was acting in the advisory capacity that's been described to previous committees, that this was merely they were an agent on behalf of separate advisors and they were acting on behalf of separate investors?

Mr. SAKHIA. In the case of this Florida bank that we were buying—

Senator KERRY. People buy things sometimes without people meeting them, correct?

Mr. SAKHIA. Senator, in respect of this Florida bank, BCC wanted to buy the bank and the reason BCC was not buying the bank was because BCC's financial statement was not good enough to go to the regulators.

So we said, well, for a year or two this bank would be owned by somebody else, and then we are in a position to have an improved balance sheet; we would go and merge it for ourselves.

Senator KERRY. So this was a specific strategy by which that bank would be bought—

Mr. SAKHIA. Yes.

Senator KERRY [continuing.] Secretly, through a nominee holder?

Mr. SAKHIA. Right, sir.

Senator KERRY. With the intention that the bank, because the nominee holder was somebody that they controlled—

Mr. SAKHIA. Yes, sir.

Senator KERRY [continuing.] Or financed completely, they knew ultimately they would be able to take over that entity?

Mr. SAKHIA. Right, sir.

Senator KERRY. Is that the same thing that happened to National Bank of Georgia?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Is that the same thing that happened to First American?

Mr. SAKHIA. I believe so. This is my own view.

Senator KERRY. That's your view?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Is there evidence that supports that view?

Mr. SAKHIA. Again, we discussed earlier that within BCC group this was one and the same bank.

Senator KERRY. Well, let me just ask a few questions about that. Well, I'll come back to that. I want to come back to that.

Senator PRESSLER. Following up on that, something very basic: Would it be unusual for Mr. Altman to be talking to you if he didn't know that the bank was owned by BCCI? How did you come to be talking to Mr. Altman?

Mr. SAKHIA. I don't understand the question.

Senator PRESSLER [presiding.] How did you come to be talking to Mr. Altman if he wasn't aware that his bank was owned ultimately by BCCI?

Mr. SAKHIA. Mr. Altman had many roles. He was the general counsel to BCC, he was representing BCC interests in First American, and he was also an advisor, more than legal advisor, an advisor and a consultant to Mr. Abedi and Mr. Naqvi.

So even if we were looking to buy a bank in Florida, Mr. Abedi would call Mr. Altman for his views, and then Mr. Abedi or Mr. Naqvi, and in the earlier days Mr. Shoaib, would convey back to me what their conversation with Mr. Altman has been.

In terms of the acquisition of the bank in Florida, between November 1985 and about the middle of 1986 we worked together on an ongoing basis. Mr. Altman came to Florida several times, I came to New York several times. So we had a relationship with Mr. Altman going back all the way to almost 1982, 1983, 1983 probably, in terms of marketing for First American, in terms of BCC strategy in America, which State we should base our home State in.

I remember discussing with Mr. Altman which would be the most convenient place for BCC, and we had short-listed four States: California, New York, Texas, and Florida. I was of course, being based in Florida, I was very much rooting for Florida. And I remember telling Mr. Altman: Mr. Altman, New York is yesterday of America, California and Texas are today of America, but Florida is tomorrow of America; so we must base BCC in Florida. We have been very successful. We have been the most recognized bank in Florida.

But they also wanted, First American also wanted, to expand into Florida.

So at no time they had ever envisaged buying a bank or expanding into Georgia. At no time in my discussion they had considered Georgia as one place for expansion of First American.

Senator PRESSLER. When Mr. Altman talked to you about marketing, what did he say?

Mr. SAKHIA. We had several meetings in Washington to coordinate some of the products. For example, we were not in business of making home mortgages in Florida. We were a foreign bank agency. But First American in Mr. Altman used to do home mortgages and they had the ability to sell these mortgages upstream.

So we worked out a joint product, that we will sell home mortgages to our clients in Florida, sell it back to First American, who would then do the onward marketing of those, onward placement of those.

We discussed also marketing for embassy accounts, because BCCI had the contact with the foreign governments and the decision to open an account does not rest with the embassy in the host country; the decision is made by the foreign office or ministry of finance in the home countries. So BCC would make the contact in the home countries, like Sri Lanka, Pakistan, whatever, and correct the services of First American Washington to open the account with First American, get those embassies to open the account with First American in Washington. So we had a strategy for that as well.

Senator PRESSLER. I see. What I'm trying to get at here is a feel for whether, in your judgment, Mr. Altman was so involved in

giving advice on such thing as marketing and investment that he knew of the ownership.

Is it possible that he didn't? I mean, could he possibly have not?

Mr. SAKHIA. It's very, very hard to believe it. It's very hard to. For me it's impossible to believe that he did not know.

Senator PRESSLER. Now, the check to General Zia for 40 million Pakistani rupees—do you think that was a payoff or was that for some legitimate purpose?

Mr. SAKHIA. Sir, this check is only a partial document, and from what I see in this exhibit it does not seem to be a payoff, because it has been deposited in the central bank of Pakistan.

Senator PRESSLER. So it was payment for something legitimate?

Mr. SAKHIA. Yes, sir.

Senator PRESSLER. I'm trying to understand the international corporate culture of this type of banking. I understand that BCCI officials even provided noncash services to some foreign officials in the nature of prostitutes in some instances.

For whom did BCCI provide prostitutes?

Mr. SAKHIA. Well, again this is a common gossip. The facts are not known because nobody will show an exhibit of that. But it's common gossip that a lot of Middle Eastern people were introduced to call girls, et cetera.

Senator PRESSLER. Now, in 1984 did you learn of reports that BCCI was involved in drug money laundering? I believe you testified that you did, through Senator Paula Hawkins. However, can you describe how you learned of BCCI's involvement and what you did about it?

Mr. SAKHIA. Sir, in some time in early 1988—early 1984, I got a call from Mr. Abedi on Saturday morning, very early Saturday morning, at my apartment in Miami, and Mr. Abedi asked me if I knew Senator Paula Hawkins. And I said I had met her at some fund-raising or some social event and I was introduced to her; I don't know her intimately.

He said: Can you take an appointment and go and see her? I said: What about? He said: First you take an appointment and I'll tell you later on.

So I made phone call. The Senator was out of the country. She was coming back a few days later. But I insisted that I cannot seek an appointment with a U.S. Senator—it's not like going to a Third World country to meet—even a head of state you can meet at short notice, but a U.S. Senator takes a long time, and I had to state a purpose. That's why I'm overwhelmed in your presence.

So he, Mr. Abedi, told me—

Senator KERRY [presiding.] You're the only one in the country who is.

Mr. SAKHIA. Pardon me?

Senator KERRY. That's all right.

Mr. SAKHIA. He told me that Senator Paula Hawkins, along with some other Senators or officials, had visited Pakistan and met General Zia, and she had told to General Zia that, besides the smuggling of drugs from Pakistan, et cetera, et cetera, there was also money laundering being done by a Pakistani bank out of Grand Cayman.

General Zia had investigated through the central bank and the ministry that there was no Pakistani bank in Grand Cayman. So they communicated back, the government communicated back with Senator Paula Hawkins, and said: Your information is incorrect; we don't even have a bank in Grand Cayman.

So Senator Paula Hawkins' office communicated, I don't know through what channels, that the bank they were talking about is BCCI in Grand Cayman. So then General Zia blew his top and said: Look, you are spoiling our relationship with the U.S., we have a very close relationship with the United States, et cetera, and our aid is in jeopardy. Why are you doing this?

So that's why Mr. Abedi wanted me to meet the Senator and talk with her.

I came to probably this very building, met Senator Paula Hawkins very briefly, and I said: Senator, we are not involved to my knowledge, but we have thousands of employees, it's a big business. Maybe somebody has been corrupted. If you give us the information, we will fully cooperate with you. We'll get rid of the staff. We have hundreds of thousands of clients, and if we are aware of any clients we will stop doing business with them.

But news like this, first of all it is damaging us in Pakistan, and second, if it leaks to the press, it'll be very detrimental.

So you cannot make a unilateral charge like this. We are here, ready, willing, and able to fully cooperate with you.

The Senator looked at her watch and said: Look, I have a meeting with President Reagan, so I have to leave. But you stay in Washington, give your hotel reference, and we'll meet later.

I think I stayed another day or two and then we had a meeting again in this very building, in which four people were present. The Senator was not present herself, but four people were present, which if I recall those were a gentleman from her office, somebody from State Department, somebody from Justice Department, and Drug Administration.

I did not know who was who. I was told. I don't even remember the names of anyone. But I was told that to their knowledge BCCI was not under investigation. I said: Then you have, without telling us what we have done wrong, you have already convicted us in the eyes of General Zia.

So they said: We will take care of it. Subsequently I learned, I don't remember from U.S. sources or Pakistan sources, that the State Department had communicated with the Pakistan Government that BCCI was not subject of investigation.

Senator PRESSLER. The State Department told Zia that BCCI was not under investigation?

Mr. SAKHIA. Yes. This was I was informed later on. I don't remember from Mr. Abedi's source or from the Senator's office, but somehow I came to know that a communication had been sent, an official communication from the U.S. Government.

Senator PRESSLER. This was all in 1984, is that right?

Mr. SAKHIA. Yes, sir, mid-1984.

But I became then very alert and very conscious, and with the Drug Administration officials in Florida, with the Florida State Banking, we became very close in terms of fighting the drug money. I was a member of the committee of the Florida Interna-

tional Bankers Association and all the foreign bankers in Miami, we said we would make an attempt.

We had various seminars by the Federal Reserve people conducted in our office and in many other foreign bank offices and so on. So I was very active in antidrug campaign.

Senator PRESSLER. Then the Justice Department, the DEA, did followup with you?

Mr. SAKHIA. Not Justice Department, but the local people in Miami.

Senator PRESSLER. As a result of the meetings with Senator Hawkins?

Mr. SAKHIA. Well, more also as a result of the Florida International Bankers Association becoming very active in fighting money laundering. So we had constant communication as a group of international banks in Florida.

Senator PRESSLER. Now, in 1983 I understand that BCCI had purchased a bank in Colombia?

Mr. SAKHIA. Yes, sir.

Senator PRESSLER. And began to aggressively market itself. What was your reaction to that acquisition?

Mr. SAKHIA. Well, in December, around Christmas 1982, we had a meeting in Panama, and Mr. Akbar Bilgrami, who was indicted and convicted, and Mr. Amjad Awan, brought in a proposal of this bank in Colombia. We wanted to expand in Colombia in terms of a branch in Bogota which would do international business, but according to them the only way we could get an entry into Colombia would be to buy this bank.

I had vehemently opposed the acquisition, one, because the bank was doing very poorly. It had branches, about 26 branches or more than 20 branches all across Colombia. It had a big staff, big client base. I said: What are we going to do with all of this? We do not know what people they are, what type of clients they are, what are they doing in Cartagena, Cali, Medellin? How are we going to control this?

I had been to Colombia twice before this meeting to our office. We used to have a representative office in Bogota. And every time they would take me from the airport escorted by an armed guard to my hotel. And hotel and BCC office were more or less across the street, and still an armed guard would take you from the hotel to the office.

I said: How are we going to manage offices in remote parts of Colombia when you cannot walk in Bogota unescorted? I said: We don't know what type of clients they are, what type of business they have, what type of money they have; we shouldn't go into this acquisition.

Later on I learned that we would now divide the operation into Caribbean and U.S. on one side and Latin America on the other side. So Colombia, Panama, Peru were taken out of my jurisdiction.

Senator PRESSLER. Thank you, Mr. Chairman.

Senator KERRY. Thank you.

Let me just followup on a couple things on the drugs. In 1984, when you learned of reports that BCCI was involved in money laundering from Senator Hawkins, did you ever find out from her where she learned that?

Mr. SAKHIA. I did try, but just——

Senator KERRY. Nobody told you?

Mr. SAKHIA. Nobody. They had an blank curtain. As I told you, the Senator ceased the meeting immediately and subsequently I didn't meet her, I met her staff.

Senator KERRY. The record should show that there is evidence in memoranda that the CIA at that time had written a significant summary of BCCI's money laundering activities, and I believe had sent it to the FBI, as well as to other Departments and agencies of the Government. Notwithstanding that, you say that BCCI was told that it was not a target of investigation, is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now, that raises a series of interesting questions about CIA involvement at that period of time. Did the head of BCCI, Mr. Abedi, ever suggest to you that he was under surveillance by the Government of the United States?

Mr. SAKHIA. He didn't tell me personally——

Senator KERRY. He did tell you?

Mr. SAKHIA. No, but we heard in the bank that he was being on a watch list of the intelligence agencies in the United States. Whether that meant CIA or FBI, I am not aware of.

Senator KERRY. I had understood that in 1984 Mr. Abedi had told you that he was on the watch list.

Mr. SAKHIA. Well, again I don't recall whether he or Mr. Naqvi or Mr. Shoaib or someone had said about his ambivalence to travel to United States and to expand in the United States.

Senator KERRY. The point is he had expressed overtly a concern about the U.S. Government's view of him; is that accurate?

Mr. SAKHIA. Yes, something like this.

Senator KERRY. Well, I don't want to be something like this. I want to be whatever it was.

Mr. SAKHIA. He had a lot of ambivalence about expansion, travel to, doing business in the United States.

Senator KERRY. Why did he have that ambivalence?

Mr. SAKHIA. There was an impression in the bank that he was either on a watch list or he was not liked by the United States.

Senator KERRY. Did some months later, early in 1985 or after 1985, did that attitude change significantly?

Mr. SAKHIA. Well, from mid-1985 his attitude changed completely. He was then freely coming. He decided about the expansion into California, Florida, merger of Independence—I mean, merger of First American and NBG et cetera.

Senator KERRY. Do you have any knowledge of why his attitude changed so significantly?

Mr. SAKHIA. No, sir, I do not. My own impression is that some deal had been struck somewhere.

Senator KERRY. That was your impression?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Did anybody put that idea in your head?

Mr. SAKHIA. No. Again, in that culture you understood a lot of things, whether you were told or you were not told, but you understood a lot of things.

Senator KERRY. Well, what made you understand that? I mean, that's a hell of a thing just to pull out of the sky and say he struck a deal or something.

Mr. SAKHIA. Well, I know of similar situations, with hindsight. For example, BCCI officers were indicted and jailed in other countries, like Sudan, Kenya, India, and in each case there was a terror in the bank that, you know, this has happened, that has happened. And somehow then some deal would be struck. People would be freed, BCCI would start doing business all over again.

Senator KERRY. What were they jailed for in these various countries?

Mr. SAKHIA. On different charges. I think in Sudan—in all of these cases, if I remember correctly, it was the exchange, foreign exchange violations.

Senator KERRY. Foreign exchange violations?

Mr. SAKHIA. Yes, sir.

Senator KERRY. In fact, the bank had a reputation for foreign exchange violations at that time, didn't it?

Mr. SAKHIA. Well, to be honest, all foreign banks try to work around the controls. BCCI did it more blatantly.

Senator KERRY. So you came to believe that something made his attitude change significantly about dealing with the United States?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now, did he come to the United States more frequently after that change in attitude?

Mr. SAKHIA. Yes, sir. From mid-1985 onwards, he became a very regular visitor to the United States.

Senator KERRY. A very regular visitor.

Mr. SAKHIA. Right.

Senator KERRY. Now, did you ever learn that BCCI was providing services to the Afghani mujahedin?

Mr. SAKHIA. Again, I had heard from BCC in Pakistan that we had some accounts of aid to mujahedin coming from various sources with BCCI offices.

Senator KERRY. Did you come to learn of BCCI's involvement in the Iran-Contra affair?

Mr. SAKHIA. Yes, sir. When I took over the U.S. region we had a case pending in California where one of our officers was involved in dealing with an arms dealer. In fact, we had an account of an arms dealer.

Senator KERRY. Is that Mr. Arif Durani?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Who is Arif Durani?

Mr. SAKHIA. Well, I have never met him. He is a Pakistani gentleman who had an account relationship in BCCI Los Angeles.

Senator KERRY. And he was trying to ship weapons to Iran, is that accurate?

Mr. SAKHIA. Well, he was alleged to and then subsequently jailed for dealing in arms to Iran.

Senator KERRY. Something made you believe that he somehow was part of the Iran-Contra affair, is that accurate?

Mr. SAKHIA. This had come up in my discussion with the attorneys who were handling BCCI's side in San Francisco.

Senator KERRY. Which attorneys?

Mr. SAKHIA. Again, sir, I'll have to look up the name. I don't know it. BCCI's San Francisco attorneys.

Senator KERRY. OK.

Mr. SAKHIA. Or Los Angeles. Probably San Francisco attorneys. Senator KERRY. Tell us what happened? What took place?

Mr. SAKHIA. Well, what had happened was that when Areef Durani was arrested he phoned from prison or detention this officer of BCCI in BCCI's office to stop payments on cashier's check which he had made for acquisition of equipment.

Senator KERRY. Acquisitions of equipment?

Mr. SAKHIA. Yes. We didn't know what equipment. They were supposedly electronics.

And that officer stopped the payment of the checks, which is irregular because they were BCCI cashier's checks. They were not client checks. Which was irregular.

Then not only did he stop the payment, but he transferred the funds back to Durani, used that money for Durani's bail, all without authorization from the general manager in San Francisco. And he was I think subpoenaed to go to Massachusetts or somewhere in the Northeast.

Then the bank had found out—or the general manager in San Francisco had found out that this was happening. So he transferred this man out of Los Angeles office, made him sit in San Francisco and communicate with the bank's attorneys.

However, to both our horror, to Mr. Soubole's horror and my horror, London had overruled Mr. Soubole's decision to remove this officer from Los Angeles as an active officer. When I took over, Mr. Soubole briefed me about this. So as soon as I got to Los Angeles from San Francisco, I suspended him all over again and said—

Senator KERRY. This is hard to follow. I want you to try to keep it as tight and as clear as you did the story about the two brothers and the father. That we could understand. So I need you to try to keep this focused.

Mr. SAKHIA. Although this officer was under a lot of suspicion and was being investigated by the authorities in the United States, the then-general manager of California had removed the officer from active duty in Los Angeles branch and put him in the regional office in San Francisco. Somehow from London he got instruction to send that officer back to Los Angeles and reinstate him in his duties, which neither Mr. Soubole, who was the then-general manager, nor myself understood why BCCI would take such a disastrous step, to put in an officer who is under cloud of an investigation by U.S. authorities.

So immediately I took over I again suspended him and transferred him back, made him available to London to put him anywhere else in the world he would be assigned to.

Subsequent to that incident, a few months later I was contacted by someone from FBI to say that they wanted some records from our office in Monte Carlo, and they had a lot of material originating from the U.S. and from the Swiss end, but the missing link was the Monaco branch, the Monte Carlo branch, of BCCI.

Senator KERRY. When did you receive this call?

Mr. SAKHIA. This would be again mid-1987 or second half of 1987. And they said—

Senator KERRY. And they had records of Switzerland, you say?

Mr. SAKHIA. They had information from the Swiss bank. They had information from the U.S. Government, activities this side. But the missing link was records of BCCI in Monte Carlo.

Senator KERRY. This is the FBI is saying this?

Mr. SAKHIA. The FBI is saying this.

Senator KERRY. The FBI says: We need records from Monte Carlo.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Did they tell you with respect to what?

Mr. SAKHIA. Yes. They told me that they were investigating this Iran-Contra and a loan had been made by some person, they did not know who, to Mr. Khashoggi. This loan had been arranged by the manager of BCCI in Monte Carlo. This manager had been paid \$100,000 by, presumably by the U.S. Government officials, and he had deposited that check in Switzerland in his own account.

Senator KERRY. Did the FBI show you any documents at this time?

Mr. SAKHIA. They showed me the check of payment, \$100,000, to this officer. So they wanted to know who——

Senator KERRY. Payment by Adnan Khashoggi?

Mr. SAKHIA. Yes, sir.

Senator KERRY. To a BCCI officer?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Of \$100,000?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And they showed you that document?

Mr. SAKHIA. They showed me the check.

Senator KERRY. OK.

Mr. SAKHIA. Which had been deposited in a Swiss bank.

So I contacted the general manager of BCCI in France and my boss in London, Mr. Ameer Siddiki, and I said: I have been approached by FBI and I think we should cooperate informally, notwithstanding the French secrecy laws, whatever, because once it gets out into the open we would have a lot of notoriety.

So they agreed to cooperate and they sent me the required information, which I passed on to FBI.

Senator KERRY. When you say "they agreed," you agreed to help them, correct?

Mr. SAKHIA. Well, I agreed to FBI——

Senator KERRY. Was there a quid pro quo for the agreement?

Mr. SAKHIA. That they will not have this information leak to the press.

Senator KERRY. So they would keep you out of the press if you cooperated with them?

Mr. SAKHIA. Yes, sir.

Senator KERRY. So then you were working with them to find what, to find the name of an individual?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And the name of the individual—the individual they were looking for was engaged in what? Who was this person?

Mr. SAKHIA. This person had given loans to Mr. Khashoggi privately, and presumably that was the person, a Shiite from Lebanon, who had been in touch with the officials in the U.S.

Senator KERRY. What's the significance of that, can you tell us?

Mr. SAKHIA. Well, the significance of this is when I found that this officer, whom we knew had accepted a bribe, still continued in BCCI for a long period of time, an officer in Los Angeles who had been under clouds and under investigation continued to work in the bank and in the same position, with the full knowledge of the executives in London, my knowledge is that this was all being orchestrated from London and London was aware of what was happening.

Senator KERRY. So you concluded that there was a reason that London wanted this person who had received a bribe of \$100,000 to stay in the bank?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And simultaneously the FBI was inquiring about Iran-Contra and the link of how that money may have come to have been paid, is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Did you talk to somebody at that time about BCCI's involvement with Khashoggi and Iran-Contra?

Mr. SAKHIA. Within the bank or outside?

Senator KERRY. Either?

Mr. SAKHIA. Within the bank I did discuss, and that's why I removed the officer from Los Angeles and I recommended the firing of the officer in Monte Carlo.

Senator KERRY. Well, didn't you have a conversation with Mr. Ameer Siddiki in which you questioned why this person was being moved—why he was staying?

Mr. SAKHIA. Why he was staying, and I would not have him in my region.

Senator KERRY. What did Mr. Siddiki say to you?

Mr. SAKHIA. Well, in case of the officer in Los Angeles I had a veto power, so I said I would not keep him in my region. I could not fire him because he was an expatriate officer, but I would not keep him in my region.

Senator KERRY. Didn't he express some kind of feeling of anger about the United States sort of calling the shot on this?

Mr. SAKHIA. Well, not in this case. In another case, after BCCI was indicted in 1988, in December 1988 or January, February 1989, I went to London and I insisted that BCCI implement the internal controls and compliance, not only in the United States but also in Panama, Colombia, and other locations.

And Mr. Ameer Siddiki said: Does United States control the whole world?

Senator KERRY. I'm going to put into the record now some documents relating to this transaction. The first of these is dated March 27, 1986, and it consists of a \$10 million deposit by BCCI in the name of a company which is under formation in the Cayman Islands, at the request of Adnan Khashoggi.

[The information referred to follows:]

DISK 2 PAGE 354
MESSAGE # 533
RCV LN 1

SEN 000739

264862 BCC LAR
RCA MAR 27 1215

27TH MARCH 1986

CYM/SHA/0914

C.C. MR. S.M. SHAFI
GENERAL MANAGER
LATIN AMERICA REGION
BCCI MIAMI

MR. AKHTAR ANIS
EXECUTIVE IN CHARGE INTERNATIONAL DIVISION
BCCI LONDON

SUBJECT: EURO BANK CORPORATION, GEORGE TOWN, GRAND CAYMAN

REFERENCE YOUR TELEX LDN/4709/030 OF DATE, WE ADVISE YOU AS
UNDER:-

EURO BANK IS A LOCAL SMALL BANK OPERATING ONLY OFFSHORE BUSINESS AND
THEY DO PLACE FUNDS WITH US BETWEEN DLRS 1,000,000/- - DLRS 3,000,000.00
TIME TO TIME.

WE WERE APPROACHED BY ONE OF THE DIRECTORS OF THE SAID BANK WITH
THE PROPOSAL THAT THE BANK WILL DEPOSIT USDLRS 10,000,000.00 WITH US
IN THE NAME OF A COMPANY WHICH IS UNDER FORMATION IN THE CAYMAN
ISLANDS AT THE REQUEST OF MR. ADNAN KHASHOGGI, AND THAT COMPANY
WOULD LIKE TO HAVE CREDIT LINE AGAINST THESE DEPOSITS WHICH WILL
BE UNDER LIEN TO US TO WHICH WE HAVE NOT MADE ANY COMMITMENT.

THE ABOVE MATTER WAS DISCUSSED WITH US ONCE IN THE FIRST WEEK OF
MARCH AND AFTER THAT NO FURTHER COMMUNICATION HAS BEEN MADE BY THEM.

IN CASE THE ABOVE BANK REVERT TO US AGAIN, WE SHALL REFER THE MATTER
TO YOU FOR YOUR PERUSAL AND GUIDANCE WITHOUT ANY COMMITMENT TO THEM.

BEST REGARDS,

S.M. AKBAR
BCCI GRAND CAYMAN
264862 BCC LAR+1
DURATION 242 SECS LISTED 0233 77701-06-00

PAGE 360 IS NEXT

C 0002385

SEN 000738

DISK 2 PAGE 365
MESSAGE # 535
RCV LN 1

264862 BCC LAR
RCA MAR 27 1223
264880 BCCMI UR
MSG A742

THIS IS BCCI MIAMI TLX ROOM, WE ARE RELAYING THIS MSG
TO THE ATTN: OF MR. S.M. SHAFI, WE QUOTE MSG BELOW

QUOTE

892251 BCC LNA S
ZCZC BTX712 0055 0052 IPP591
MIAMI/TO: BCCI MIAMI U.S.A.
.002 TLX REF LDN 4709/03G 27.03.86

TO BCCI GRAND CAYMAN

ATTN MR S M SHAFI

EURO BANK CORPORATION, GEORGETOWN, GRAND CAYMAN

WE UNDERSTAND THAT THE ABOVE BANK HAS RECENTLY HELD DISCUSSIONS
WITH OUR GRAND CAYMAN BRANCH FOR ISSUING A LETTER OF GUARANTEE
FOR USD 10 MILLION IN FAVOUR OF BCC MONTE CARLO FOR MR ADNAN
KHASHOGGI. KINDLY LET US KNOW WHAT PROMPTED THESE DISCUSSIONS?

IN VIEW OF THEIR SMALL SIZE AND BECAUSE WE DO NOT KNOW THEM WE
WOULD NOT BE INTERESTED IN ACCEPTING THEIR GUARANTEE.

PLEASE BE GUIDED ACCORDINGLY.

REGARDS

AKHTAR ANIS
INTERNATIONAL DIVISION

CC: MR S M SHAFI
BCCI MIAMI

BANCROFT LONDON

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Senator KERRY. Are you familiar with the \$10 million transaction I'm referring to?

Mr. SAKHIA. I wasn't aware of it, but I have seen now the documents.

Senator KERRY. You've seen the document.

Mr. SAKHIA. Yes.

Senator KERRY. What does that—what is your understanding of the meaning of this transaction, do you know?

Mr. SAKHIA. Well, in isolation you cannot say one thing or another. If you put it all pieces together, it looks that BCCI was handling this \$10 million transaction.

Senator KERRY. Excuse me?

Mr. SAKHIA. In isolation this document does not evidence except a normal bank-customer relationship.

Senator KERRY. I understand that. But in light of what you've come to understand about this?

Mr. SAKHIA. In the context of this, BCCI was aware what was happening.

Senator KERRY. With Khashoggi?

Mr. SAKHIA. With Khashoggi.

Senator KERRY. And there was a \$10 million transaction?

Mr. SAKHIA. Yes, sir.

It's again very unusual to put through this transaction for a company which does not even exist at this time, because one of the principles of banking is you're to know your customer, who it is. In this case the customer doesn't even exist. The company had not yet been formed. So that is very unusual.

Senator KERRY. And the second through the fourth of the documents that I'm going to put in are from BCCI Miami, referring to transactions involving BCCI Monte Carlo on behalf of Adnan Khashoggi.

[The information referred to follows:]

LAKE WARE
 MESSAGE # 775
 DT 11 035618Z : : LICE:RT : TELE: GA 7842469183.015- : : 469183 :
 BY:

ACA
 VR ID ?
 264862 ECC LAR
 PLS SELECT SERVICE TRY

ACA TELEX GA 7842469183.015-
 MAY 15 1984 839904
 ECC: 469183-0
 GA TEXT ?
 :

TO: MONTE CARLO

THE MONTE CARLO
 501 MONTE CARLO

TO: MONTE CARLO ACC. NO. 1083799

WE ARE IN RECEIPT OF CHECK OF US\$100,000.00 PAYABLE TO EASTERN
 AIRLINES. WOULD APPRECIATE IF YOU WOULD KINDLY BLOCK \$100,000.00.
 WE ARE SENDING YOU CHECK BY DHL AND YOU ARE KINDLY REQUESTED TO
 DEPOSIT THE PROCEEDS BY TELEGRAPHIC TRANSFER TO SECURITY 040,000
 INTERNATIONAL NEW YORK FOR ACCOUNT OF ECC MIAMI FOR ACCOUNT OF
 EASTERN AIRLINES. VALUE 19 MAY 1985.

RGDS.

AKBAR BILGRAMI
 ECC-LAR
 MIAMI

ECC: 469183-0.....
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 THANK YOU FOR USING ACA

DELIVERED MSG
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(NO 5535 TS/GE DTD 5-3-86
 BCCI NEW-YORK
 BCCI MONTE-CARLO

INWARD
 TELEX MESSAGE

MAR 5 1986

DEPT. OF COMMERCE INTL
 NEW YORK

ST NO ~~0000~~ FOR USD 30.000.- DTD 5-3-86

DUE 7-2-86 PLS PAY USD 30.000.- TO CITIBANK
 8 - 5TH AVENUE NEW-YORK CITY 10019 FOR CREDIT
 AMORP A/C NO 04605128599 B/C ADNAN KHASHOGGI.
 REF : DTT/MC/NY/058/86 (.)

DS

DI MONTE-CARLO
 25808A BCCINY MT.

DI 469183MC
 PLY VIA ITT

TEST AGAIN

BY DISC.

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INTED AT 0830 EDT 03/05/86

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BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A.
NEW YORK AGENCY 220 PARK AVENUE NEW YORK NY 10022

OUR REF. PYT.

DATE

PAYING BANK

ORDERING BANK

The Bank of New York
110 Washington Street
New York, N.Y. 10015
At: Paying And Receiving Dept.

Dear Sir,

To the debit of our account No 91-2158 with you, please effect
the following payment today in CHIPS/FEDERAL FUNDS

Amount in figures \$ 30,000.00

Amount in words US Dollars Thirty thousand only

Pay To: Citibank, 640 5th Ave, New York, N.Y.

For account of 04605128599 of AKOAP.

Ther Ref. s/o: Adnan Khashoggi

Very truly yours,

Authorized Signature

PHONE (212) 719 2600
Incorporated in Luxembourg

Authorized Signature

TELEX 428808 BCCI NY MT CABLES BANCRCOM
A Subsidiary of BCCI Holdings (Luxembourg) S.A.

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CONFIDENTIAL

ACT-48

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1 NO 5535 TS/GE DTD 5-3-86
 BCCI NEW-YORK
 BCCI MONTE-CARLO

ST NO ~~XXXX~~ FOR USD 30.000.- DTD 5-3-86

DUE 7-3-86 PLS PAY USD 30.000.- TO CITIBANK
 A - 5TH AVENUE NEW-YORK CITY 10019 FOR CREDIT
 AKORP A/C NO 04605128599 B/C ADNAN KHASHOGGI.
 REF : OTT/MC/NY/058/86 (.)

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INWARD
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MAR 5 1986

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 NEW YORK

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2 Another question. You're referring to the Joint
3 venture in Beirut in the subsequent agreement. The man is
4 the last man you have indicated as the Joint venture--
5 Mr. Chakrabarti has a different name. Do you know what that
6 name is?

7 A. Mr. Wall, he referred to some valid. I thought
8 he used the word correct, the name correct.

9 Q. Okay.

10 A. For the Trivert case, actually what happened at the
11 Bay where "r" is, he put a bar and he put an "r" in it and
12 that was going to be the Joint venture. The point he made
13 was that Trivert International Marketing had the agreement to
14 because of this financing, that Trivert could have it. It
15 so Trivert took the place of Trivert International Marketing.

16 Is my understanding of this correct?

17 Q. That is, Trivert and "r" is that the description?

18 A. Yes, that's how they came up with the name.

19 Q. Now, the bar with the "r" is it--

20 A. Yes.

21 Q. Did he say anything to indicate who that person or
22 entity was?

23 A. No, it was the company--and I'm not sure whether it
24 was an owner of several accounts--that's just--the reason
25 was going to come from "r".

26 Q. Okay. Now, did he ever mention the involvement of

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1 the Israeli government or Israeli citizens?

2 A. Not in my presence. I have an idea what he said to
3 Mr. Miller regarding the "r" in my presence.

4 Q. And ~~Trivert International Marketing~~ the only individual that he
5 specifically named as being involved in the transaction?

6 A. Yes, sir, he referred to his association for a
7 short time. He said, "These are my associates," and then he
8 crossed BCCI down, he said some more but I can't recall what
9 it was.

10 Q. Now, at these meetings in the Cyprus Islands or at
11 any other time, did he indicate the identities of any other
12 individuals involved in the same transaction?

13 A. Not to me.

14 Q. Did he ever indicate the involvement of United
15 States government officials?

16 A. Not that I recall.

17 Q. Did he ever make mention of involvement of a
18 Mr. Harbuzian or Harbuzian or Harbuz?

19 A. Not in my presence that I can recall.

20 Q. No, as far as you know, there was no one
21 transaction to it, but you did say that the owner of the
22 was involved other than ~~Trivert International Marketing~~ for

23 A. That is correct, but it was not just a transaction.
24 There were to be a series of transactions and Mr. Harbuzian
25 told me that he hoped in the future there would be

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Senator KERRY. And these appear to us on the committee, given their date, to be transactions relating to the Iran-Contra affair, which the FBI discussed with you.

I'd also like to enter into the record supporting these second through fourth documents two pages of an unclassified deposition from the Iran-Contra hearings of Emanuel A. Floor on June 8, 1987, regarding Adnan Khashoggi's assistance to the U.S. Government in the Iranian arms deal, and I'd just quickly read into the record a couple of excerpts from this document.

According to Floor's testimony under oath: "Khashoggi said that the money, the \$10 million, would go into a joint venture. In other words, \$10 million in Credit Suisse goes into this venture, the venture buys the arms, the arms are shipped to Iran. Iran pays for the arms, except when the money came back through it's \$11 million and there was to be a profit. Part of the profit was to go to Triad International Marketing"—which is mentioned in the original document here—"and part of the profit was to go to others, including something he described as BCCI."

So we have part of the profit of Iran-Contra, according to this and testimony in the Iran-Contra hearings, going to BCCI.

To continue, Mr. Floor was then questioned by the Iran-Contra counsel, who asked him: "Was Manuchar Ghorbanifar the only individual that Adnan Khashoggi specifically named as being involved in this transaction?"

Answer: "Yes, sir. He referred to his associates two or three times. He said: 'These are my associates, and when we wrote BCC down he said some name, but I can't recall what it was.'"

So it's obvious, it seems to us from these documents and from your testimony as well as this earlier testimony, that BCCI indeed was party to financial transactions involving the Iran-Contra scheme.

And the question is why the United States chose BCCI for this super-secret covert action at a time when the CIA already knew that BCCI was a criminal enterprise and had notified people, after Senator Hawkins had raised the issue publicly, and it's clear that the CIA had previously made its own determination as to that criminal undertaking and it also knew—and BCCI, it is obvious, knew because of the way it set this up that the CIA or someone was engaged in a secret arms deal to Iran, as it was handling the financing therefor.

So the only people who didn't know about either BCCI's secrets or the CIA's and NSC's secrets were the U.S. Congress and the American people and the people who didn't do anything about it when they had the knowledge.

Now, this is obviously a beginning, but the CIA is due to testify here on Friday and I'd be interested to hear, we will be interested to hear, what their response is with respect to these transactions.

Is that an accurate picture of what was going on, Mr. Sakhia?

Mr. SAKHIA. Well, as you describe it, yes, when you put all the things in one, all the pieces in one puzzle.

Senator KERRY. Well, you had questions at the time. I mean, you couldn't understand why someone with a \$100,000 payoff was staying, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. You thought they ought to be out?

Mr. SAKHIA. Yes, sir.

Senator KERRY. London wanted them to stay.

Mr. SAKHIA. London—they stayed through until the time I left. That officer was still in the bank.

Senator KERRY. And you specifically reached an agreement to co-operate in helping to provide these links, providing BCCI was kept out of the public, is that correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. So BCCI was kept out of the public by a U.S. Government agency.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Which could have revealed at that time that somebody had taken a bribe.

Mr. SAKHIA. Yes, sir.

Senator KERRY. So somebody had an interest in keeping that out of the news.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now let me come back to the Noriega accounts for a minute, because I'm concerned. You knew that Amjad Awan in Florida had a relationship with Noriega in the early eighties, correct?

Mr. SAKHIA. Sir, let me back up a little. Amjad Awan was the manager of BCCI in Panama until about 1984. He then moved to Washington. He continued to be the relationship officer for Noriega account.

In 1987 he moved to Florida after I had moved to New York. So Amjad Awan never worked with me directly.

Senator KERRY. I understand that. But there were records in U.S. banks of transactions in the BCCI family.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Which was transacting Noriega's account. There were records of his financial transactions, were there not?

Mr. SAKHIA. Well, because the transactions were not booked or the relationship was not with any of the U.S. offices of BCC or BCC group, but Amjad Awan maintained the files of that relationship, whether that relationship was in London or in Panama.

Senator KERRY. Where were the files kept?

Mr. SAKHIA. Well, at two locations: where the relationship existed, like in London; and with Amjad Awan. When he was in Amjad Awan, he had it in Washington. When he went back to Miami, he took that with him to Miami.

Senator KERRY. And at some time were those files shipped out of the United States?

Mr. SAKHIA. I believe so.

Senator KERRY. When were they shipped out?

Mr. SAKHIA. After the Noriega case came to the Senate and when the Senate subpoenaed Mr. Awan and Mr. Shafi.

Senator KERRY. So this committee issued a subpoena, correct?

Mr. SAKHIA. Now I understand, yes.

Senator KERRY. And those records, it is your understanding, were shipped out subsequent to the Senate committee's subpoena.

Mr. SAKHIA. That is my understanding.

Senator KERRY. How do you come to understand that?

Mr. SAKHIA. Well, in mid-1988, I think it was July 1988, I was visiting San Francisco. Mr. Rizvi called me in my hotel on a weekend and he said: Mr. Amjad Awan has resigned from BCCI and he is not communicating with anyone, he is sort of gone, and we would like to explain to him that we are his family, he should not leave.

And I said: What happened. And he said: There was some subpoena from the U.S. Government and we have been advised that he should be transferred out of United States. We were transferring him to Paris, but Amjad Awan——

Senator KERRY. Let me just slow this down a little. Amjad Awan was advised that he should be transferred?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Was this subsequent to the U.S. Senate committee having subpoenaed him?

Mr. SAKHIA. Yes, sir.

Senator KERRY. So he was under subpoena to the committee?

Mr. SAKHIA. I do not know whether the subpoena had been served on him. I think, again with hindsight, there had been some mistake, that somebody else was served the subpoena meant for Amjad Awan, so it had not been handed to him. But he was going to be subpoenaed by the U.S. Senate. I think something of that had happened.

Senator KERRY. And who advised him to clear out of the United States?

Mr. SAKHIA. Well, according to Amjad Awan and Mr. Rizvi, they had an advice from the BCC counsel, which was Mr. Altman, that they had a meeting in London and that Amjad Awan should be transferred out of United States and Mr. S.M. Shafi should not go back to United States.

Now, from middle of 1988 all the way to middle of 1990 Mr. Shafi never returned to United States. I don't know if he did afterwards, but he did not. And Amjad Awan came here.

Senator KERRY. Now, what I would like to do is I'm going to come back to that this afternoon and to the whole series of events that took place subsequent to the indictment and some of the relationships thereafter.

But I'd like to go back, if I may, now and fill in some of the gaps with respect to the relationship you were talking about earlier. BCCI developed an external marketing plan, is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And the external marketing plan was an effort to take surplus staff in any one territory and have them market for the rest of BCCI's services, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Essentially, you were marketing three products.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Deposits of nonresidents of Pakistan, India, and Bangladesh.

Mr. SAKHIA. Right, sir.

Senator KERRY. You were marketing for dollar deposits for off-shore centers, like the Caymans, Luxembourg, et cetera.

Mr. SAKHIA. Yes, sir.

Senator KERRY. You were trying to find people who wanted to dump their money out there.

Mr. SAKHIA. Right.

Senator KERRY. And the third was offering correspondent banking services around the world, is that correct, because you had a global network?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now, the question I suppose, if Mr. Clifford or Mr. Altman were here or anybody else representing the bank, they would say: Well, you know, we had a correspondent relationship. We were a bank that was interested in, obviously, getting deposits. We wanted to grow. Here was a bank that was working in the United States. We had a relationship because we knew Mr. Abedi, Mr. Abedi was the advisor to the investors, and we were obviously going to take advantage of that relationship in an effort to grow and to be a good bank.

Mr. SAKHIA. Sir, I think you've interrelated two different things, marketing for First American and external marketing program. External marketing program was exclusively by BCCI for BCCI. First American was not part of this scenario.

Senator KERRY. OK, they played no role in the external marketing?

Mr. SAKHIA. No, sir.

Senator KERRY. OK.

Mr. SAKHIA. This was, there were three essential products. There were generally other products, but these are three prime products: marketing to Pakistanis, Indians, and Bengalis for opening hard currency accounts in their home countries; two, marketing for dollar deposits for BCCI generally, with particular reference to the offshore centers; and the third was marketing the global BCC network with the banks.

Now, back to front, the correspondent banking is a very legitimate product and BCCI had something to offer, so there was no problem in that territory.

In the area of marketing for offshore deposits, in countries like Middle East and Hong Kong where there are no controls or no regulations preventing or no tax implications, again this is a legitimate product. But marketing this product in countries either where there is an exchange control, it's illegal; in countries where there is an income tax, like U.S., Canada, Britain, again this is difficult because a customer may use the bank to avoid taxes in the country where they were living.

So we had a major concern in the United States, and I have subsequently been shown documents by Federal Reserve—when I had told them for a year that I had been opposing them, they were suspicious of it, but now they have independent documents—to say that I had stopped this practice in United States, that we would not market the nonresident deposits and the U.S. dollar deposits.

My concern was that overzealous staff, who by their nature were redundant in this office, to make their mark by bringing in more deposits will make any type of commitments, and this would land bank in trouble.

Senator KERRY. So basically, the bank engaged in a major marketing program to assist people to avoid taxes?

Mr. SAKHIA. The bank did not announce it as such, but anyone who wanted to avoid——

Senator KERRY. I can well understand that they wouldn't. But they engaged in it, they entered into it. I mean, that was the effort. And you understood it as that, because you fought it, didn't you?

Mr. SAKHIA. Yes. Well, I understood that the overzealous officers, to protect their jobs, would go and make any type of commitments, even though the bank wouldn't, the policy, the senior management policy, would not announce it, but they would engage in it. And then whenever the law enforcement comes, it's not these young officers but people like me who get into trouble.

Mr. SCHNAPP. Senator, perhaps I can clarify a point, if I might.

Senator KERRY. I think it's clear.

Mr. SCHNAPP. I think Mr. Sakhia is saying that the danger of the program inherently lent itself to people soliciting depositors who wanted to avoid U.S. taxes and also soliciting foreign deposits of people who might be engaging in illegal transactions.

Senator KERRY. There's no secret that that's what that kind of bank does. I mean, this isn't some dainty process. The Cayman Islands, Luxembourg, Hong Kong are among the leading harbors for hiding money. I mean, everybody knows it. Everybody in the international banking world knows it, and they all compete for it.

Isn't that a fact?

Mr. SAKHIA. All banks do it.

Senator KERRY. Sure. So you guys were going to get into the game.

Mr. SAKHIA. Except in the case of many money center banks, Swiss banks and big Luxembourg banks, it's done very discretely, in a very sophisticated way. In BCCI we were recruiting a thousand-plus people into this business.

Senator KERRY. Now, the fact that you have said that the external marketing plan was separate from the coordinating committee United States expansion plan——

Mr. SAKHIA. Yes, sir.

Senator KERRY [continuing.] Might be argued by a Mr. Clifford or Mr. Altman or others on their behalf and say: Well, precisely; they were off doing their own thing and we had this correspondent relationship here in the United States, and that was our interest, growth within the banking community where we operated.

Mr. SAKHIA. Sir, I elaborated earlier on the type of joint efforts for First American. BCCI officers marketing——

Senator KERRY. Now let's go into that a little bit, because I want to try to explore that and understand it better, and that will enable us as a committee, obviously, to ask more intelligent questions of them when they appear here.

Now, you had a coordinating committee for the United States.

Mr. SAKHIA. Yes, sir.

Senator KERRY. How did the coordinating committee come to exist?

Mr. SAKHIA. Mr. Abedi set up this committee.

Senator KERRY. When did he set it up?

Mr. SAKHIA. I think in early 1984.

Senator KERRY. Who was in charge of this committee?

Mr. SAKHIA. Well, he himself was in charge, but I was the coordinator in the United States.

Senator KERRY. You were the United States coordinator.

Mr. SAKHIA. Yes. I would send out the agenda for the meeting, I would arrange for the hotels, I would arrange for the meetings.

Senator KERRY. And as the coordinator, as the person who managed this committee, you understood it to be a coordination of all the banks in the United States under the BCCI umbrella?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Was strategy discussed for all those banks at these meetings?

Mr. SAKHIA. Marketing and products.

Senator KERRY. Marketing and products. Now, was marketing for the First American Bank included in these coordinating meetings?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Did you create documents at the time which substantiate the nature of these meetings?

Mr. SAKHIA. Well, each of the meetings was recorded. What we call recorded would be in our term called "minuted." And the minutes were circulated to all the participants and all their superiors.

Senator KERRY. I ask you again the question, was marketing for First American Bank included in those meetings?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Was marketing for the National Bank of Georgia included in those meetings?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And were documents prepared with respect to both of those entities during those meetings or after the meetings?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now, let me have a document put in front of the witness, if we may.

This is a document, Mr. Sakhia, which I think you've previously identified to us as minutes of the meeting of the U.S. coordination committee held on April 24, 1985, in New York.

Mr. SAKHIA. Yes, sir, this is one of the examples, but every meeting—

Senator KERRY. This is just an example. There are reams of documents, but this is one example; is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. There were ten people in attendance, correct?

Mr. SAKHIA. In this particular meeting, yes.

Senator KERRY. And among those ten was a Mr. Khusro Karamat Elley, is that right?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Who was Mr. Elley?

Mr. SAKHIA. Mr. Elley was at that time with First American Bank in New York.

Senator KERRY. What was his role with First American in New York?

Mr. SAKHIA. I think he was looking after the administration, administration side of the bank. He was not on the business side of the bank, as I recall, at that time. He moved to various positions in that bank.

Senator KERRY. Mr. Tariq Jamil was also at the meeting?

Mr. SAKHIA. Yes, he was. Tariq Jamil was de facto the chief operating officer of National Bank of Georgia.

Senator, I want to clarify again on the marketing aspect of BCC and First American. There was a plan within BCCI to market for First American. The international division, based in London, marketed for correspondent relationships for BCC group, including First American. So not only the branches of BCCI worldwide sent business to First American, but BCCI correspondents also were sending business to First American.

Similarly, the deposits of U.S. residents or U.S. corporations that we could not take in BCCI branches because of the agency status we would market to First American.

Senator KERRY. Who profited from that?

Mr. SAKHIA. Well, we were parking—we were giving profits to First American.

Senator KERRY. You were parking

Mr. SAKHIA. We were giving profits to First American.

Senator KERRY. You were giving profits to First American?

Mr. SAKHIA. Because the overhead, the marketing overhead, was absorbed by BCCI, the profit that was made was made in First American. But it was coming back to us because it was one and the same thing.

Senator KERRY. How was it coming back to you?

Mr. SAKHIA. Because First American was owned by BCCI.

Senator KERRY. So they didn't mind giving all this business to First American, even though they might have found a way to get it themselves, because they considered it to be giving it to themselves?

Mr. SAKHIA. Yes, sir.

Senator KERRY. This is the brother-brother-father relationship?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now, in this memoranda, in this minutes of the meeting, it cites individual presentations that were made, and one of the presentations was, under the heading of "individual presentations, it says, the purpose: "To update each member of the operations of different units, it was agreed to discuss briefly the size and volume of each location's business," correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And the first business to report was National Bank of Georgia, which supposedly was owned by Gaith Pharaon.

Mr. SAKHIA. Yes, sir.

Senator KERRY. But in fact you're saying was owned by BCCI, which is why they were giving a report on their deposits, assets, profits, and advances.

Mr. SAKHIA. Right, sir. This is an example of the question you were asking, that it was a pure, arm's length correspondent bank relationship. Now, Bank of America or Security Pacific did not come to meetings with these kind of figures.

Senator KERRY. So these were the only banks with whom BCCI had a relationship in the United States of a "correspondent" nature, these were the only banks that came to meetings like this?

Mr. SAKHIA. Yes, sir.

Senator KERRY. National Bank of Georgia and First American, among others?

Mr. SAKHIA. Right.

Senator KERRY. And the others were exclusively the BCC's, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. BCC Canada, the New York agency, the Miami, the Latin American region, San Francisco, Los Angeles. And then again, we have First American Bank of New York.

Mr. SAKHIA. Right, sir.

Senator KERRY. Mr. Elley gave a background of the history of First American Bankshares Group, especially New York, describing the role of the investors and how the emphasis was on developing New York. And then he goes into a full range of services that the bank provides.

Is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now, let me ask you a question, looking at that. Why would he feel it necessary, if you say this is around 1984, 1985, why is it such a primer, in a sense? Why is he saying the main focus—"he described that in addition to providing a full range of services from New York, the main focus would be on creating a powerful international division and a very strong money market," and so forth.

I mean, he seems to be saying some pretty basic stuff to a group of people whom you say already knew that the bank was owned.

Mr. SAKHIA. Sir, this was the first meeting, if you see the route—

Senator KERRY. This isn't the first time, according to you, that they were coordinating.

Mr. SAKHIA. No, but this meeting of the coordination committee, some of the people were attending for the first time. Like Mr. Munshi, Mr. Paruey, Mr. Rizvi, these are first-time participants into this meeting.

Senator KERRY. At this kind of meeting?

Mr. SAKHIA. In this kind of a meeting.

Senator KERRY. How did this meeting come about?

Mr. SAKHIA. Mr. Abedi had asked us to set up this committee and asked us to meet regularly, and after the first meeting we met almost every month at different locations, in New York, Miami, Washington, mostly on the East Coast because of the convenience.

Now, besides the meeting in this forum, every time BCCI had a quarterly conference in London where everybody from all over the world would participate, there would be a follow-up meeting of the people from different regions, and again a similar meeting would be presided by Mr. Abedi or Siddiki of the U.S.-based staff.

Senator KERRY. A subsequent set of minutes—I'm going to let the minutes basically speak for themselves, but I just want to flag a couple of things. The next set, the meeting was June 2, 1985, and the meeting was in Miami this time, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Again, at this meeting Mr. Elley was present, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And, representing National Bank of Georgia, Mr. Tariq Jamil again. BCCI Washington was represented. First American was represented by both Mr. Afridi and Mr. Elley, accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now, it says here the purpose of the coordination desk was: "To coordinate inter-regional marketing."

Mr. SAKHIA. Yes, sir.

Senator KERRY. "To provide protocol and courtesy to customers from other areas."

Mr. SAKHIA. Yes, sir.

Senator KERRY. "To make referral of customers and potential clients visiting other locations;"

"To exchange information on prospects and potential business?"

Mr. SAKHIA. Yes, sir.

Senator KERRY. Is there anything in those four items that banks couldn't get together on and exchange or involve themselves in legally?

Mr. SAKHIA. No. You are competing with the other institutions. You don't introduce your customer, unless you are not in that market. For example, if a customer of a bank was going to Singapore, where BCC did not have a presence, then we would introduce that person to our correspondent to provide protocol assistance or to provide the courtesies, a consular sort of a letter.

But here we are asking to take care of our customers and to introduce the business to each other.

Senator KERRY. Had you ever had that kind of relationship in your banking history with any bank that you didn't own or have an interest in?

Mr. SAKHIA. No, sir.

Senator KERRY. Now, another document I have here is a letter written by you to Mr. Afridi at First American.

Mr. SAKHIA. Yes, sir.

Senator KERRY. And this is a letter dated March 23, 1984.

Mr. SAKHIA. Right, sir.

Senator KERRY. In which you are basically setting out instructions for what First American has to do to comply with a certain procedure, is that accurate? Are you familiar with this letter? This is the Castle Investment Group, Fort Lauderdale, Florida.

Mr. SAKHIA. Right. We had marketed for business and we are now telling First American how to handle this business, what to do, what procedure to follow. We're not only marketing the bank, we are telling them step by step how they are to run it.

Senator KERRY. So you actually gave them point by point instructions as to what to do with the business that you gave them?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Managing the business that you gave them, in addition to managing the bank relationship.

Mr. SAKHIA. Yes, sir.

Senator KERRY. And again, how did you know that you would accrue any benefit from that? What was BCCI going to get out of that?

Mr. SAKHIA. Well again, sir, I said that BCCI and First American was one and the same entity.

Senator KERRY. What did First American refer or do for BCCI?

These documents, incidentally, will be placed in the record in sequence and marked accordingly.

[The information referred to follows:]

BANK OF CREDIT AND COMMERCE INTERNATIONAL
OVERSEAS LIMITED
 1200 BRICKELL AVENUE MIAMI FLORIDA 33131 U.S.A.

23rd March, 1984

Mr. A. Afridi
 First American Bank
 350 Park Avenue
 New York, N.Y. 10022

Dear *A. Afridi*,

Subject: Castle Investment Group
Fort Lauderdale, Florida

This has reference to our teleconversation of this morning.

The Modus Operandi for handling deposits for the above group would be as follows:

- (1) First American Bank would have to print contract forms in triplicate along the lines suggested by the above group, photocopies of which are enclosed.
- (2) These forms would have to be protectographed, signed and kept in safe custody at our Boca Raton Branch in Florida.
- (3) Each depositor would complete and sign the requisite forms printed by your office at the time their cheque is handed over to the BCC representative.
- (4) The BCC Representative would hand over to the depositor the original copy of the printed specified form (Item I); the second copy of which would be forwarded in batch to your office the following day by our Boca Raton office; the third copy would be retained by our Boca Raton office as their office copy.
- (5) On receipt of your copies of the printed specified form, First American Bank should issue in due course (within ten (10) working days) a comprehensive list of the depositors along the lines of the enclosed draft (Item II). This list should be sent to our Boca Raton Office for handing over to the representatives of the Castle Investment Group. This list would also be utilised for the issuance of the usual income tax certifications.

Cont'd. .../2

Mr. A. Afridi

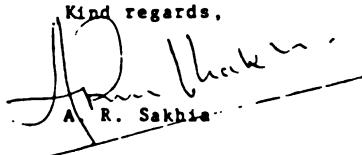
- 2 -

23rd March, 1984

- (6) All deposits would be for a period of 182 days. On maturity the BCC representative would have to hand over to the depositors two individual cheques representing principal amounts and accrued interest. The depositor would then have the choice of either reinvesting, adding to or not renewing.
- (7) BCC Boca Raton will contact your dealer three working days prior to the date of maturity to obtain a quote on amounts for the next 182 days.
- (8) To facilitate smooth operation of these transactions First American Bank, New York should open an account with BCC Boca Raton.
- (9) The rates of interest and investment of funds will be as per our discussions on telephone.
- (10) The first maturity of the Group (US\$5million) falls due on April 5, 1984; so your urgent attention in finalizing these arrangements and the necessary printing is kindly requested.

If you have any queries or counter suggestions please do not hesitate to contact me or Mr. Basu. I hope the above will be agreeable to you and will prove to be of mutual benefit to our two institutions.

Kind regards,



A. R. Sakhia



AGREEMENT

ACCOUNT NUMBER

02-1214-6-16-17-18-19-20

DATE OF ISSUE

January 26, 1984

THE UNDERSIGNED AGREE(S) TO PARTICIPATE IN A GROUP ORGANIZED FOR THE SOLE PURPOSE OF MAKING DEPOSITS (\$2,500.00 MINIMUM) INTO A SAVINGS CERTIFICATE OF COMMONWEALTH SAVINGS AND LOAN ASSOCIATION UNDER THE FOLLOWING CONDITIONS:

1. THE CERTIFICATE (THE "CERTIFICATE") SHALL REMAIN INTACT UNTIL THE DAY OF ITS MATURITY AND NO INDIVIDUAL PARTICIPANT MAY WITHDRAW ANY PORTION OF THE SAVINGS OR INTEREST THEREON UNTIL THE CERTIFICATE MATURES. COMMONWEALTH SAVINGS AND LOAN ASSOCIATION OF FLORIDA SHALL NOT BE REQUIRED TO RECOGNIZE ANY TEMPTAT ASSIGNMENT, PLEDGE OR ENCUMBRANCE OF THE UNDERSIGNED'S INTEREST IN THE CERTIFICATE.

2. THE CERTIFICATE WILL BE ISSUED IN THE NAME OF Castle Investment Group, INC. NOMINEES ARE Joseph Alper, David Mendes, Irving Klishewitz & Sara Davidson (2 out of 4 signatures required for withdrawal)

3. COMMONWEALTH SAVINGS AND LOAN ASSOCIATION IS AUTHORIZED TO ACT UPON THE WRITTEN REQUEST OF ALL OF THE NOMINEES.

4. EACH PARTICIPANT'S BENEFICIARIES INTEREST IN THE ACCOUNTS IS TO BE GUARANTEED BY THE SLIC, WHICH INSURES THE AMOUNT OF THEIR INVESTMENT UP TO \$100,000 EXCEPT FOR THOSE WHO HAVE OTHER ACCOUNTS IN COMMONWEALTH SAVINGS AND LOAN ASSOCIATION WHICH BRING THE TOTAL INVESTMENT TO OVER \$100,000.

5. THE UNDERSIGNED WISHES TO DEPOSIT THE SUM OF \$10,500.00 IN THE CERTIFICATE OF COMMONWEALTH SAVINGS AND LOAN ASSOCIATION OF FLORIDA. UPON MATURITY THE FOREGOING AMOUNT AND A PRO RATA PORTION OF INTEREST WILL BE PAID TO THE UNDERSIGNED.

6. \$10,500.00 @ SIMPLE INTEREST MATURITY DATE: July 26, 1984 (181 Days)

AC (Please Print)

AE (Please Print)

N TRUST FOR

SIGNATURE

SIGNATURE

() I certify, under penalty of perjury, that the information provided is true.

perjury
to back



FOR ASSOCIATION USE ONLY

UNT VERIFIED BY:

DATE:

ED BY: Josephine Malfo, Savings Manager

DATE: 1-26-84

1764-11
COMMONWEALTH SAVINGS AND LOAN ASSOCIATION
7118 NORTH UNIVERSITY DRIVE
TAMARAC, FLORIDA 33321
(305) 979-0500

CONDO NAME:	CASTLE INVESTMENT #10/6	ACCOUNT #	04-1840-5-20-21-22-23-24	OPENED	10-6-83
MATURING	4-5-84	AMOUNT	\$4,953,653.24	TOTAL INTEREST	\$271,704.48
				RATE	11.000%
Samuel & Eleanor Aarons 4851 N.W. 21 Street #102 Lauderhill, FL 33313	733-5675	012-12-1066	11,000.00	.1100	365 182 603.34
Anna or Marshall Adelstein 2251 N.W. 48 Terrace Lauderhill, FL 33313	735-3098	087-34-3171A	21,309.60	.1100	365 182 1,168.82
Claire Adler 4751 N.W. 21 Street Lauderhill, FL 33313	735-0840	096-38-5316	15,000.00	.1100	365 182 822.74
Benjamin Alexander Elizabeth Alexander 5801 N.W. 82 Avenue Tamarac, FL 33321	721-5327	101-10-1019	8,000.00	.1100	365 182 438.79
Sylvia Allen Jody Sweetapple 177 Jody Sweetapple 2060 N.W. 48 Terrace Lauderhill, FL 33313	484-4546	554-68-6086	8,500.00	.1100	365 182 466.22
Joseph or Ethel Alper 4740 N.W. 21 Street #406 Lauderhill, FL 33313	739-9869	081-10-6753	25,000.00	.1100	365 182 1,371.23
Albert or Evelyn Alter I.T.F. Sandy Alter, Jack Alter, Roberta Nettman 4851 N.W. 21 Street Lauderhill, FL 33313	735-7111	092-05-4930	25,961.55	.1100	365 182 1,423.97
Helen Appel 2291 N.W. 48 Terrace Lauderhill, FL 33313	739-1747	067-38-0184	10,000.00	.1100	365 182 548.49
Lillian Armer 2291 N.W. 48 Terrace Lauderhill, FL 33313	484-4047	123-10-4364	75,081.52	.1100	365 182 4,118.17
or Sylvia Ancher 6350 N.W. 62 Street Tamarac, FL 33319	721-4313	084-07-4650	3,893.29	.1100	365 182 213.34

350 PARK AVE

N.Y. N.Y. 10022

Mr. A. Afridi
First American Bank
New York, N.Y.

Dear Afridi Saheb,

Sub: Castle Investment Group
Fort Lauderdale, Florida

This has reference to our teleconversation of this morning.

The ~~above~~ ^{above} ~~group~~ ^{group} would be as follows:

- (1) First American Bank would have to ^{print} ~~present~~ contract ~~forms~~ in triplicate along the ~~forms~~ ^{forms} suggested by the above ~~group~~, photocopies of which are enclosed.
- (2) these ~~forms~~ ^{forms} would have to be ^{photocopy} ~~photograph~~ signed and kept in safe custody at our Boca Raton Branch in Florida.
- (3) Each depositor would complete and sign the requisite forms printed by your office at the time their cheque is handed over to the BCC representative.
- (4) The BCC Representative would hand over to the depositor the original copy of the ^{provided} ~~provided~~ specific form; the second copy of ~~the provided specific form~~ ^{the provided specific form} would be forwarded in ~~copy~~ ^{copy} to your office the following day by our Boca Raton office; the third copy ~~of the specific provided form~~ ^{of the specific provided form} would be retained by our Boca Raton office as their ~~second~~ ^{second} copy.
- (5) On receipt of your copies of the ^{provided} ~~provided~~ specific form, First American Bank ~~will~~ ^{will} ~~be~~ ^{be} in due course (within 10 working days). A comprehensive ~~list~~ ^{list} of the depositors along the lines of the enclosed ~~copy~~ ^{copy}. This list should be sent to our Boca Raton office for handing over to the representatives of the Castle Investment Group. This list would also be utilised for the issuance of the usual income tax certifications.
- (6) All deposits would be for a period of 182 days. ^{On} ~~On~~ ^{maturity} ~~maturity~~ the BCC representative would have to hand over ^{two} ~~two~~ individual cheques representing ~~total~~ ^{total} amounts and accrued interest. The depositor would then have the choice of either reinvesting, adding to or not ~~participating~~ ^{participating}.
- (7) BCC Boca Raton will contact your dealer three working days prior to the date of maturity to obtain a quote on amounts for the next 182 days.

(8) To facilitate smooth operation of these transactions First American Bank, New York should open an account with BCC Boca Raton.

(9) The rates of interest and Investment of funds will be as per our discussions on telephone.

If you have any queries / please do not hesitate to contact me
I hope the above will be agreeable to you and will prove to be of mutual benefit to our two institutions.

~~Best~~^{Kims} regards.

A. R. Sakhia

(10) The first meeting of the group (US\$5 million) falls due on April 5 1984; so your urgent attention in finalizing these arrangements & the necessary printing is kindly requested.

Mr. A. Afrin
First American Bank

Dear Afrin Sabes

Pub. - Castle Investment Group
Fox Landmark
Florida

This has reference to our telecommunication of this morning.

The various operations for handling deposits for the above group would be as follows:

(1) First American Bank would have to print contract forms in triplicate along the lines suggested by the above group, photocopies of which are enclosed.

(2) These forms would have to be photostamped, photostamped signed and kept in safe custody at our Boca Raton branch in Florida.

(3) Each depositor would complete and sign the requisite forms printed by your office at the time their cheque is handed over to the BCB representative.

(4) The Sec. Representative would ~~on receipt of the hand~~ over to the depositor the original copy of the printed statement form; the second copy of the printed Statement form would be forwarded in return to your Office the following day by our Boca Raton Office; the third copy of the printed statement form would be retained by our Boca Raton Office as the second copy.

(5) On receipt of your copies of the printed Statement form, First American Bank would serve in due course (within 10 working days) a comprehensive list of the depositors along the lines of the enclosed copy. This list should be sent to our Boca Raton Office for handing over to the representatives of the Credit Investment Group. This list would also be utilized for the advance of the usual income tax distribution.

(6) All deposits would be for a period of 180 days. On maturity the Sec. Representative would have to hand over two individual cheques representing principal amounts and accrued interest. The depositor would then have the choice of either reinvesting, adding to or not participating.

(7) Sec. Boca Raton will contact your dealer three working days prior to the date of maturity.

to obtain a quote on amount for the next
182 days.

8) To facilitate smooth operation of these
transactions, Jst American Bank, New York should
open an account with BIR Roca Salas.

9) The dates of interest & conversion of funds will be
as per our discussion on telephone.
If you do have any queries, please do
not hesitate to contact us here. I hope the
above will be agreeable to you & will be a great
help to the & benefit to our two institutions.
Kind regards

A. S. Sankar

BANK OF CREDIT AND COMMERCE INTERNATIONAL
(OVERSEAS) LIMITED
1880 BRICKELL AVENUE MIAMI, FLORIDA 33131 U.S.A

PHONE: 305 - 374-0777

TELEX: 264080

CABLES: BANCRECOM

Item - 7

(Name of Bank)

Issue Date _____, 198 _____ Maturity Date _____, 198 Term _____ Days

Investment Amount \$ _____ at _____ Annual Rate

The undersigned agree to participate as participant-beneficiaries in a group organized for the sole purpose of investing in savings certificate(s) of deposit(s) under the following conditions:

1. Each participant-beneficiary's interest in the account is to be insured by the FSLIC for the amount of their interest up to \$100,000.00
2. The entire principal amount shall remain intact until the date of its maturity and no individual participant may withdraw any portion of his (her) (their) investment until the Certificate matures.
3. (name of bank) _____, Florida, shall not be required to recognize any attempt at assignment, pledge, or encumbrance of the undersigned's interest in the Certificate.
4. The Certificate shall be issued in the name of
CASTLE INVESTMENT GROUP
whose nominees are, and whose names appear below. The nominees are fully authorized and empowered to act on the undersigned's behalf, and to bind them all to the terms and conditions of this account.
The Nominees are:
Joseph Alper, Roland Dorsey, Irving Elishewitz, David Mendes.
5. (name of bank) is authorized to act upon the written request of all the nominees.

My/ Our name as participant-beneficiary is to be registered in the name of

Name (print) _____ Soc. Sec. # _____

Signature _____ Phone # _____

Address _____
Street City State Zip Code

Receipt of this Investment Account acknowledged.

(name of bank)

by _____ Title _____



MEMORANDUM

FROM: Manager
LOCATION: BCCI Miami
DATE: June 10, 1985
REF:
SUBJECT: Participations sold to First American Bank.

TO: Mr. Amber Yunus
LOCATION: Regional Office

Enclosed please find a memo addressed to me from the Agencies Advances Department which is self explanatory.

Your guidance in this respect will be highly appreciated.

Regards,


Hassan Parvez

HP/eb



MEMORANDUM

FROM: Advances Department

TO: Mr. Hassan Parvez

LOCATION: Miami Agency
DATE: June 6, 1985

LOCATION: Miami Agency

REF:

SUBJECT: Participations sold to First American Bank

On May 15th the following loans in our IBF books were participated to First American Bank.

<u>Loan No.</u>	<u>Amount</u>
14001060	US\$ 142,976.00
14000229	377,968.61
14000263	360,331.85
14000218	1,000,991.69
14000296	522,674.75
14001253	242,947.50
14001399	250,000.00
14001388	100,498.31
14001071	698,243.68
14001264	267,398.82

Upon receipt of funds by our Agency which were received at the Federal Reserve Bank, the following entries were passed.

All the above mentioned loans were paid in IBF and new loans were opened in Miami as follows:

AssetsLiabilityBOJ/ParticipationSundry Creditor
First American Bank
Participation.

The loans are accruing at 10.875% which represents the rate of interest being paid by BOJ to BOCI. In turn we have sold these loans at "Prime Rate" leaving a 7/8% spread for us.

Due to the lack of accountg in our General Ledger for these purposes, we have to pass the interest expense payable to F.A.B. annually every month, because the income (10 7/8%) being accrued in the loans is automatically taken into

income by the computer. This interest expense account is being shown under "Miscellaneous" interest expense participation.

Given the amount of work involved and the number of manual entries to be passed every month, the chances for mistakes and misrepresentation in our statement of affairs increases.

I would appreciate if you can find an easier and more accurate way to handle these entries.

Regards,

Engracia M. Estalella
Engracia M. Estalella

/759

RX-STW 1200 EDT 06/21/85

JUN 21 1985 1200
#427464A FABNY UI

CANALPLACE NLN

JUNE 21, 1985
NEW ORLEANS, LOUISIANATO: FIRST AMERICAN BANK
FOR THE KIND ATTENTION OF
MR. EJAZ AFRIDI

PLEASE DISCUSS AND PASS ON THIS MESSAGE TO MR. A. R. SAKHIA.

REQUIRE FIRST AMERICAN BANK TO ADD THEIR CONFIRMATION
(JIN-IN) TO THE FOLLOWING STANDBY LETTER OF CREDIT WHICH IS
ISSUED BY SOC TAMPON TO TRAVELERS INSURANCE.THE STANDBY LETTER OF CREDIT IS
NON-NEGOTIABLE AND IS VALID FOR ONE YEAR. THE LETTER
OF CREDIT IS ENFORCEABLE UPON NON-PAYMENT OF INTEREST BY
OFFEROR.THE CONFIRMATION CAN BE IN A FORM OF A LETTER TO BE ISSUED
BY FIRST AMERICAN BANK STATING THAT IN SOC FOR ANY REASONS
IS UNABLE TO PAY UNDER OUR REFERRED LETTER OF CREDIT, THAT
FIRST AMERICAN BANK WOULD BE LIABLE AND MAKE PAYMENT.

END

OUR IRREVOCABLE STANDBY LETTER OF CREDIT AS FOLLOWS:

IN FAVOR OF: THE TRAVELERS INSURANCE COMPANY

ON ACCOUNT OF: CANAL PLACE LIMITED PARTNERSHIP
112 RUE BERVILLE
SUITE 700
NEW ORLEANS, LOUISIANA 70130

UP TO THE AGGREGATE AMOUNT OF: U.S. DOLLARS 3,000,000.00

AVAILABLE BY DRAFTS

AT SIGHT UNLESS OTHERWISE STATED

DRAWN AT

OUR OPTION, ON VOUCHER OR ANY OF YOUR CREDIT INSTRUMENTS
COMPANIED BY THE FOLLOWING DOCUMENTS

IS A DEFAULT UNDER THE AGREEMENT DATED DECEMBER 14, 1984.

THIS CREDIT MAY BE TRANSFERRED BY OUR ENDORSING THE ORIGINAL CREDIT SUBMITTED WITH YOUR REQUEST FOR TRANSFER.

UNLESS OTHERWISE SPECIFICALLY STATED, THIS CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS 1983 REVISION), INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 400.

RAFTS MUST BE DRAWN AND PRESENTED NO LATER THAN JUNE 30, 1986.

NO TEXT.

IF YOU WISH TO DISCUSS THIS MATTER, I AM IN NEW ORLEANS, PHONE (504) 524-4676.

IND. REGARDS.

CBAL: ACHRAF

74640- FBNY UI
 12/21/85
 12/21/85

KEY DISC
 elapsed time: 00:00:14

PRINTED AT 1207 EST 00/21/85

Pro



BANK OF CREDIT AND COMMERCE INTERNATIONAL
 SOCIÉTÉ ANONYME
 REPRESENTATIVE OFFICE
 1857 K STREET, N.W. WASHINGTON, DC 20006

September 3, 1987

Mr. M. Masin Khan
 Bank of Credit & Commerce Int'l
 P.O. Box 410
 52 Mudalige
 Navatha, Fort
 Colombo 1, SRI LANKA

Dear Sir,

RE: FL-480 IMPORTS BY SRI LANKA

Ref. your telex dated 2-9-87 and letter dated August 24th, 1987, First American Bank on the request of Central Bank of Sri Lanka has quoted to them their rates for handling the L/C business. Copies of telex attached. This is for your information.

With regards,

Hassan Jafree

Encl;

cc: Mr. Y. H. Abedi
 International Division
 BCCI London

EJ:shk;

PHONE (202) 463-8815
 Incorporated in Luxembourg

TELEX 287822 BCCO UR

CABLES: BANCRECOM
 A Subsidiary of BCCI Holdings (Luxembourg) S.A.

NY 0007093
 CONFIDENTIAL

7996495C 21AUG87 14:01 EST
 FTS

-BREAK-

-BREAK-

7996495C 21AUG87 14:01 EST
 FTS

/BATCH

/NTF

/WUW95421176(211);8216;0405+

TO: N. A. DHARMARANDU
 CHIEF ACCOUNTANT
 CENTRAL BANK OF SRILANKA
 COLOMBO, SRILANKA

FROM: KAYID SHAWISH
 VICE PRESIDENT
 FIRST AMERICAN BANK, NA

DATE: AUGUST 21, 1987

REF: PL-480 TRANSACTIONS, YEAR 1987-1988

THANK YOU FOR YOUR TELEX OF AUGUST 20, 1987. FIRST AMERICAN BANK WILL BE DELIGHTED TO HANDLE YOUR BANKING NEEDS RELATIVE TO THE PL-480 PROGRAM. OUR FEE FOR NEGOTIATING THE PL-480 LETTERS OF CREDIT WILL BE 1/45 OF 1% OR A MINIMUM OF \$100.00 PER PAYMENT. THERE WILL BE NO CHARGE FOR CONFIRMATION OF THE LETTERS OF CREDIT. WE WOULD ALSO LOOK FORWARD TO SOME ACCOUNT RELATIONSHIP TO FACILITATE THE HANDLING OF PAYMENTS.

ON JULY 29, 198 WE DELIVERED SIMILAR PROPOSAL TO HIS EXCELLENCY THE GOVERNOR OF THE CENTRAL BANK OF SRILANKA IN COLOMBO. WE LOOK FORWARD TO YOUR POSITIVE RESPONSE.

BEST REGARDS,
 KAYID SHAWISH
 VICE PRESIDENT

BEST REGARDS, KAYID SHAWISH, VICE PRESIDENT

MMMM

BATCH MESSAGE NUMBER 7996495C
 ACCEPTED 1 MESSAGE

EASYLINK

NY 0007094
 CONFIDENTIAL

BANK OF CREDIT AND COMMERCE INTERNATIONAL
 SOCIÉTÉ ANONYME
 REPRESENTATIVE OFFICE
 1057 K STREET, N.W. WASHINGTON, DC 20006

July 30, 1987

Mr. Yousuf Husain Abedi
 International Division
 Bank of Credit & Commerce Int'l
 London

Dear Sir,

Re: FL 480 Imports by Sri Lanka

Ref your memo dated 17th July, 1987 addressed to Mr. Amjad Awan regarding above. We contacted the international department of First American Bank and advised them that they have been registered with Central bank of Sri Lanka to quote rates for advising and negotiation of L/Cs under the FL 480 programme.

They are thankful for this opportunity and would keep us advised as and when they do the business.

With regards,

Hassan Jafree

PHONE: (202) 463-0916
 Incorporated in Luxembourg

TELEX: 287622 BCCI UR CABLES: BANCRCOM
 A subsidiary of BCCI Holdings (Luxembourg) S.A.

NY 0007097
 CONFIDENTIAL

7996495C 21AUG87 14:01 EST
FTS

-BREAK-

-BREAK-

7996495C 21AUG87 14:01 EST
FTS

/BATCH

/NTF

/WUW95421176(211);8216:0405+

TO: N. A. DHARMABANDU
CHIEF ACCOUNTANT
CENTRAL BANK OF SRILANKA
COLOMBO, SRILANKA

FROM: KAYID SHAWISH
VICE PRESIDENT
FIRST AMERICAN BANK, NA

DATE: AUGUST 21, 1987

REF: PL-480 TRANSACTIONS, YEAR 1987-1988

THANK YOU FOR YOUR TELEX OF AUGUST 20, 1987. FIRST AMERICAN BANK WILL BE DELIGHTED TO HANDLE YOUR BANKING NEEDS RELATIVE TO THE PL-480 PROGRAM. OUR FEE FOR NEGOTIATING THE PL-480 LETTERS OF CREDIT WILL BE 1/45 OF 1% OR A MINIMUM OF \$100.00 PER PAYMENT. THERE WILL BE NO CHARGE FOR CONFIRMATION OF THE LETTERS OF CREDIT. WE WOULD ALSO LOOK FORWARD TO SOME ACCOUNT RELATIONSHIP TO FACILITATE THE HANDLING OF PAYMENTS.

ON JULY 29, 198 WE DELIVERED SIMILAR PROPOSAL TO HIS EXCELLENCY THE GOVERNOR OF THE CENTRAL BANK OF SRILANKA IN COLOMBO. WE LOOK FORWARD TO YOUR POSITIVE RESPONSE.

BEST REGARDS.
KAYID SHAWISH
VICE PRESIDENT

BEST REGARDS, KAYID SHAWISH, VICE PRESIDENT

MMMM

BATCH MESSAGE NUMBER 7996495C
ACCEPTED 1 MESSAGE

EASYLINK

NY 0007094
CONFIDENTIAL



original filed in:

FROM Abdur R. Sakhis
 LOCATION Caribbean Regional Office
 DATE May 7, 1986
 REF
 SUBJECT - MIAMI NATIONAL BANK -

File
 Mr. S. Naqvi
 LONDON

copy to Mr. Johns

Meeting with Messrs. Naqvi, Robert Altman and Shahid Jamil on Friday May 2nd 1986 at Luxembourg.

I have brief information regarding the size of the bank, salient feature of the financial statements, investment portfolio, loan losses, sovereign loans, etc.

- 1.- Bank had assets \$55,057m, Deposits \$50,287m, Net Loans of \$39,360m, Investments \$9,681m and Capital \$3,596m. However the owners would leave the bank with a capital of \$5 million and were asking \$6,500m.
- 2.- Bank had losses in the investment portfolio of \$640m, and requires a loan loss provision of \$ 2,010m (total including loss on investment \$ 2,650m). The seller is reluctant to increase the provision beyond \$1,300m.
- 3.- Bank has South American sovereign risk of \$5,830m.
- 4.- Bank had cease and desist order from O.C.C. and the Chief Executive Officer has left. Bank was loosing approximately \$125,000 a month or \$1.5 million a year.
- 5.- Bank has three operating branches and our premises with a license available for opening. Locations were not the best.

I also emphasized the total absence of management and immediate need to put management in place as soon as acquisition is complete. Mr. Altman reemphasized the same point.

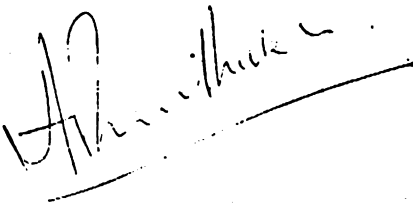
Under present market conditions, this was an excellent buy. As no other national bank of this size was available and premium of 1.3 times was extremely attractive.

Mr. Naqvi informed us the following:

- 1.- He would arrange for staff on urgent basis.
- 2.- We should find and recruit personnel also on urgent basis. He should arrange to interview someone at present with a U.S. Bank in Cayman and also Mr. Dasousa, formerly of the Royal Bank of Canada.

NY 100-78101 **
May 7, 1986
Miami National Bank

- 3.- The purchase would be made by SH. Alfulaij.
 - 4.- He would request Mr. Imtiaz Ahmed to visit Miami the soonest.
 - 5.- Mr. Altman will arrange power of attorney of SH. Alfulaij and also make sale purchase agreement.
- Mr. Naqvi will arrange for certified net worth statement of SH. Alfulaij for Mr. Altman to file with acquisition application with the U.S. regulatory authorities.

A handwritten signature, likely "Imtiaz Ahmed", is written in dark ink. The signature is stylized and cursive, with a long horizontal line extending from the end of the name.

MINUTES OF THE MEETING OF U.S. COORDINATION COMMITTEE**Held on April 24, 1985 in New York**

The following attended:

1. Mr. Aijaz Afridi
2. Mr. Raja Allahdad
3. Mr. Amjad Awan
4. Mr. Khusro Karamat Elley
5. Mr. Tariq Jamil
6. Mr. Shafiqur Rehman Khan
7. Mr. Sultan Mohiuddin
8. Mr. Dilip Munshi
9. Mr. Hasan Paruey
10. Mr. Musrat Rizvi

Mr. Louis Saubolle, Mr. S.W. Shafi and Mr. Sani Ahmed could not attend the meeting because of their other engagements.

CONFIDENTIAL

Introduction

It was the consensus of the meeting that the challenge facing the BCC Group in the U.S. was a unique one, since they had hitherto been mostly successful in developing countries. They were now embarked on establishing an equally successful business in the most advanced and most competitive country in the world.

The U.S. Market was described as information driven and information prone. As such, there would be a need for us to be up to date in our knowledge of this market and be fully informed about customer needs and trends. This would, therefore, require a very well planned and calculated approach to Marketing.

The time had come for us to be clear as to how this growth would take place.

- Would this be through the acquisition of Banks?
- Should we open lots of agencies in the various states?
- Should we contemplate opening more Representative offices and if so, where?

It was agreed that whatever the problems that were to be faced and the potential solutions we would arrive at we had as good a chance of success as anywhere else because we truly believed BCC was a mission, that our greatest asset were people and that our success arose out of the faith and dedication with which these people pursued their mission.

Purpose

The meeting was described as a very timely one in which we had an obligation to succeed and where success could only be achieved if we went about the task collectively. It was also felt that it is through meetings of this nature that information will flow, assistance will be provided, and the collective view on the U.S. operation will be presented to the C.S.O. so that it may assist them in carving out the policies on growth, expansion, credits and personnel matters.

After discussion it was agreed that the purpose of this Meeting was:

1. To inform each other of the nature of their operations

C 0000107

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2. To demonstrate how we are working together
3. To make recommendations on how we could do more business together.

Individual Presentations:

To update each member of the operations of different units it was agreed to discuss briefly the size and volume of each location's business.

Mr. Tariq Jamil presented the following report on NBG:
(As on 31/12/84)

National Bank of Georgia

Deposits	-	996 Million
Assets	-	1303 Million
Profits	-	10.4 Million
Advances	-	742 Million

Nature of Business

- A. Retail and Consumer.
- B. Mid-Size Market (Commercial) Profitable and Relationship Oriented.
- C. Trustee Business.
- D. Bankers to Government Agencies.
- E. Small to Mid-Size Corporate Sector.
- F. Wholesale banking division established to address large corporate sector.

To increase the profitability by growth the following actions have been taken:

- A. Expansion - obtaining charter.
- B. Added more people to marketing.
- C. Decentralizing marketing.
- D. Expenses control.

He mentioned that consumer business is more profitable than commercial business.

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BCC Canada

Mr. Allahdad mentioned that it is difficult to operate on the same lines as NBG has been doing because of the difference in operational situation and credit policies for BCC Canada and that of NBG. BCC Canada cannot enter into:

- A. Consumer Loans
- B. Commercial Loans
- C. Credit Card Operations

He was also not happy with the capability of BCC computer facilities to meet the needs of the consumer in the local market place. He mentioned that till 1981, BCC had no acceptability in the local market and the situation has changed totally now and their CD's have an excellent listing. Their customer deposits are around \$200 million, out of which 55% are corporate funds and 45% from the retail sector. The loan portfolio is around \$90 million. Mr. Tariq Jamil discussed with him the possibilities of customer CD's for smaller accounts on the lines of NBG and requested Mr. Raja to explore the probability in the future. Mr. Allahdad mentioned that the reason of low profitability is lesser thrust in the consumer market as compared to more resourceful banks and mainly depending on corporate sector that offers very thin margins on the deals and deposits. In the interest of profitability the capitalisation costs have been kept very low that are negating the efforts to expand.

New York Agency

Mr. Rehman apprised the members of the present situation of the Agency and the process through which it has passed during the last one year. Because of its inability to open customer deposit accounts much could not be done in this sector and most of the time was consumed in setting up the office and systems so that it could be ready to accommodate all business that has to come.

In March 1985, after the passage of the New York State Omnibus Banking Bill, the Agency has been authorized to accept all kinds of non-resident/non U.S. citizen deposits of all denominations. The initial work has been completed on the printing of account opening forms, etc., and after the concentrated marketing efforts positive results as expected. On the business side there has been an increase at an accelerated pace and the take off situation is very near.

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Miami

Mr. Sakhia informed that the Miami Agency stands in third position among the foreign agencies in Miami. The Caribbean Region has contributed 13.5% to the growth of total deposits to the Group during 1984. BCC has all the acceptance of the local financial community. Mr. Sakhia suggested that they should have a joint approach in handling the U.S. business and that a consolidated and unified presentation should be made to C.S.O. to understand our operational problems and that a coordination team should be formed to collect information on the movement of the existing clients and the prospective clients.

Latin American Region

Mr. Musarrat Rizvi informed that their region has generated \$200 million of deposits out of which \$80 million has been placed in other BCC units. The projected figure for 1985 is \$800 million, out of which \$150 million are expected to be placed with other offices of BCC during 1985. Their operation in Peru and Argentina will start this year and it is expected that the Latin American Region will give a profit of \$10 million in 1985. He assured that every possible effort will be done to assist all the centers in their growth.

San Francisco

Because of the nature of operations, San Francisco Agency had mainly been catering to the Chinese businesses. Mr. Mohiuddin recently travelled in the Middle East and was successful in generating substantial amounts of deposits that has been placed with the Agency. He was confident that all efforts will continue to increase the size and effectiveness of their office.

Los Angeles

Mr. Munshi informed that his market is predominantly the ethnic community for retail deposits. Like San Francisco, they have to depend on deposits from Hong Kong, Canada and Middle East. He had poor response from most American companies that mainly deal with our U.S. Banks and he consequently concentrated on inter-bank money market. He was of the opinion that in the interest of profitability the loan portfolio is to be increased. In order to have an entry in the High Net Worth Individuals sector, they are planning to open an office in Beverly Hills very shortly.

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First American Bank of New York

Mr. Elley gave a background of the history of FAB Group, especially New York, describing the role of the investors and how the emphasis was on developing New York. He described that in addition to providing a range of full services from New York, the main focus would be on creating a powerful International Division and very strong Money Market and F.X. Operations, since these are two areas which had not been available in the FAB Group. He was glad to report that the Bank in New York was fully operational and offered in the International Area, Correspondent Banking Services, Trade Finance and Private Banking. Additionally, they were doing Domestic Banking through a network of 44 Branches, which were engaged in all the retail services from Mortgages to Auto Loans. A Corporate Division looked after the Middle Market and the larger companies, while the Treasury area was now very active in Money Market and Foreign Exchange Markets. FABNY was also a member of CHIPS and SWIFT, and had started handling the accounts of a number of BCC Branches.

Partly as a result of a number of acquisitions made in the previous year, the Bank had now achieved a size of \$800 million in assets and had a capital of \$100 million. It was expected that by the end of 1985, Assets would reach \$1 billion in New York.

They were presently facing the following problems:

1. New York City overheads were high and the dilemma was how to be in profit from year one.
2. Because of its acquisition programme, the Bank was currently a combination of 3 Banks, and a lot of Management time was being spent to form them into one Bank.
3. Sophisticated automation and systems had been put in place. This initially created teething problems, which were now almost resolved, but they had nevertheless taken up considerable time.
4. They were having to work very hard in creating a joint personality of the Senior Management.

Washington Representative Office

Mr. Amjad Awan was requested to provide timely information on domestic and international deals. Mr. Jamil described Washington as a seat of decision-making on major policies on trade and banking business. Mr. Awan assured that they are gearing up to meet the increasing requirements and expectations of assistance of BCC Group.

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Conclusion

The next venue of the meeting was decided to be in Miami on June 1, and specific items for the Agenda to be advised to Mr. Shafiq Ur Rehman for circulation. Mr. Rehman was requested to prepare, with the assistance of Mr. Elley, the Minutes of the present meeting.

C 0000112

Marketing

Mr. Aijaz Afridi opened the discussion on marketing by referring to the concept of clear perception and clean instinct and defined clear perception as, "Capacity for comprehension, building a mental picture and then trying this to clear instinct - which is feeling all enveloped by the grand vision of what BCC shall be". He said that our major task in the U.S. should be to build market share. BCC had been a success in Third World and now we are embarked on establishing an equally successful business in the most competitive country in the world. He requested the members to work together to overwhelm the U.S. market and act in a unified manner and be supportive to each other.

Mr. Tariq Jamil described the U.S. market as information driven and information prone. There is a need to update our knowledge of marketing and be fully informed as to the needs of the customer. Historically we have not made calculated approach to the local indigenous market and have kept depending on the traditional sources of funds. The banking industry is undergoing tremendous changes and this is in the fold of this change that the success rests. The change always creates opportunities.

Mr. Sakhia advised that we should concentrate on increasing the customers deposit base. As our operations are new and we are trying to build up a bridge between BCC and the prospective market in South America and Caribbean, it is imperative that the customer should be introduced to BCC by every possible effort even if at times we have to attract them by offering better than market rate of interest. Once the relationship are developed the required adjustments in the composition of such deposits could be made. He mentioned that our greatest asset are the people. He suggested that we should set up a coordination desk at every center so that the information is passed on to each other on clients and business whenever there is a movement of these two factors from one place to another.

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- 3 -

National Bank of Georgia

To update each member of the operations of different units it was agreed to discuss briefly the size and volume of each location's business. Mr. Tariq Jamil presented the following report on NBC: (As on 31/12/84)

Deposits	-	996 Million
Assets	-	1303 Million
Profits	-	10.4 Million
Advances	-	742 Million

Nature of Business

- A. Retail and Consumer.
- B. Mid-Size Market (Commercial) Profitable and Relationship Oriented.
- C. Trustee Business.
- D. Bankers to Government Agencies.
- E. Small to Mid-Size Corporate Sector.
- F. Wholesale banking division established to address large corporate sector.

To increase the profitability by growth the following actions have been taken:

- A. Expansion - obtaining charter.
- B. Added more people to marketing.
- C. Decentralizing marketing.
- D. Expenses control.

He mentioned that consumer business is more profitable than commercial business.

BCC Canada

Mr. Allahdad mentioned that it is difficult to operate on the same lines as NBC has been doing because of the difference in operational situation and credit policies for BCC Canada and that of NBC. BCC Canada cannot enter into:

- A. Consumer Loans
- B. Commercial Loans
- C. Credit Card Operations

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- 4 -

He was not also happy with the capability of BCC computer facilities to meet the needs of the consumer in the local market place. He mentioned that till 1981, BCC had no acceptability in the local market and the situation has changed totally now and their CD's have an excellent listing. Their customer deposits are around \$200 million, out of which 55% are corporate funds and 45% from the retail sector. The loan portfolio is around \$90 million. Mr. Tariq Jamil discussed with him the possibilities of customer CD's for smaller amounts on the lines of NBC and requested Mr. Raja to explore the probability in the future. Mr. Allahdad mentioned that the reason of low profitability is lesser thrust in the consumer market as compared to more resourceful banks and mainly depending on corporate sector that offers very thin margins on the deals and deposits. In the interest of profitability the capitalisation costs have been kept very low that are negating the efforts to expand.

New York Agency

Mr. Rehman apprised the members of the present situation of the Agency and the process through which it has passed during the last one year. Because of its inability to open customer deposit accounts much could not be done in this sector and most of the time was consumed in setting up the office and systems so that it could be ready to accommodate all business that has to come.

In march, 1985 after the passage of New York State Omnibus Banking Bill the Agency has been authorized to accept all kinds of non-resident/non U.S. citizen deposits of all denominations. The initial work has been completed on the printing of account opening forms etc..., and after the concentrated marketing efforts positive results as expected. On the business side there has been an increase at an accelerated pace and the take off situation is very near. The New York Agency is fully automated and is member of S.W.I.F.T. and associate member of New York Clearing House. It has the operational capability to handle all kinds and volume of international business.

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Miami

Mr. Sakhia informed that the Miami Agency stands in third position among the foreign agencies in Miami. The Caribbean Region has contributed 13.5 % to the growth of total deposits to the Group during 1984. BCC has all the acceptance of the local financial community. Mr. Sakhia suggested that they should have a joint approach in handling the U.S. business and that a consolidated and unified presentation should be made to C.S.O. to understand our operational problems and that a coordination team should be formed to collect information on the movement of the existing clients and the prospective clients.

Latin American Region

Mr. Musarrat Rizvi informed that their region has generated 200 Million dollars of deposits out of which 80 Million dollars has been placed in other BCC units. The projected figure for 1985 is 800 Million dollars out of which 150 Million are expected to be placed with other offices of BCC during 1985. Their operation in Peru and Argentina will start this year and it is expected that the Latin American Region will give a profit of 10 Million in 1985. He assured that every possible effort will be done to assist all the centers in their growth.

San Francisco

Because of the nature of operations San Francisco Agency had mainly been catering for the Chinese businesses. Mr. Mohiuddin recently traveled in the Middle East and was successful in generating substantial amounts of deposits that has been placed with the Agency. He was confident that all efforts will continue to increase the size and effectiveness of their office.

Los Angeles

Mr. Munshi informed that his market is predominantly the ethnic community for retail deposits. Like San Francisco they have to depend on deposits from Hong Kong, Canada and Middle East. He had poor response from most American companies that mainly deal with other U.S. Banks and he consequently concentrated on inter-bank money market. He was of the opinion that in the interest of profitability the loan portfolio is to be increased. In order to have an entry in High network Individuals sector, they are planning to open an office in Beverlyhills very shortly.

C 0000103

First American Bank
of New York

Mr. Elley gave a background of the history of FAB Group, especially New York, describing the role of the investors and how the emphasis was on developing New York. He described that in addition to providing a range of full services from New York, the main focus would be on creating a powerful International Division and very strong Money Market and F.X. Operations, since these are two areas which had not been available in the FAB Group. He reported that the Bank in New York was fully operational and offered in the International Area, Correspondent Banking Services, Trade Finance and Private Banking. Additionally, they were doing Domestic Banking through a network of 44 Branches, which were engaged in all the retail services from Mortgages to Auto Loans. A corporate Division looked after the Middle Market and the larger companies, while the Treasury area was now very active in Money Market and Foreign Exchange Markets. FABNY is also a member of CHIPS and SWIFT, and had started handling the accounts of a number of BCC Branches.

Partly as a result of a number of acquisitions made in the previous year, the Bank has now achieved a size of \$800 million in assets and has a capital of \$100 million. It was expected that by the end of 1985, Assets would reach \$1 billion in New York.

They were presently facing the following problems:

1. New York City overheads were high and the dilemma was how to be in profit from year one.
2. Because of its acquisition programme, the Bank was currently a combination of 3 Banks, and a lot of Management time was being spent to form them into one Bank.
3. Sophisticated automation and systems had been put in place. This initially created teething problems, which are now almost resolved, but they had nevertheless taken up considerable time.
4. They were having to work very hard in creating a joint personality of the Senior Management.

To the question of Mr. Jamil on the application of funds Mr. Elley explained different outlets and also agreed with Mr. Jamil that he would do a research on the processing of Cash Letters of Savings and Loans Associations, Thrifts and Credit Unions that has been ignored by money center banks.

Washington Representative Office

Mr. Amjad Awan was requested to provide the timely information on domestic and international deals. Mr. Jamil described Washington as a seat of decision making on major policies on trade and banking business. Mr. Awan assured that they are gearing up to meet the increasing requirements and expectations of assistance of BCC Group.

Conclusion

Mr. Elley concluded that in America we are sitting on 7 Billion dollar assets and this is just the beginning. There is much to do and inspite of diversity of operations as different agencies and banks we have to find a common denominator. The U.S. Team should play an important role in identifying the products in the market and also to improve the resources and also set up an overall direction.

Mr. Sakhia expressed that it is a "unique experience" the U.S. operations have been started by a team of younger and energetic individuals. He suggested that these meetings should be a continuing process and while we meet next time we should come up with recommendations and proposals on what we could do for each other.

It was agreed by consensus that instead of isolated approaches to C.S.O. to present our problems a joint approach should be made that would give a clear perspective on the needs and requirements in the U.S. market.

The participants unanimously agreed to nominate Mr. Shafiqur Rehman Khan as coordinator of these meetings. The next venue of the meeting was decided to be in Miami on June 1, and specific items for the Agenda to be advised to Mr. Shafiqur Rehman for circulation.



MEETING OF AMERICAS CO-ORDINATING COMMITTEE

Held on June 2, 1985 at BCC Caribbean Regional Office in Miami.

The following attended:

Mr. S.M. Shafi	Mr. Louis Soubole
Mr. Aijaz Afridi	Mr. Sani Ahmad
Mr. K.K. Elley	Mr. Munawar Hussein
Mr. Bande Hassan	Mr. Hassan Parvez
Mr. Amjad Awan	Mr. Abdur R. Sakhia
Mr. Shafeeq R. Rehman	

Minutes of the previous meeting held on April 24, 1985 in New York were reviewed. It was unanimously decided that in future the minutes should distill the spirit and content of the meeting together with decisions made by consensus. Minutes should not reflect personalities and produce verbatim discourse.

After some discussions, it was felt that since the meeting on April 24 did not have form and structure, we should start afresh from now. This was especially important since two very senior colleagues Mr. S.M. Shafi and Mr. Soubole had not been able to attend April 24 meeting.

However, since the first meeting was a milestone in bringing about a new process of evolution of BCC in America, and so many valuable contributions were made, the spirit of that meeting should always remain as an eternal part. Two sets of minutes were adopted.

It was proposed to nominate Mr. Shafi to chair today's meeting which was unanimously adopted. A proposal to rotate the chairman at every meeting was discussed, but it was felt that to give form and continuity, there should be a permanent chairman and permanent secretary/co-ordinator. Mr Sakhia was proposed as co-ordinator and secretary to this committee; this was agreed by consensus. Mr. Afridi was proposed to be the alternate chairman to preside over the meeting in the absence of Mr.S.M. Shafi.

C 0000120



Meeting of Americas Co-ordinating Committee
June 2, 1985
Page 2

It was also proposed that membership should be determined and only Heads of various locations should attend this meeting as sanctity would be lost if various substitutes were to attend. It was felt, however; that in some cases an alternate should also be nominated who will be present in the absence of the members.

The following list of members were approved:

LOCATION	MEMBER	ALTERNATE
1. Latin America Region	Mr. S.M. Shafi	Mr. Bande Hasan
2. West America Region	Mr. L. Souhole	(to be advised)
3. Caribbean Region	Mr. Abdur Sakhsia	Mr. Hassan Parvez
4. New York Agency	Mr. Shafique Rahman	Mr. J. Razzaki
5. BCC Canada	Mr. Raja Alihsdad	Mr. M. Hussain
6. Banco Mercantil	Mr. Ferozedean	No alternate
7. First American	Mr. Aizaz Afridi/ Mr. K.K. Elley	No alternate
8. Natl. Bk. of Georgia	Mr. Terig Jamil	
9. BCCI Washington	Mr. Sani Ahmad	Mr. Amjad Awan

The name of this committee was agreed to be "Americas Coordinating Committee". It was also agreed to send minutes of the meeting to the President Mr. Agha Hassan Abedi, Mr. Swaleh Naqvi and Mr. Kamsi Shoaib.

Matters arising from previous meetings were discussed:

1. Co-ordination Desk.

In pursuant of the previous decision to set up a co-ordination desk at each centre. Function of this desk will be as follows:

- 1) To co-ordinate inter-regional marketing.
- 2) To provide protocol and courtesy to customers from other areas.
- 3) To make referrals of customers and potential clients, visiting other locations to these desks.
- 4) To exchange information on prospects and potential businesses.

C 000012:

Meeting of Americas Co-ordinating Committee
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 Page 3

The following were designated to be the contact officers at various locations.

<u>AREA</u>	<u>CONTACT PERSON</u>	<u>LOCATION</u>
Latin America	Mr. Akber Bilgrami	1200 Brickell Ave. Miami, Fl. 33133 Telephone: Telex
West America	Mr. Zafar Saleem	
Caribbean	Mr. Saad Shafi	
Canada	To be advised by Mr. Raja	
First American	Mr. Mansoor Shafi	
Natl. Bk. of Georgia	To be advised by Mr. I. Jamil	

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Meeting of Americas Co-ordinating Committee
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Page 4

It was proposed and agreed that when each location holds the marketing conference, all units should be informed and invited to send participants, as was done by the Caribbean Region and Latin American Region to bring about great interfusion.

The committee was informed that the next Caribbean Regional Marketing Conference will be held in Miami, on July 13 1985 and all were invited to attend and/or nominate participants.

It was also proposed to request Agjs Saheb and other colleagues from C.S.O. to address a Hemisphere-wide Marketing meeting for 30 to 40 participants from Americas. It was also proposed that the subject meeting may be held in Miami, subject to Agjs Saheb's convenience.

Mr. S.M. Shafi clarified the presentation given by Mr. Rizvi in the previous meeting that actual profit contribution by the LAR would be higher than \$ 10M but would not reflect in the books of the units of the Latin America Region as substantial deposits generated by units in LAR were placed with the units in other Regions.

11. MARKETING.

Mr. Shafi also requested that since various people had dealt with various countries in South America and had developed various contacts and relationships, it would be useful if these contacts could be passed on to L.A.R.

Mr. Afridi mentioned that there were two Latin Officers in First American Bank who had been successful in Marketing, and he will request them to prepare a list of their contacts and send it to Mr. Shafi.

Possibilities of BCC Agencies procuring Mortgage business and selling it to First American was discussed. In this connection a preliminary meeting was held in Washington. Mr. Elley would arrange a meeting in New York with Mr. F.A. Nyouliz and First American in Washington for Mr. Sakhis and Mr. Parvez.

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SEN 000871

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A synopsis of Commodity Credit Corporation business was discussed. Mr. Sekhis requested L.A.R. to help marketing in South American countries. He was informed that similar marketing efforts are being launched with the help of other regions.

Mr. Afridi mentioned that he was appreciative of the co-operation of the Caribbean region in giving them both deposits and asset business.

Mr. Shafique Rehman informed the committee that a Cayman Desk and a home remittance desk were set up in the New York agency for providing better service. Mr. S.M. Shafi informed the committee that a new branch is being opened in Grand Cayman to provide full service. Mr. Sekhis mentioned that the Bahamas branch in Nassau was in full operation, and all units can direct business to Nassau.

It is believed that Central Marketing already has Americas desk in London and so, persons concerned may be invited to visit all units in the U.S.A.

III. CREDIT

The group was appreciative of the fact that the process of credit sanction has been expedited by C.C.C. It was also felt that since the U.S. was a new market for BCC and there were new opportunities and challenges, a study should be made to find a desirable area of business such as lessing, factoring and any other area which they felt was worth studying. Once this list is compiled, C.S.O. will be invited to jointly study the feasibility of BCC going to new areas, and provide guidelines to U.S. operations to market these new opportunities.

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Meeting of Americas Co-ordinating Committee
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Page 6

GUIDELINES FOR THE PROPOSALS ARE AS FOLLOWS:

- 1) Business should be within overall philosophy of BCC e.g. short term, secure, profitable (with reasonable return).
- 2) Units should be able to fund themselves within liquidity guidelines.
- 3) There should be a system and/or data-processing capability within the units to handle the type of business or have the ability to acquire the capability and there must be a back up for service and follow up.
- 4) There should be technical and/or legal know how available to handle this type of business.

All units were requested to send their studies and/or recommendations to Miami, as early as possible.

IV. HUMAN RESOURCES

It was felt that as we now have an adequate pool of manpower available within the Americas, we may be able to help each other to meet emergency or short-term requirements. We may also be able to meet longer term requirements by making staff available for transfer. This, in some cases, may eliminate the need for work permits, visas and other requirements.

V. COMPUTERISATION

It was unanimously felt that our data processing capability was inadequate and unsuited to the requirements of the United States and Canada. Each unit from Canada, West Coast, New York, Latin America and the Caribbean gave a list of their problems and difficulties.

C 000C:25



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The Centre in Madison Avenue was not communicating with any unit in the U.S., nor was accountable to any unit in U.S. and was directly reporting to or receiving briefs from London.

It was agreed by consensus that this state of affairs be brought to the notice of Aghs Saheb and his assistance must be sought. It was also agreed that a list of requirements of each area may be compiled and sent to the President, Mr. Naqui, Mr. Shoaib and Systems and Operation Division for possible help.

The list of problems and difficulties was long. They fell into the following categories:

- 1) Software does not meet the regulatory and statutory requirements, and substantial manual book-keeping is required.
- 2) Some returns are prepared for submission to authorities in the case of Canada, but in other locations, no such facility was available.
- 3) Software was not adequate for Marketing purposes, as we are unable to offer any service to our customers.
- 4) Computer system was very inefficient and has a lot of duplication of manual/clerical input which is not cost effective.
- 5) Equipment is very unreliable; there are many breakdowns, and back up service is very poor. The technology is also very out dated. It is least befitting for a progressive and modern home like BCC to be tied to such out-dated equipment.

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SEN 000874

Meeting of Americas Co-ordinating Committee
 June 2, 1985.
 Page 8

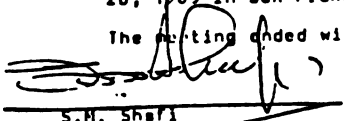
VI. OTHER MATTERS

It was felt that the number of reports and returns to various units in C.S.O. has grown very large, and recommendation should be made to C.S.O. for a review. It was decided that a list of returns of representative locations will be sent to London.

These locations are New York, Los Angeles, Miami and Kingston, Jamaica.

The next meeting is proposed to be held on Saturday July 20, 1985 in San Francisco.

The meeting ended with a vote of thanks to the chair.


 S.M. Shafi
 Chairman


 A.R. Sekhria
 Secretary

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DISK 2 PAGE 437
MESSAGE # 963
RCV LN 1

264862 BCC LAR
RCP JUN 09 1633

2127 BCC PA

BCCI 3259

JUNE 9, 1986

TO: BCCI PANAMA

TO: YK. S.M. SHAFI
BCCI LAR MIAMI

WE GIVE BELOW PARTICULARS OF PARKED LOANS ARRANGED BY LONDON
OFFICE RECENTLY.

DATE	NAME	AMOUNT	PERIOD	INTEREST	REPAYMENT
1. 3.6.86	GANDER LIMITED	6,500,000	1 YEAR	3 PCT OVER LIBOR	IN LUMP BY JUNE 1987
2. 3.6.86	SAGE TRADING INC	6,800,000	"	"	"
3. 4.6.86	MELTAY INC	8,000,000	"	"	"
4. 4.6.86	THON ENTERPRI	9,000,000	"	"	"
5. 4.4.86	TEXAM INVEST	8,500,000	"	"	"
6. 5.5.86	DR. GAITH PHARAON	31,258,194.44	3 MONTHS	3 OVER LIBOR	AT MATURITY

REGARDS
A.M. BILGRAMI

BCCI PANAMA
VVV
264862 BCC LAR
1638 06/09
VIA TRT

*
DURATION 206 SECS LISTED 2116 22202-07-00

PAGE 442 IS NEXT


BANK OF CREDIT AND COMMERCE INTERNATIONAL

 CARIBBEAN REGIONAL OFFICE
 1830 BRUCELL AVENUE MIAMI, FLORIDA 33131 U.S.A

February 10, 1986

Mr. Agha Hasan Abedi
 President
 Bank of Credit & Commerce

Dear Agha Sahab:

Future Plans in the United States

With reference to our brief meeting in London, we are pursuing bank acquisition with Mr. Altman the two institutions I mentioned to you in London. As you are aware, the statewide banking in the state of Florida is achieved either through acquisition in different counties and subsequent merger or by incorporation of Denovo Banks in each county, and merging them subsequently.

The first process is expensive as we have to pay premium for each acquisition plus all legal and out-of-pocket expenses. The second process also involves considerable time and expense as the Denovo Incorporation goes through possible public hearings.

As I suggested to your good self, we may apply for state chartered agencies of BCC Overseas in Ft. Lauderdale, Orlando and Jacksonville counties. Because of our relationship with state authorities we can get approval ourselves within two to three months without involving any legal cost whatsoever.

When we complete the acquisition of a bank we may then transfer existing agencies with the exception of the Miami Agency to the acquired bank with considerable savings of cost and time.

As you are aware, National Bank of Georgia (NBG) maintains an agency in Miami which primarily does correspondent banking business with the Central banks and commercial banks from Central American countries. They also have some deposit base of non-resident customers. In view of the forthcoming restructuring of the bank in Georgia, it may be useful to merge their Miami operation with BCC Overseas, Miami, as this will offer additional dollar deposit and correspondent banking relationship to BCCI Overseas.

.../2



Mr. Agha Hasan Abedi
President
Bank of Credit & Commerce

Page 2

BCCI Colombia (Banco Mercantil) maintains an office (just a book) in the Bahamas. U.S. dollar deposits generated from clients by BCC Colombia are generally placed by them with their own Nassau Branch. The same dollars are used by them for their U.S. dollar loans.

It is possible to merge BCC Colombia's Nassau operation with BCC Overseas (Nassau Branch), resulting in an increase of dollar deposit of BCC Overseas. The profits earned by lending back to BCC Colombia will remain in U.S. dollars instead of converting it back to Colombian pesos and free from tax.

As usual I shall be grateful to receive your most enlightened guidance on the above and shall be most pleased to initiate the necessary steps for the above.

Sincere regards

Abdur R. Sakhia

c.c. Mr. Ameer Siddiki

Mr. SAKHIA. Very little. In the early eighties, First American had just come into existence. They were still finding their direction, their business plan, and in our view First American did not have a marketing culture. They were not well known, they were not aggressive, they were not efficient. They were managed by lawyers and a geriatric board.

So we were helping them on their feet. Very little was being done by them for BCCI.

Senator KERRY. I'm going to come back to that a little bit later. But let me just ask you, did Mr. Afridi and Mr. Elley—I understand you have said to the staff that Mr. Afridi and Elley of First American and Mr. Jamil of National Bank of Georgia all understood that First American and National Bank of Georgia were owned by BCCI. Is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. How do you know that?

Mr. SAKHIA. Again, all of this is the evidence, that we are doing things together. We are bearing the costs, "we" meaning BCCI is incurring the costs; First American is getting the business. Not only that we are giving or introducing business to them, we are also telling them how to do the business.

These are not arm's-length interbank relationships.

Senator KERRY. Now, I am confident that Mr. Altman would sit at this table, or anybody would, and say: Wait a minute, folks, we were a bank on our own, we did an awful lot of deals that you guys never knew about in Florida, and we earned plenty of money and proved to be a profitable bank by virtue of our capacity to make all these deals, in real estate and a lot of other things.

You're not going to sit there and say that you looked over their shoulder on every deal they made, are you?

Mr. SAKHIA. I didn't, but Mr. Abedi did.

Senator KERRY. Mr. Abedi did?

Mr. SAKHIA. Yes. They reported to Mr. Abedi.

Senator KERRY. Excuse me?

Mr. SAKHIA. They reported to Mr. Abedi about their performance, about their budgets.

Senator KERRY. They don't contest that. They don't deny that. They say they did indeed report to Mr. Abedi. They reported to Mr. Abedi because Mr. Abedi was responsible for the shareholders, for the investors, and they were designated to indeed report to Mr. Abedi.

Where's the inconsistency?

Mr. SAKHIA. Sir, I fail to understand, because I have heard both in the testimony and in the press that it was difficult to communicate with the Middle Eastern investors. I fail to understand that, because the type of the list that has come up front now involves people who did business in the United States, who came to the United States.

They were not Bedouins in the desert who were being communicated. These were intelligent people who owned banks and businesses. The Abu Dhabi Investment Authority has several billion dollars investment in this country, and if they can manage those businesses they did not need a channel via Mr. Abedi to First American. They could have done it directly.

So were the Mafuz family and so with Pharaon. So I do not buy that it was difficult to communicate. They were not some Indians in the woods or Bedouins in the desert. These were big, prominent people. They had counsels here, they had investment advisors here, they had offices here, they had businesses here.

So I don't buy that because of the difficulty of communication with the Middle East. This doesn't wash with me.

Senator KERRY. Don't big, prominent, wealthy people sometimes choose an individual to be their go-between and middle person in the management of their portfolios for a particular investment?

Mr. SAKHIA. Unless, unless they were a silent investor in a small way. But here is a handful of people owning a major business, and they have several other businesses.

Senator KERRY. Not banks necessarily.

Mr. SAKHIA. Sorry?

Senator KERRY. Not necessarily banks. Here they were investing in a bank and they went to a banker who had a big international bank, who also happened to be a representative of the Third World. They were comfortable with that and so they said: You be our advisor; you know banking. We don't. You do it.

Mr. SAKHIA. How much did Mr. Abedi know about banking in the United States which Mafuz or Audia or Pharaon did not know? He had no banking presence in the United States. He had no business experience in the United States. He had certain experience in the Middle East and Pakistan and Africa, but not in the United States.

What counsel can Mr. Abedi give to go to Mr. Altman which either the Mafuz family or the Abu Dhabi family or Pharaon family could not go directly to Altman and Clifford? Why would they need an intermediary in that situation?

I can understand, yes, Mr. Pharaon wants to ask me to introduce him to people in one of the Caribbean countries. I can understand that. But in the United States, where he has a home, where he has an office, where he has a counsel, where he has a staff, he could do whatever he wants and he could have direct communication with any lawyer or any executive that is managing this enterprise.

Senator KERRY. Well now, isn't it a fact that Mr. Abedi actually told you that BCCI owned these other two banks?

Mr. SAKHIA. He told all of us that this was one and the same enterprise.

Senator KERRY. How often did he tell you that?

Mr. SAKHIA. Ongoing. Mr. Abedi used to single me out in some of the meetings to say that—because I was insistent that BCCI should have a direct presence of BCCI in the United States because we had a lot of opportunity, we were marketing with our hands tied behind our back because we were agencies. And he would say: Well, why don't you do marketing for our other banks, for First American Bank, for National Bank of Georgia? Here are two banks; what do you want?

I'd say: Sir, it makes a difference because we do not control the transactions, we do not provide the services directly; we have to go through other people. And this example that you showed me is an example of how we were instructing them to provide the service,

because it was not in our control. It was being done by a different entity. So we had to spell it out step by step what they should do.

Senator KERRY. Did Mr. Abedi at some time have a discussion with you about getting business for First American and you were questioning it, and he said, it's OK?

Mr. SAKHIA. Yes, I would question because we were frustrated at the response time, turnaround time, service of First American. In BCC we in terms of business used to give a very good turnaround time, very good service. First American was in that sense very bureaucratic.

And Mr. Abedi would say: Why don't you pass on business? I would say: First American stinks, First American cannot respond the way we respond.

So then he brought about the coordination committee to ensure that things flowed smoothly. In mid-1985 or third quarter 1985, I still insisted that we should have a bank in U.S. So in November 1985 these two decisions were made: one, to merge the First American and National Bank of Georgia; and that BCC should have its own presence.

Senator KERRY. What was Gaith Pharaon's role at BCCI?

Mr. SAKHIA. He was, what we knew them, was one of the largest shareholders in BCCI, and he was a customer of BCCI. Also we knew that he was a front man in several deals, including National Bank of Georgia. There were nonbanking deals, like an oil company, a cement company, and other business, in which Gaith Pharaon was a participant.

Senator KERRY. Well now, what do you mean by a "front man"? First of all, how did you come to know that he was a front man for National Bank of Georgia?

Mr. SAKHIA. Let me, sir, take you to the Middle Eastern way of doing business. If you want to do a business in any of the Middle Eastern countries, you need a local sponsor. A foreign company cannot do business in most of the Middle Eastern countries.

Now, the local sponsor could be an active participant or he could be only your sponsor. That means he gives you his name, he gives you his connection, his work permits, but does not participate. He just takes either a percentage of profit or a flat fee.

This business was turned around in the case of businesses outside the Middle East. Mr. Pharaon had been a sponsor of one of the insurance companies which was owned by ICIC in Saudi Arabia. The same thing was turned around in the case of National Bank of Georgia.

Senator KERRY. Except that he wasn't local.

Mr. SAKHIA. Yes, but the same business, like McDonald's is now in Russia. This practice was brought to the United States. The practice that had very well succeeded in the Middle East was now being brought to the United States.

Senator KERRY. To find a front person?

Mr. SAKHIA. To find a front person.

Senator KERRY. But what proof do you have that he wasn't in fact a legitimate shareholder who actually purchased this on his own?

Mr. SAKHIA. The example that I gave you of the two brothers and a father. What I have seen now with various agencies, how the

merger of First American and Independence Bank took place, was how the money went into the circle.

Senator KERRY. Well, did you know at the time that he had his loan pledged completely to BCCI?

Mr. SAKHIA. Not specifically, not until April 1990. We had a sense of it, but we did not know the specifics.

Senator KERRY. But you personally didn't know it?

Mr. SAKHIA. No, sir.

Senator KERRY. So you personally, who were the head of BCCI in the United States, doing day to day practical management, didn't know it?

Mr. SAKHIA. No, sir, because the loans were in Grand Cayman.

Senator KERRY. Then why wouldn't it be perfectly credible that Mr. Clifford and Mr. Altman wouldn't know it, either? If you could be deceived by that, why couldn't they?

Mr. SAKHIA. I wasn't deceived. I knew it. I wasn't aware of the bookkeeping until I saw the file on the Independence Bank. When I saw the file on Independence Bank, I became aware of the specifics.

Senator KERRY. When did you see the file on Independence Bank?

Mr. SAKHIA. About May 1986.

Senator KERRY. May 1986 you learned what?

Mr. SAKHIA. We were in process of acquiring a bank in Florida and we were going to have Fulaj as our nominee.

Senator KERRY. Fulaj, Mr. Fulaj was going to be the front man, the nominee?

Mr. SAKHIA. Was going to be the front man.

Senator KERRY. Didn't you in BCCI have a nickname for that? Didn't somebody call that "rent-a-face"?

Mr. SAKHIA. No, sir. That was a nickname for the directors of BCCI.

Senator KERRY. That was a nickname for what?

Mr. SAKHIA. For the directors of BCCI.

Senator KERRY. Oh, for the directors. They were the rent-a-faces?

Mr. SAKHIA. Yes, sir.

Senator KERRY. What were these, rent-a-body or something?

Mr. SAKHIA. Rent-a-name, whatever.

Senator KERRY. Rent-a-name.

But basically, Fulaj was simply going to be a setup, a front for the purchase?

Mr. SAKHIA. Yes, sir, on the same model, on exactly the same model as Pharaon was.

Senator KERRY. On the same model. How did you know it was on the same model?

Mr. SAKHIA. Because I was given the file. I had seen the file.

Senator KERRY. You saw the file?

Mr. SAKHIA. Yes.

Senator KERRY. And the file you saw was also shared with attorneys at that time, wasn't it?

Mr. SAKHIA. Yes.

Senator KERRY. What attorneys was it shared with?

Mr. SAKHIA. With Mr. Altman.

Senator KERRY. So he saw a file which similarly at that time showed this model for front person acquisition?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now, what specifically did it show as to Pharaon?

Mr. SAKHIA. The power of attorney from Pharaon, his net worth statement, his loan agreements, the pledge agreements.

Senator KERRY. The pledge agreements, the whole thing?

Mr. SAKHIA. Yes, the series of documents. It was the complete file.

Senator KERRY. So in 1986 you got the whole picture?

Mr. SAKHIA. Yes, sir.

Senator KERRY. You could see precisely how one loan was subscribed to from one institution and then pledged to another?

Mr. SAKHIA. Yes.

Senator KERRY. Shares of stock as collateral pledged, so that ultimately you had this circular ownership situation.

Mr. SAKHIA. In the case of Independence Bank, it was done in even a little more sophisticated way. The loan was made by a New York bank. This bank was guaranteed by a French bank. BCCI guaranteed the French bank. So it was sort of one step—

Senator KERRY. But the French bank was a BCCI bank?

Mr. SAKHIA. No, sir. They had a common directorship, BAIL.

Senator KERRY. OK, BAIL was common directorship.

Mr. SAKHIA. It had a common directorship.

But BCCI guaranteed BAIL, BAIL guaranteed New York bank, New York bank made the loan. When the loan was not serviced, BCCI paid the interest. When the loan became due, BCCI paid the installments.

Senator KERRY. Now, Mr. Fulajj was also an original investor in First American, wasn't he?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Was he a front man in that transaction, do you know?

Mr. SAKHIA. Well, I believe so.

Senator KERRY. But you don't know?

Mr. SAKHIA. Well again, I keep going back to a common understanding in BCC, that this is one and the same bank.

Senator KERRY. We'll just take 1 minute here. [Pause.]

I think what we're going to do now—it's just about 1 p.m.—is break for lunch, come back, pick up with the National Bank and some other items. We may not begin exactly at 2:30 p.m., but we're going to try to. We have another committee quorum issue which I've got to attend to. But we'll plan on beginning the hearing again at 2:30 p.m. this afternoon, and we'll stand in recess until that time.

[Whereupon, at 12:56 p.m., the subcommittee was recessed, to reconvene at 2:30 p.m. the same day.]

AFTERNOON SESSION

The subcommittee convened, pursuant to notice, at 3:12 p.m., in room SH-216, Hart Senate Office Building, Hon. John Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry and Brown.

Senator KERRY. The hearing will come back to order. My profound apologies to all concerned about the delay. Of course, I told you I did not think it might start until about 2:45 p.m., but the Senate then scheduled, as it is often wont to do in the middle of a session like this, a vote, and that took even longer.

The great advantage of having these hearings during recess, which not a lot of people like to do, is that we really get a lot more done in continuum. Sometimes that is very important.

Mr. Sakhia, let me remind you that you remain under oath, as you were sworn earlier today.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Would you pull the microphone just a little closer? I want to make sure that you as audible as possible. I think some of you may have had a little problem hearing you earlier this morning.

Mr. SAKHIA. Yes.

Senator KERRY. I would like to come back now and fill in a few gaps as we go along sequentially here. I would like to go back to the issue of Mr. Pharaon and the purchase of the National Bank of Georgia.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Did you learn at some point that Mr. Pharaon had developed serious financial problems?

Mr. SAKHIA. Yes, sir.

Senator KERRY. When did you learn that?

Mr. SAKHIA. I think in the latter part of 1985, the second half of 1985. It was all over the news that Mr. Pharaon bought his businesses in Saudi Arabia and outside world, had severe liquidity problems, and there was a standing committee of banks set up to resolve the problem of the stack of loans.

Senator KERRY. So in 1985 Mr. Pharaon had a number of business failings or problems outside of BCCI?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And a bank, a series of banks came together as a creditor group?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And they were chasing Mr. Pharaon for money, is that correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. How significant were those claims, do you know? What kind of money was at stake, would you estimate?

Mr. SAKHIA. In hundreds of millions of dollars.

Senator KERRY. So hundreds of millions of dollars of problems for Mr. Ghaith Pharaon?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now, did that in some way affect anything with respect to BCCI and its relationship to Mr. Pharaon?

Mr. SAKHIA. My feeling is that Dr. Pharaon had a shareholding in BCCI and he had ownership of National Bank of Georgia which to the outside world was unencumbered, but in fact it was encumbered to BCCI, or BCCI affiliates like ICIC and so on, within the one umbrella. So—and later on within a few months—

Senator KERRY. Pull the microphone down a little bit, see if that is better.

Mr. SAKHIA. Within a few months there was no more shareholding in BCCI. All the shareholding in BCCI had been transferred to or sold to the Mahfouz family.

Senator KERRY. Sold? I did not understand that.

Mr. SAKHIA. Either sold or transferred. Effectively he no longer remained a shareholder in BCCI.

Senator KERRY. That was transferred?

Mr. SAKHIA. According to my knowledge and my understanding.

Senator KERRY. How was it transferred, do you know?

Mr. SAKHIA. Well, again, what I've seen or what I've heard since 1990 is that a loan was given to Mahfouz family to buy the shares and the loans of Pharaon's were adjusted.

Senator KERRY. So a loan was given by BCCI?

Mr. SAKHIA. Or BCCI affiliates like ICIC.

Senator KERRY. So all the BCCI affiliates chipped in loans?

Mr. SAKHIA. Right, sir.

Senator KERRY. In order to give the money to somebody to buy out Mr. Pharaon so Dr. Pharaon would no longer have a visible or attachable, reachable liability?

Mr. SAKHIA. Yes, sir. Reachable asset.

Senator KERRY. A reachable asset.

Mr. SAKHIA. Which could be attacked by the creditor banks.

Senator KERRY. Are you saying to us that BCCI was afraid that this front person had accrued outside liabilities—

Mr. SAKHIA. Yes, sir.

Senator KERRY. That would then put BCCI's true interest at risk if they were able to reach that interest in the name of Pharaon?

Mr. SAKHIA. That's correct.

Senator KERRY. Therefore, you are saying that Mr. Pharaon went through some transactions to get out from under the potential of BCCI, in fact losing that interest?

Mr. SAKHIA. Right, sir.

Senator KERRY. Is that why National bank of Georgia was sold?

Mr. SAKHIA. Again, that is my conclusion.

Senator KERRY. That is your conclusion. Well, were you part of any discussions? Did you hear any conversations to that effect?

Mr. SAKHIA. Not with regard to restructuring of Dr. Pharaon's portfolio and investment within BCC group, but in general I was aware that there were meetings in London which I was not party to, but there were meetings taking place in London to restructure the holding and the loans and the assets relating to Dr. Pharaon's business.

Senator KERRY. Who were those meetings between?

Mr. SAKHIA. Between Mr. Abedi, Mr. Naqvi, a representative of Mr. Pharaon, the people from Central Credit Division, so they were restructuring the Pharaon case, and at the end of 1 year, or within the period of about 12 months, from a holder in—of National Bank of Georgia and probably the largest single holder in BCC, he no longer remained shareholder in BCC and he no longer owned National Bank of Georgia.

Senator KERRY. Now, you have testified that BCCI made the decision to take over National Bank of Georgia directly rather than Mr. Clifford or Mr. Altman making the decision, is that accurate?

Mr. SAKHIA. That's my understanding.

Senator KERRY. Well, when you say, your understanding, I want you to be precise. Did you have knowledge of that as a matter of—

Mr. SAKHIA. Yes, sir, I have.

Senator KERRY. You do have knowledge? What is your knowledge of that?

Mr. SAKHIA. Before, I would make one or two side comments with your permission.

First of all, none of these documents here or with any other agency I have given to anybody. They have all been independently found. I have not given—

Senator KERRY. All right. You didn't give these documents to anybody?

Mr. SAKHIA. To anybody.

Senator KERRY. The documents which you've evidence of some of this were independently supplied or found?

Mr. SAKHIA. Yes, sir. Second, you reminded me about oath. At this morning we discussed that some of my testimonies had been under oath and others had been without oath, but to me both is the same. Whether I made any agency of the Government under oath or without oath, I will tell what I know to be true. I just wanted to make these two points.

Now, coming to National Bank of Georgia, there was a meeting in Miami in November of 1985.

Senator KERRY. Who arranged that meeting?

Mr. SAKHIA. I had organized the meeting.

Senator KERRY. You organized the meeting?

Mr. SAKHIA. I organized the meeting with Mr. Abedi. Mr. Naqvi came from London. We had the conference, which was for BCC, but during this period of Mr. Abedi's stay there was a meeting between Mr. Clark Clifford, Mr. Altman, Mr. Abedi, Mr. Naqvi, Mr. Faruq Jamil, and I think Mr. Carlson.

Senator KERRY. Mr. Roy Carlson?

Mr. SAKHIA. Mr. Roy Carlson.

Senator KERRY. And this meeting was in an open office?

Mr. SAKHIA. This was held in a conference room which was a glass conference room, and I was sitting in the office. I had sent the invitations and made arrangements for everybody's travel.

Senator KERRY. But you were not actually present during the meeting?

Mr. SAKHIA. Not during the meeting, but in the evening before this meeting.

Senator KERRY. Before we get to the evening, it is my understanding that after the meeting Mr. Abedi met, you all met, and Mr. Abedi told you something.

Mr. SAKHIA. Yes. He told us two things, No. 1, that the National Bank of Georgia would merge with First American, and No. 2, that we would have our own bank in Florida, that BCC will have its own direct presence in Florida. These were two crucial decisions taken at that meeting.

Senator KERRY. Now, when Mr. Abedi told you that, did Mr. Abedi say to you that we have instructed them to buy the bank, or to sell the bank, or instructed, this is the way that—how was that conveyed to you?

Mr. SAKHIA. Well, my recollection is that we talked of merger and not buy and sell. We talked of merger of National Bank of Georgia with First American Bank.

Senator KERRY. Did you discuss the issue personally yourself with either Mr. Altman or Mr. Clifford?

Mr. SAKHIA. No, sir, not the National Bank of Georgia issue. I have not discussed that with them.

Senator KERRY. It was my understanding that you were at a dinner the night before with Mr. Naqvi and Mr. Abedi.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Was there a discussion at that dinner meeting?

Mr. SAKHIA. And Mr. Altman. Mr. Abedi briefed Mr. Altman about the next morning's agenda of their meeting, and again these were the two subjects. The one was the merger of NBG and First American, and the second was—

Senator KERRY. Well, would it be unusual for Mr. Altman as counsel—I mean, he wears several hats, and that's been an issue here. Why would it have been unusual for Mr. Altman or Mr. Clifford as lawyers, for Mr. Abedi and lawyers for BCCI not to have been briefed? That would seem to be a normal course of business.

Mr. SAKHIA. Well, here they are also the chairman and the president of First American, and they are being told of the decision to merge the two entities. They are supposed to do all the regulatory and legal work and paperwork, but essentially the decision is being made by Mr. Abedi. Also, sir, I have been shown a document of my report to Mr. Abedi of February 1986.

Senator KERRY. What document is that? Go ahead. Why don't you continue?

Mr. SAKHIA. According to this document, I have had discussions with Mr. Abedi which part of NBG should we transfer to First American and which part should be directly taken by BCCI. According to this document, I have suggested that the Florida offices of National Bank of Georgia should merge with BCC Florida, as it was going to be, and the rest should go to First American. So that is the decision we are making in BCCI, not being made by Mr. Clifford or Mr. Altman.

Senator KERRY. This is the document, a letter from you to Mr. Abedi?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Dated February 10, 1986?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And this letter notes that you personally will be meeting with Mr. Altman in order to pursue this transaction?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Stating, "With reference to our brief meeting in London we are pursuing bank acquisition with Mr. Altman the two institutions I mentioned to you in London."

So you were really briefing him on the completion of his instructions with respect to that, is that correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now, again, why is it not possible that Mr. Abedi was simply conveying the instructions of the shareholders of the investor group that he represented?

Mr. SAKHIA. Yes, but earlier you asked me whether the decision was being made by Clifford or Altman or being made by Mr. Abedi. What I'm saying is that this decision for First American to merge with National Bank of Georgia is being made by Mr. Abedi, not by Mr. Clifford or Altman or board of First American.

Senator KERRY. So it's your testimony that while the regulators and anybody in the public who might have noticed thought that First American was just buying a bank in Georgia—

Mr. SAKHIA. Yes.

Senator KERRY. In effect BCCI was giving instructions to what it considered a subsidiary to buy a bank for BCCI, is that your testimony?

Mr. SAKHIA. Yes, sir.

Senator KERRY. OK, and you believe that the documents that you have cited, as well as others, support that?

Mr. SAKHIA. Yes, sir.

Senator KERRY. What other documents would you assert support that?

Mr. SAKHIA. Sir, I mentioned this morning a very critical document, which I haven't seen with any authorities here, was a model file of the transaction of Independence Bank.

Senator KERRY. The model file. That is the file that you testified to earlier today.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Which had the details of the National Bank of Georgia buy-out plus the prospective buy-out of the bank in Florida.

Mr. SAKHIA. That had the model of Independence Bank in California which was the model which were going to follow in Florida.

Senator KERRY. Now, did you meet with Mr. Altman in Luxembourg in May 1986?

Mr. SAKHIA. Yes, sir, I did.

Senator KERRY. Who else was present at that meeting?

Mr. SAKHIA. Mr. Swaleh Naqvi and Mr. Shahid Jamil, and Mr. Robert Altman, and myself. We had discussed about the acquisition of the Florida bank and we had come to an impasse whether BCC could buy because of it's financial problems or whether a nominee should buy. And between February 1986 and May 1986, three nominees had been changed. And in that meeting Mr. Naqvi briefed us that now the nominee would be Mr. Al-Foulaij, and he would send power of attorney and documents and he mentioned that he would give one of us the file on which we should base the model on.

Senator KERRY. And the reason that the bank did not go for those purchases directly again was what?

Mr. SAKHIA. Because BCCI had a major loss in 1985. And with the financial statement as of December 1985, it was not thought prudent to go the regulators for approval of BCCI as a foreign bank-holding company in United States.

Senator KERRY. Now, let me reference another document which is—I believe you have it there—it is a memorandum from you. Copy was sent to Mr. Naqvi, and I think it is for the file. And this was as to the meeting that you held in Luxembourg.

Mr. SAKHIA. Yes, sir.

Senator KERRY. And this memorandum you've looked at it and you're familiar with it?

Mr. SAKHIA. Yes, sir.

Senator KERRY. This memorandum then is documentation of what you have just said about that meeting?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And this memorandum documents the bank's instructions and the bank's efforts to effect this sale itself rather than to have this done independently.

Mr. SAKHIA. Yes, sir.

Senator KERRY. And that memo, I believe sets out that Mr. Altman was going to have the power of attorney for Mr. Al-Foulajj. Is that correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. In order to have the power of attorney, he would have therefore had to have been conducting the transaction, I take it.

Mr. SAKHIA. Yes, he was to complete the paperwork.

Senator KERRY. Complete the transaction.

Mr. SAKHIA. Complete the transaction, yes, sir.

Senator KERRY. And since it was being affected on the model that you have described, that would mean that all of the paperwork that was attendant to the carrying out of that model would have been in his control or under his purview, is that accurate?

Mr. SAKHIA. Right.

Senator KERRY. Was it, in fact? Do you know?

Mr. SAKHIA. This was not to reinvent the wheel. We had done all of the—the similar had already been done vis-a-vis the California bank. So the power of attorneys, the loan agreements, the management agreements, the assignments, the collateral, everything was already existent. All they had to xerox them again, put new names and get them signed.

Senator KERRY. Now, did you ever go to the offices of Clifford & Warnke in Washington for any reason?

Mr. SAKHIA. I had been, sir, a few times.

Senator KERRY. A few times.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Do you recall a meeting in June or July 1988?

Mr. SAKHIA. Yes, sir.

Senator KERRY. What was that meeting?

Mr. SAKHIA. We had gone to brief Mr. Altman, we meaning Mr. Dildar Rizvi and myself had gone to meet with——

Senator KERRY. Who is Mr. Dildar Rizvi?

Mr. SAKHIA. Mr. Dildar Rizvi was the new head of U.S. desk in the head office. He was in charge of the U.S. operation in the head office.

Senator KERRY. In the head office, in London.

Mr. SAKHIA. In London. He visited me in New York and then Mr. Rizvi and myself went to meet Mr. Altman in Washington, in his office in Washington, to brief him about a decision to convert BCC agencies in California to full branches, and then from full branches to a subsidiary in California. At the—we had a long meeting. We discussed the whole business plan and staffing and capital, everything.

At the end of the meeting Mr. Rizvi asked Mr. Altman whether Mr. Clifford was in the office. He would like to pay his respects to Clark Clifford. So Mr. Altman found out and we went to Mr. Clifford's office for a few minutes. Mr. Dildar Rizvi greeted him and paid his respects. That was essentially a social or a protocol-type of meeting with Mr. Clifford. With Mr. Altman was a meeting of substance, with Mr. Clifford was a meeting of courtesies.

Senator KERRY. Was there any discussion of substance with Mr. Clifford at all?

Mr. SAKHIA. No, we very briefly, 2 minutes, Mr. Rizvi briefed him that now we were going ahead with our plans in California and Mr. Clifford, I remember said little jokes, political jokes, other jokes. And he said, what strikes out in my mind, is Mr. Rizvi, welcome aboard. We will tell more lies now.

Senator KERRY. We'll tell more lies now. Mr. Clifford said that?

Mr. SAKHIA. To Mr. Dildar Rizvi.

Senator KERRY. That sounds like at—I mean, that's sort of—was that in a joke?

Mr. SAKHIA. Well, I thought to be a joke, but the present context, it's no more a joke.

Senator KERRY. But it was meant as a joke then?

Mr. SAKHIA. It was meant as a joke then.

Senator KERRY. You are positive of that? I mean, there is no question in your mind about, I mean, it just sounds like an improbable thing for an intelligent lawyer or somebody to say. It just—you know, it is kind of hard to believe. That is all I am suggesting.

Mr. SAKHIA. These are the words to the best of my memory. This is Dildar welcome aboard. We will now tell more lies.

I did not know what was the private joke, what was the context of that joke.

Senator KERRY. Is there any question in your mind about your memory with respect to that?

Mr. SAKHIA. Not to these words, no.

Senator KERRY. No question.

Mr. SAKHIA. I'm very positive that these are the words which were said.

Senator KERRY. I am going to—you have identified for staff, and I just want to put it in the record very quickly. You have identified a series of documents with respect to the Castle Investment Group, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And it is your testimony that the Castle Investment Group of Fort Lauderdale was business that was given by you to First American?

Mr. SAKHIA. Yes, sir.

Senator KERRY. OK. And that document will be made part of the record. And in addition to that, there is a document dated June 10, 1985 from Hassan Parvez to a Mr. Amber Unis, on BCCI stationery. And this is regarding participation sold to First American Bank. Is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Do you have that document there? What was the meaning of that document, participation sold to First American?

Mr. SAKHIA. Well, we were—we had taken—we had given a loan to, I believe this relates to Jamaica under the CCC program. We would get a mandate and then sell part of the loan to other institutions. In this case, First American had bought the participation from us.

Senator KERRY. Well, it says here that the loans are accruing at 10.875 percent, which represents the rate of interest being paid by Bank of Jamaica to BCCI.

Mr. SAKHIA. Yes, sir.

Senator KERRY. In turn, we have sold these loans at prime rate, leaving a seven-eighths percent of a point spread for us. Is that correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. So in other words, you took the business, gave it to First American.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Kept a spread for BCCI.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Is there anything—that doesn't strike me as unusual. I mean, do banks not do that all the time, or am I misreading this?

Mr. SAKHIA. No, but the banks—we did send the participation to other banks as well. So in that sense it's not unusual except that in the case of other banks there would not be a memorandum like this. The other banks would buy the participation and then do its own bookkeeping, do its own transactions, do its—receive its own payments. Here we are doing a lot more work than an arm's-length correspondent bank.

Senator KERRY. And therefore, the importance of this document as you present it to us is that this document demonstrates a different relationship from the norm?

Mr. SAKHIA. Yes, sir.

Senator KERRY. It demonstrates a relationship of BCCI participating in the deal in a way that would not normally occur with an arm's-length transaction.

Mr. SAKHIA. No, sir. Regarding all the paperwork and detail work in a syndication market when a major bank syndicates a loan, then each member of the syndicate does its own accounting, does its own interest calculation, everything. Here we are doing everything for First American.

Senator KERRY. I see. You are doing everything for them. Was that what the seven-eighths percent was supposed to cover?

Mr. SAKHIA. No, that was related by the market. That was dictated by the market because—

Senator KERRY. Why was it necessary to take seven-eighths percent if BCCI owned First American and you just give the whole thing to them and in the end, recoup. What was the purpose?

Mr. SAKHIA. Well, the manager in Miami is also overzealous and he wants to also show some profit. So the decision had been made in London of the level, or even at my level we would not have bothered about it. But this overzealous managers would try to get an advantage.

Senator KERRY. Grab his piece to be able to show success?

Mr. SAKHIA. Yes. Also, one other caveat to that is that to my memory we had sold the insured portion to First American, where as to other banks we would sell 100 percent. In this case, to First American we had sold only the portion that had been guaranteed by the U.S. Department of Agriculture. The risk portion still remained with BCCI.

Senator KERRY. The risk portion remained with BCCI.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Well that wouldn't be a normal transaction, would it? You wouldn't give away—

Mr. SAKHIA. No, we would not. We would send the participation of the loan as is to other members of the syndicate. But in this case of First American, because they were not experienced and aware of these type of transactions, so we gave them insured transaction. We did the collection, the did the interest calculation, we did all the booking. We just gave them the part of the business for them to make money.

Senator KERRY. With respect to Canal Place Limited Partnership, and a document dated June 21, 1985 from BCCI to Mr. Afreedi at the First American Bank, that states that BCCI requires First American to add its confirmation to a standby letter of credit from BCCI Tampa to Travelers Insurance. Is that correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. What is the meaning of this document?

Mr. SAKHIA. Well, under this—the—our customer was borrowing some moneys from Travelers Insurance and many other agencies under the guarantee of BCCI. BCCI not being a U.S. bank, Travelers Insurance and City of New Orleans would not accept BCC guarantee, or BCC's standby letter of credit. So it needed American bank confirmation.

We asked, almost told, according to this memo First American what to do. They would come into the position of the confirming bank. Now as I recall, Travelers Insurance did not have First American on the approved list, nor did City of New Orleans. So we went to Travelers Insurance to accept the First American confirmation.

Senator KERRY. Could First American have refused to do this?

Mr. SAKHIA. It could not. We had told them what to do, and they would do it.

Senator KERRY. I beg your pardon?

Mr. SAKHIA. They could not send her to us.

Senator KERRY. Why?

Mr. SAKHIA. We told them what to do, and they would do it. And this document is an evidence of that.

Senator KERRY. This says, To First American Bank, for the kind attention of Mr. Ijaz Afreedi. Please discuss and pass on this message to Mr. Sakhia.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Require First American Bank to add their confirmation to the following, standby letter of credit, which is something by the BCCI Tampa to Travelers—which is issued by BCCI, Tampa, to Travelers Insurance.

So you are saying require First American. That was an instruction?

Mr. SAKHIA. Right.

Senator KERRY. And is it true that if that had not happened without the bank up guarantee, you would not have been able to arrange that transaction?

Mr. SAKHIA. Well, in the end, if my memory serves me right, the Travelers did not accept First American. So we had to then arrange it with Bank of America.

Senator KERRY. OK, do you know why they did not accept?

Mr. SAKHIA. Because still it was an unknown, relatively small bank.

Senator KERRY. With respect to imports, P.L.—that is Public Law 480, Imports by Sri Lanka, there is a document dated September 3, 1987 to a Mr. Nassim Khan, of BCCI in Sri Lanka. And this came from a Mr. Jaffre of BCCI in Washington, that is the Washington—

Mr. SAKHIA. Representative office.

Senator KERRY. That is right.

And this document describes how First American will handle the banking needs of BCCI, Sri Lanka. Is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And this simply says to Mr. Abedi, reference your memo, dated July 17, 1987, addressed to Mr. Amjad Awan, we contacted the International department of First American Bank, and advised them that they have been registered with Central Bank of Sri Lanka to quote rates for advising a negotiation of LC's under the P.L. 480 program.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now why could that not have been pursuant to their instruction, or request?

Mr. SAKHIA. I don't understand your question.

Senator KERRY. When you say—not you, but when Mr. Abedi is informed—

Mr. SAKHIA. This Mr. Abedi is a different Mr. Abedi. He is not the president of the Bank.

Senator KERRY. I beg your pardon?

Mr. SAKHIA. This Mr. Abedi is a different Mr. Abedi.

Senator KERRY. Correct, Mr. Youssef Hussein Abedi.

Mr. SAKHIA. Youssef Abedi, yes, sir.

Senator KERRY. But when he was informed—he is the International Division of BCCI?

Mr. SAKHIA. No, Mr. Youssef Abedi—was he the manager in Sri Lanka, or was he the International Division?

Senator KERRY. I think International Division.

Mr. SAKHIA. Yeah, at that time he may be an International Division.

Senator KERRY. This is July 1987.

Mr. SAKHIA. Yes, sir, Mr. Massi was the manager. You are right.

Senator KERRY. But my question to you is, this merely states, we contacted the International Department of First American.

Mr. SAKHIA. Yes.

Senator KERRY. And it says that they have been registered with Central Bank, correct?

Mr. SAKHIA. Central Bank of Sri Lanka.

Senator KERRY. And what are you asserting that that document—

Mr. SAKHIA. What I'm saying is that BCCI is making efforts to register First American, Washington, as an acceptable bank to the Central Bank of Sri Lanka.

Senator KERRY. Could they not have done that at the request of First American?

Mr. SAKHIA. No, but First American would have to either go themselves to Sri Lanka to register themselves. In this case, BCCI manager in Sri Lanka, and BCCI International Division in London, is doing all the effort to register First American with the Central Bank.

Senator KERRY. Is that unusual?

Mr. SAKHIA. It is. You wouldn't do it for the third party. You would do it for your own. But not with somebody else.

Senator KERRY. So what you are suggesting is that they were doing it for themselves.

Mr. SAKHIA. Well, BCCI was doing it for itself.

Senator KERRY. Through—I understand, all right.

Now, who is Mr. Mohammed Hammoud?

Mr. SAKHIA. Mr. Mohammed Hammoud, to my knowledge, was a shareholder in BCCI. And I later on found out that he was a shareholder in First American. My memory goes back about 27 or 28 years when I went first time to Beirut. He was a small-time money changer.

Senator KERRY. He was a money changer in Beirut?

Mr. SAKHIA. In Beirut.

Senator KERRY. He was Lebanese?

Mr. SAKHIA. He could have been Syrian or Lebanese.

Senator KERRY. And he passed away when?

Mr. SAKHIA. I believe he died early this year, or late last year.

Senator KERRY. Now, did you ever assist Mr. Hammoud on a real estate transaction while you were at BCCI?

Mr. SAKHIA. Yes, sir. We did a loan to him from BCC in New York, which we were told from London to give that loan in the first instance.

In the second instance, when he had acquired the property and he wanted to develop a property in Washington, he contacted us to make a construction loan—which we refused to do because we were not equipped to handle construction loan.

Senator KERRY. So you did not want to do the transaction.

Mr. SAKHIA. I did not want to do the first transaction. And I completely refused to do the second transaction.

Senator KERRY. Were you ordered to do the transaction?

Mr. SAKHIA. The first transaction I was ordered to do.

Senator KERRY. Who ordered you to do the first transaction?

Mr. SAKHIA. The Central Credit Division in London.

Senator KERRY. And London ordered you to do what?

Mr. SAKHIA. They had decided about the loan. They only asked us to disburse the loan and to—

Senator KERRY. So you made a loan to him for 110-percent of the value of the property.

Mr. SAKHIA. We ended up doing 110-percent of the loan.

Senator KERRY. Did that make business sense?

Mr. SAKHIA. No sir, that did not.

Senator KERRY. But nevertheless you did it because London told you to.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now did Mr.—he came back to you, you said, for a second loan, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And he wanted a construction loan at that time?

Mr. SAKHIA. Yes, sir.

Senator KERRY. You said no.

Mr. SAKHIA. Right.

Senator KERRY. Did you receive instructions then, from London?

Mr. SAKHIA. Well, then London told me, why don't you introduce him to First American, because the property is in Washington. First American is present in Washington, and First American is big real estate loans.

Senator KERRY. And did you introduce him to First American?

Mr. SAKHIA. Either directly, myself, or one of my staff introduced him to the respective people in the Washington office of First American.

Senator KERRY. Of First American?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And did First American finance his next transaction?

Mr. SAKHIA. I think they financed a letter of credit, for Mr. Hammoud.

Senator KERRY. Now, did you later learn that Mr. Hammoud was an owner of First American?

Mr. SAKHIA. I learned after I left BCCI that he was a——

Senator KERRY. What did you learn after you left BCCI?

Mr. SAKHIA. That he had bought shares from Mr. Clifford and Mr. Altman.

Senator KERRY. And when had he done that, prior to——

Mr. SAKHIA. I believe it was in 1987, or 1986, or 1987. But not much before the loans.

Senator KERRY. Was that prior to these transactions?

Mr. SAKHIA. Yes, sir.

Senator KERRY. So allegedly, Mr. Hammoud was a stockholder in BCCI, correct—excuse me, in First American?

Mr. SAKHIA. Both. He was a shareholder in both.

Senator KERRY. A shareholder in both?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And from whom did Mr. Hammoud buy his stock in First American, supposedly?

Mr. SAKHIA. Supposedly he bought it from Clifford and Altman.

Senator KERRY. And notwithstanding that, London asked you to introduce him to Clifford and Altman, subsequent to his already being a shareholder?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Why would Hammoud have to go to you to obtain a loan from First American if he owned shares of the bank that he had purchased from Mr. Clifford and Mr. Altman?

Mr. SAKHIA. I wasn't aware that—now it doesn't make sense to me that why a shareholder was among the handful of shareholders.

It's not like a big corporation with hundreds of shareholders. The handful of shareholders—it directly bought the shares from the chairman and the president. And he wants me to introduce to the officers of First American. It didn't make any sense to me.

Senator KERRY. Now I am going to introduce a couple of documents into the public record, which we are not going to go through now, because of time.

[The information referred to follows:]

MR. INTIAZ AHMED
CENTRAL CREDIT DIVISION
BCC, LONDON

RE: M. M. HAINMOUD

WE HAVE BEEN CONTACTED BY MR. HAINMOUD
REGARDING THE LOAN FACILITY APPROVED BY ~~YOU~~
CCC PER YOUR TELEX OF DEC 4, 1987. THE
LATEST ~~CURRENT~~ SITUATION AS EXPLAINED TO US BY
MR HAINMOUD IS AS FOLLOWS:

AS PER THE SALES CONTRACT, THE CHURCH IS
REQUIRED TO VACATE THE PREMISES BEFORE SEPT. 88.
THEREFORE, TO ENSURE THIS, MR HAINMOUD IS CURRENTLY
OFFERING 2 ALTERNATE OPTIONS TO THE SELLER:

I: MR. HAINMOUD PROVIDES THE SELLER
WITH A STANDBY LC FOR THE BALANCE
OF PURCHASE PRICE I.E. \$ 4.5 MM ENCASHABLE
ONLY UPON THEIR VACATING THE PREMISES AS
AGREED AND PROVIDING A ~~FREE~~ CLEAR TITLE.
IN THE EVENT THIS OFFER IS ~~EX~~ ACCEPTED
BY THE SELLER, MR. HAINMOUD REQUESTS THE
FOLLOWING FROM BCC.

DC 005582
CUR.

1. STANDBY LC \$ 4.50 MM
2. LOAN FOR BUYING OUT \$ 0.75 MM
THE PARTNERS IN THE DEAL

COLLATERAL:

1. IN CASE THE ~~RECORD~~ OF ENCASHMENT OF
 2RLC, WE SHALL SIMULTANEOUSLY RECORD
 OUR LIEN OVER THE PROPERTY AS 1ST MORTGAGEE.
2. TO SECURE THE LOAN OF \$ 0.75 MM PENDING
 RECORDING OF MORTGAGE, MR. HAMMOUD OFFERS HIS
 PERSONAL QTY AND ASSIGNMENT OF ~~ASSETS~~
~~UNDER~~ THE SALES CONTRACT TO BCC. WE HAVE
 BEEN INFORMED THAT HE HAS ALREADY PAID
 \$ 1.00 MM AS DOWN PAYMENT TOWARDS THE
 PURCHASE PRICE TOTALING \$ 5.5 MM. HOWEVER,
 UNDER THIS SCENARIO, ~~HOWEVER~~ ALTHOUGH OUR
 STANDBY L/C EXPOSURE IS ADEQUATELY SECURED,
 THE LOAN LIABILITY, IN CASE THE TRANSACTION
 DOES NOT ^{COME TO} ~~COMES TO~~ ~~CONSUME~~ FRUITION, IS
 ONLY SECURED BY OUR RECOURSE TO MR. HAMMOUD
 AND OUR RIGHT TO RECEIVE REFUND FROM OF
~~RECEIVE~~ DOWN PAYMENT FROM SELLERS ENFORCING
 OF WHICH MAY REQUIRE LENGTHY LEGAL PROCESS.

DATE

OPTION II

DC 005583

MR. HAMMOUD PROVIDES \$ 4.5 MM IN
 ESCROW AGAINST RECORDING OF FIRST MORTGAGE
 IN OUR FAVOUR. THE ESCROW MONEY HOWEVER
 WILL BE AVAILABLE TO THE SELLER UPON
 VACATING THE CHURCH.

From regulatory point of view we may not be able
 to retain an interest, and even if we were allowed
 the lender may like an independent investigation.
 IN VIEW OF ABOVE SITUATION WE SEEK
 YOUR APPROVAL & GUIDANCE TO ACCEDE TO
 EITHER OF THE ABOVE REQUESTS AND AMEND
 THE TERMS OF THE FACILITY ACCORDINGLY.

~~MR. HAN~~

ALSO, MR. HANNOID. IT IS STILL NOT CLEAR
~~AS TO THE ENT~~ ABOUT THE BORROWING ENTITY.
 PLEASE NOTE THAT IN EITHER CASE THE DEAL
 HAS TO BE ~~CL~~ CLOSED ~~BY~~ BEFORE JAN 31.

REGARDS.

A. R. SAKHA.

DC 005584



320 PARK AVENUE NEW YORK NY 10022

DATE: December 19, 1988

FROM: Laila Alizai

TO: Mr. Amer Saleem
U.S.R.OSUBJECT: M.M. Hammoud/Congressional Place

Please refer to your approval for issuance of a Standby LC for \$380,000 favoring the City of Alexandria. As already advised to Shahbaz last week, FABNY advises that FAB Virginia is willing to issue the Standby LC @ 1% p.a.; FABNT's charges will be an additional .50% p.a. I have discussed this with Mr. Imtiaz Ansari of Mr. Hammoud's office today, and he has agreed to an all in rate of 2.75%; this would leave us with 1.25% p.a.

Please provide approval for these charges urrently.

Regards,

Laila Alizai
.....

08

001213

320 PARK AVENUE NEW YORK NY 10022

DATE

August 16, 1990

FROM Credit Department
New York AgencyTO Mr. Shahbaz Raheem
USRO Credit DepartmentSUBJECT: ZURICH CORPORATION/M. M. HAMMOUD

As you are aware, the interest on the loan of \$10 million given by First American Bank to Zurich Corporation under our SBLC of \$10.1 million is not being serviced by Zurich. Accordingly, First American have debited our account with the following amounts.

<u>DATE</u>	<u>AMOUNT</u>
7/2/90	\$90,416.67
7/25/90	\$67,500.00

Please advise which account should be debited in order to respond to these entries.

Our account with First American Bank has also been debited with the following amounts:

<u>BORROWER</u>	<u>SBLC AMOUNT</u>	<u>AMOUNT DEBITED</u>	<u>DATE</u>	<u>REMARKS</u>
M. M. Hammoud	\$378,081	\$1,890.41	5/21/90	Commission for period 6/5/90 to 12/5/90 First American Bank New York.
M. M. Hammoud	\$378,081	\$ 946.00	6/15/90	D.O. First American Bank Virginia.
Carlton Farms	\$150,000	\$ 750.00	7/14/90	Commission for period 6/7/89 to 6/1/90 First American Bank New York.

Please advise regarding these amounts also.

Regards,



Raghu Bahadur

cc: Mr. Mohammed Ali

NY 0006030
CONFIDENTIAL

SEN 000567

Copy To Mr. Sakhiya ✓

Rev: 011M/1.08336 Line: 1
264080 BCCMI UR

RCA SEP 23 1215 264080 BCCMI UR

2522 BCCBAR WB

BCCI BARBADOS

MSG 3397

23.9.86

TO: MR A R SAKHIYA ✓
REGIONAL CREDIT UNIT
MIAMI

PRICE WATERHOUSE- FIVE YEAR LOAN FOR BDS DLRS 400.000

THE MATTER WAS DISCUSSED WITH PRICE WATERHOUSE, AND THEY ARE CONSIDERING FAVOURABLY OUR REQUEST FOR GIVING US CUSTOMERS ACCOUNT. HOWEVER, TERMINATING THEIR BANKING RELATIONSHIP WITH THEIR EXISTING BANKER AT THIS POINT IN TIME IS NOT POSSIBLE, AND COULD BE CONSIDERED IN THE FUTURE.

THEIR US DOLLAR ACCOUNT DOES NOT CARRY SUBSTANTIAL BALANCE, HOWEVER, AFTER DISCUSSING THE MATTER WITH THE OTHER PARTNERS, THEY MAY CONSIDER THE POSSIBILITY OF OPENING A MONEY MARKET ACCOUNT WITH MIAMI.

KINDLY THEREFORE CONFIRM APPROVAL OF THE LOAN PROPOSAL POSSIBLY BY TELEX AS THEY URGENTLY REQUIRE OUR RESPONSE SINCE GIVING THIS LOAN WILL GIVE US THE START FOR FUTURE BANKING RELATIONSHIP.

REGARDS.

SHABBAR JAWAID
MANAGER 264080 BCCMI UR

2522 BCCBAR WB

Time: 12:25 09/23/86 EDT
Connect Time : 189 seconds

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But the first document is a letter, apparently written by you regarding Mr. Hammoud. And it is written to the Central Credit Division of BCCI, London, regarding a standby letter of credit from BCCI for \$4.5 million. Is that correct?

Mr. SAKHIA. Right sir.

Senator KERRY. And that refers to the property that was being purchased from a church in Alexandria, VA?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And the other documents refer to standby letters of credit from First American on that property?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And other property of Mr. Hammoud. Is that correct?

Mr. SAKHIA. Right.

Senator KERRY. Now, what, if anything, do you know about a \$10 million loan by First American to Zurich Corp., an organization apparently controlled by Mr. Hammoud?

Mr. SAKHIA. I'm not aware of that transaction. I've seen the documents, but I'm not aware of that.

Senator KERRY. So you know nothing about that transaction?

Mr. SAKHIA. I don't know.

Senator KERRY. In 1986, you received a memorandum from a Mr. Abu Nizam, describing UPI, United Press International, establishing a global account at BCCI, as a result of their agreeing to place their entire U.S. and head office banking portfolio with First American Bank. Is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And placing its international operations with BCCI. Is that right?

Mr. SAKHIA. Yes, sir.

Senator KERRY. So according to this document, dated December 8, 1986, Mr. Amjad Awan was to handle the account on behalf of UPI?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Did that take place?

Mr. SAKHIA. I'm not sure. I think that very early stage of that acquisition, the gentleman who was buying, sold back his option. So I do not know how much of the transaction went to BCCI, and how much did not.

But the understanding was, that as one entity, we will handle the business of UPI in United States, through First American; and the rest of the world through BCCI.

Senator KERRY. So you would assert that as another example of the breadth of this jointness of relationship. Is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Now, turning for a moment to Price Waterhouse, if we can, there are documents which we have been provided regarding some \$600,000 in loans of Barbados dollars from BCCI to Price Waterhouse, in Barbados. Are you familiar with that?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Which branch of Price Waterhouse was responsible for auditing BCCI Grand Cayman's?

Mr. SAKHIA. The Grand Cayman office of Price Waterhouse was responsible.

Senator KERRY. And that is part of Barbados, right?

Mr. SAKHIA. No, the—I believe——

Senator KERRY. That was handled—Grand Cayman's branch, was handled by Price Waterhouse, Barbados?

Mr. SAKHIA. I do not know, sir, the structure of Price Waterhouse. My impression is that either the Bahamas or Grand Cayman would be the headquarters, and not Barbados. But I could be wrong.

Senator KERRY. It is my understanding there is only one Price Waterhouse branch, in the Caribbean.

Mr. SAKHIA. I have seen two. I have seen Cayman, and the Bahamas.

Senator KERRY. Cayman?

Mr. SAKHIA. Price Waterhouse, Cayman, and Price Waterhouse, Bahamas.

Senator KERRY. OK, well we will check on that.

Let me ask you this—the Grand Cayman's BCCI was the branch where the biggest losses occurred. Is that not true?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Did Price Waterhouse, Barbados, ever borrow money from BCCI?

Mr. SAKHIA. Yes, sir, it did.

Senator KERRY. And, I take it—do you have the document there—Price Waterhouse borrowed \$597,000?

Mr. SAKHIA. Yes, sir—the amount is, as per the documents.

Senator KERRY. I will enter into the record a memorandum dated July 2, 1987 to Mr. Hassan at BCCI, Miami, from Mr. Jawaid.

[The information referred to follows:]



BROAD STREET, BRIDGETOWN, BARBADOS W.I.

DATE July 02 1987

FROM: Shabbar Jáwaid

TO Mr. Bande Hasan
L A C A R
BCCI MiamiSUBJECT: PRICE WATERHOUSE

Please find enclosed our proposal for an additional loan facility of BDS\$187,000.00 in favour of Messrs. Price Waterhouse.

A loan of BDS\$400,000.00 was approved for this firm of Chartered Accountants in your memo dated 7th October 1986, secured by the personal guarantees of the firm's partners, estimated net worth BDS\$4 million,* and repayable over a five year period in installments of BDS\$6,666.67, plus interest monthly.

Only BDS\$232,000.00 of this loan has been drawn down to date of which the outstanding is now BDS\$180,168.67. All installments and interest have been received according to schedule. Our customers now estimate that to complete their acquisition of furniture and office equipment they will require BDS \$365,000.00 of the amount they have an unutilized facility of BDS\$168,000.00 (400,000.00-232,000.00) and so are in effect seeking an additional BDS\$197,000.00 in financing.

This new loan of BDS\$197,000.00 will be secured by the personal guarantees of the partners and will be repayable over a five year period in installments of BDS\$3,284.00 plus interest monthly.

Our branch has benefited considerably from relations with this firm through introduction to prospective clients and they have also become our important agent for travellers' cheques.

In view of the above and also the fact that they have met all commitments to us in the past we strongly recommend this proposal as we stand to benefit from continued close relations with this firm.

We look forward to receiving your approval as soon as possible.

Regards,

* Personal financial statements of partners already on file with Regional Credit Committee.



BROAD STREET, BRIDGETOWN, BARBADOS, W.I.

DATE July 02 1987

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BCCI MiamiSUBJECT: PRICE WATERHOUSE

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Only BDS\$232,000.00 of this loan has been drawn to date of which the outstanding is now BDS\$180,168. Installments and interest have been received according to schedule. Our customers now estimate that to complete their acquisition of furniture and office equipment they will require BDS\$365,000.00 of the amount they have an unutilized facility of BDS\$168,000.00 (400,000.00-232,000.00) and so are in effect seeking an additional BDS\$197,000.00 in financing.

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We look forward to receiving your approval as soon as possible.

Regards,

Pl. reply that it is not the policy of the bank to consider loans beyond 2 year term.
8/7/87

* Personal financial statements of partners already on file with Regional Credit Committee.



**BANK OF CREDIT AND COMMERCE INTERNATIONAL
(OVERSEAS) LIMITED**
BROAD STREET BRISTOL, ENGLAND

INTERNATIONAL LETTER CREDIT

FROM BARBADOS BRANCH	TO HEAD OFFICE
CREDIT LINE REQUEST / SANCTION (Submit in duplicate)	
CONFIDENTIAL	
Name of Party <u>PRICE WATERHOUSE</u>	
Address <u>COLUMBIA ROCK, ST. MICHAEL, B3331005</u> Account No. <u>012-11201</u>	
<p>(To be filled in by Branch)</p> <p>Unit Application No. <u> </u> Date <u>2 JULY 1997</u></p> <p>We request for the creation/renewal of the following limit in favour of the above named party. An up-to-date credit report of the party is enclosed for your perusal and record. A review of the account is given overleaf.</p> <p>NATURE OF LIMIT <u>DEMAND LOAN</u></p> <p>AMOUNT OF LIMIT <u>8055327,300.00</u></p> <p>RATE OF INTEREST <u>10%</u></p> <p>SECURITY <u>PERSONAL GUARANTEE OF PARTNERS</u></p> <p>ESTIMATED NET WORTH <u>8055327,300.00</u></p> <p>MARGIN <u> </u></p> <p>REPAYMENT ARRANGEMENT <u>REARABLE IN INSTALMENTS</u></p> <p>OF <u>80553274.00 PLUS INTEREST MONTHLY. TOTAL</u></p> <p>REPAYMENT PERIOD <u>5 YEARS</u></p> <p>REVIEW / EXPIRY DATE <u>01.09.98</u></p> <p>PURPOSE OF ADVANCE <u>TO FINANCE PURCHASE OF FURNITURE AND OFFICE EQUIPMENT.</u></p> <p>CONSIDERATION <u>PLEASE SEE COVERING MEMO</u></p> <p>OTHER CONDITIONS OF LIMIT IF ANY <u> </u></p>	<p>(To be filled in by Head Office)</p> <p>Unit Sanction No. <u> </u> Date <u> </u></p> <p>The following limit is sanctioned / renewed subject to our usual terms and conditions.</p> <p>NATURE OF LIMIT <u> </u></p> <p>AMOUNT OF LIMIT <u> </u></p> <p>RATE OF INTEREST <u> </u></p> <p>SECURITY <u> </u></p> <p>MARGIN <u> </u></p> <p>REPAYMENT ARRANGEMENT <u> </u></p> <p>REVIEW / EXPIRY DATE <u> </u></p> <p>OTHER CONDITIONS <u> </u></p>
<p>Officer <u> </u> Manager <u> </u></p>	<p>Authorized Signature <u> </u> Sanctioning Authority <u> </u></p>

NAME OF PARTNERS AND DIRECTORS

ROBERT S. KIRBY

ANTHONY G. ELLIS

REVIEW BY BORROWER

GRAHAM A. KIRBY

RONALD L. WILKINSON

J. ANDREW HARRINGTON

CELIA T. G. GORDON

REVIEW OF ACCOUNT

PARTICULARS OF ACCOUNTS INCLUDING ALLIED ACCOUNTS

Name of A/C	Date Opened	Average Balance for last six months

TOTAL BUSINESS RECEIVED IN LAST ONE YEAR

Imports (L/C)	Imports (other)	Exports	Local Bill/ Bills Discounted	Remittances
-0-	-0-	-0-	-0-	-0-

PRESENT OUTSTANDING LIABILITIES IF ANY

TOD	OD	CC	LOAN	LIM	LTR
-0-	-0-	-0-	180,168.67 2 June 1987	-0-	-0-
PC	LAFB	IBF	L/C	L/G	PAD
-0-	-0-	-0-	-0-	-0-	-0-

BUSINESS EXPECTED DURING NEXT 6 MONTHS / 1 YEAR

Imports (L/C)	Imports (other)	Exports	Local Bill/ Bills Discounted	Remittances
-0-	-0-	-0-	-0-	-0-

Name of other Banks and any information available regarding dealings, credit lines and business with them.
(If credit report obtained from other banks attach true copy with this)

Note: If the borrower is a group of companies / firms, the above information should be given for all group accounts maintained with the branch.

3..

This customer has been with the branch almost since its inception here in Barbados. The account is run to our entire satisfaction and we consider them good for \$10,000.00.

8. CHRISTIANE SYDNEY PRODUCTS LIMITED O/D BD\$ 200,000
Financial statements of the client as at 31st March 1988 are enclosed as well as a personal financial statement of the guarantor.
9. KISHORE & NAJMA LALEMI T/A MASCOOT CORPORATION O/D BD\$ 240,000
Please read the amount of deposit as \$40,000.00 instead of \$25,000.00 as mentioned. Financial statements are under preparation and will be submitted when available.
10. LA BOMBA LIMITED O/D BD\$ 240,000
Financial statements for this customer for 1987 and 1988 are currently under preparation. These will be submitted when available.
Please find the back of the CLP duly completed.
11. SEEP'S PHOTO CENTRE O/D BD\$ 80,000
We confirm that the balance on the customer's account as at 12/31/88 was \$72,224.53, down from \$94,000.00 as arranged. The current balance outstanding is \$70,096.81.
12. "PRICE WATERHOUSE" DEMAND LOAN BD\$ 597,000
The renewal has been submitted for the full amount approved (400,000 and \$197,000), however, the amount outstanding is currently \$385,211.42. The drawdown against the loans approved was as follows (please also refer our memo dated July 2, 1987 enclosed).

<u>DATE</u>	<u>AMOUNT</u>
03/10/86	\$215,000.00
31/12/86	\$ 17,000.00
30/07/87	\$113,183.35
20/08/88	\$225,000.00

Page Three

CRT/3904

21/1/89

10. La Romana Limited

O/D BD\$240,000

Please let us have up to date financial information on this client. The back of the CLP has not been completed. Please provide us with the necessary information to properly complete this form.

11. Sher's Photo Centre Ltd.

O/D BD\$ 80,000

Please let us know present outstandings. The back page of the CLP has not been completed. Temporary excess over limit up to BD\$94,000 was to be adjusted by 12/31/88.

12. Price Waterhouse

Demand Loan BD\$597,000

We have record of approving two separate loans as follows:

BD\$197,000 to be based on a five year repayment program with a balloon payment at the end of second year (July, 1989).

Loan for BD\$400,000 with installments based on a five year repayment program repayable over two years. This loan should have been fully repaid by September, 1988.

Based on the above, please explain the nature of the proposal being presented for BD\$597,000. Please submit up to date financial information on this borrower.

13. Anand Santani T/A Pratibha's Casual Corner

O/D BD\$ 65,000

Loan BD\$ 30,000

The O/D limit is being requested to be increased from BD\$55,000 to BD\$65,000. Please let us know consideration for this request.

The loan of BD\$30,000 when approved on February, 1988 was to be repaid in 20 monthly installments of BD\$1,500 plus interest. We observe from the CLP that the outstanding under this loan is BD\$17,159.67. Please let us know the reason for requesting approval for the original limit of BD\$30,000.

Up to date financial statements may please be submitted.

14. Naya & Nasku Bahari T/A Liberty Store

O/D BD\$150,000

.../



BROAD STREET, BRIDGETOWN, BARBADOS, W.I.

DATE July 02 1987

FROM: Shabbar Jawaid

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L A C A R
BCCI MiamiSUBJECT: PRICE WATERHOUSE

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Look forward to receiving your approval as soon as possible.

Yours,

Personal financial statements of partners already on file with Regional Credit Committee.

Senator KERRY. And it says, please find—Subject, Price Waterhouse: Please find enclosed our proposal for an additional loan facility of BDS \$187,000 in favor of Messrs. Price Waterhouse.

A loan of BDS \$400,000 was approved for this firm of chartered accountants in your memo dated October 7, 1986, secured by the personal guarantees of the firm's partners, estimated net worth, BDS \$4 million.

So here, I take it, what he is saying is these \$400,000—let me read directly from this if I can—this was to give us the “start” for future banking relationship between BCCI and Price Waterhouse. The letter describes Price Waterhouse opening up a money market account with BCCI in Miami.

Is there a particular reason that BCCI was anxious to obtain Price Waterhouse accounts?

Mr. SAKHIA. I think Price Waterhouse was more keen because as I recall, BCCI in Barbados, had the available credit ceiling from the Central Bank to make loans. And Price Waterhouse wanted a local, guaranteed loan.

As a quid pro quo, they would put a U.S. dollar deposit in Miami, whereas we would lend them Barbados dollars.

So the first transaction of \$400,000 Barbados dollars—which is \$200,000 American dollars—was approved during my tenure in Miami.

Senator KERRY. Now, you have already suggested in your opening statement that Price Waterhouse, in your mind, was either negligent, or incompetent, or corrupt, or all three, or a combination of any of those three. Is that correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Do you believe that Price Waterhouse adequately performed their service, as auditors, within the Caribbean and Latin area?

Mr. SAKHIA. Well, in the Caribbean branches, other than Cayman, their—they did the work routinely as auditors would do. The greatest negligence came in handling the more critical areas like Grand Cayman, Luxembourg, Panama, Kuwait, Bahrain—these were the centers where the frauds took place. And they have been very, very, very negligent in that area.

Senator KERRY. Well, now were any questions raised at BCCI about the practice of loaning money to auditors who were supposed to be responsible for the certification of the accounts of the bank?

Mr. SAKHIA. Well, I don't think any discussion as such took place. Because London was aware of this loan. Because we had informed London, even though it was within my power, financially. But I had still informed London.

Senator KERRY. Did you see any apparent conflict in the auditors banking with that particular entity, and, in fact, being indebted to them for a significant sum of money?

Mr. SAKHIA. Again, you are asking—

Senator KERRY. I am just asking a personal opinion on this one.

Mr. SAKHIA. As an average-caliber banker, your question of ethics—whereas the Price Waterhouse is the conscience-keeper of an institution. And if they are telling us that something is right, we think it is right.

Senator KERRY. Let me just say for the record that staff has reviewed documents from attorneys for Price Waterhouse, listing all of their partnerships. And their partnerships show only on in the Caribbean. So while they might have had more than one office, apparently there was only one partnership.

Mr. SAKHIA. In retrospect, Senator, it was a conflict of interest between Price Waterhouse borrowing money from BCCI. Yes, there is an apparent conflict.

Senator KERRY. Now what was BCCI's relationship with Bank of America?

Mr. SAKHIA. Up to 1979 or 1980, Bank of America was 30-percent shareholder of BCCI. After the relationship ended, BCCI was the largest banking customer of Bank of America. And BCCI—Bank of America was the largest correspondent of BCCI. So from that point of view, the largest banking customer of BCCI was First American, and largest banking customer of Bank of America was BCCI.

Senator KERRY. Do you know whether or not Bank of America had reason to believe that BCCI was involved in money laundering?

Mr. SAKHIA. I don't see how they would have known.

Senator KERRY. Weren't there some concerns at Bank of America, which is why they began to withdraw from their 30-percent ownership?

Mr. SAKHIA. No, not for money laundering cases, not to my knowledge. Because money laundering became more of a stigma in the mid-1980's; whereas this decision to disinvest had taken place in the late 1970's. They were not happy with the style of management, and the growth of BCCI. And I think those were more important reasons than money laundering.

Because if they were concerned about money laundering, they would not have been clearing \$1 billion a day. On an average day, they could clear \$1 billion, right through until 1988, 1989.

Senator KERRY. What was the relationship of the Bank d'Commerce de Plasmon in France, and BCCI?

Mr. SAKHIA. It was, again, the subsidiary of BCC group. I'm not aware of how much holding was with which entity. But they were part of the group.

Senator KERRY. Did BCP launder money for BCCI?

Mr. SAKHIA. With hindsight, I would say yes. I wasn't aware at the time. But with hindsight—

Senator KERRY. But you're aware now, that it did, at least in the Tampa case, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And didn't BCP open up a branch in Luxembourg, when BCCI already had a branch there?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Did that suggest anything to you?

Mr. SAKHIA. It is really suspicious.

Senator KERRY. Suspicious that what?

Mr. SAKHIA. That why would we need another branch in Luxembourg? These two cases, I don't remember whom I discussed with. But I discussed it with people in London, about the BCP branch in Luxembourg, and BCCI, Colombia branch in Bahamas, when BCCI, itself, had a branch in Bahamas.

So these two cases, I remember discussing, I think in the period of postindictment between October 1988 and March 1989.

Senator KERRY. Now who is Mr. Alfred Hartman?

Mr. SAKHIA. He was director of BCCI holding and some of the BCCI subsidiaries. And I think he was the chairman of BCP.

Senator KERRY. And involved with BNL?

Mr. SAKHIA. And now I learned that he was director.

Senator KERRY. Banque Nacional de Verone?

Mr. SAKHIA. He was director of Banque Nacional de Verone.

Senator KERRY. And the Inter-Marine Maritime Bank?

Mr. SAKHIA. Yes, sir.

Senator KERRY. He was a director of each of those?

Mr. SAKHIA. I understand now, sir.

Senator KERRY. Did he fall under that category of what you were calling "rent-a-face"?

Mr. SAKHIA. He was popularly known as "rent-a-face".

Senator KERRY. He was popularly known as that?

Mr. SAKHIA. Mr. Hartman, Mr. Van Noonan, Mr. Twitchen. They were known as "rent-a-face".

Senator KERRY. Now, I think there will be further testimony regarding him——

Mr. SAKHIA. It was, Senator it was known as RAF. So those people who are not familiar with the internal joke would think that they had glorious service with the British Air Force, like a veteran, in the United States.

So it's a sign of respect. But internally, it meant that they were rent-a-face.

Senator KERRY. Who is Sergio Da Acosta?

Mr. SAKHIA. He was originally the Ambassador of Brazil to the United States.

Senator KERRY. What was his role in BCCI?

Mr. SAKHIA. He later on became the chairman of BCC Brazil.

Senator KERRY. Did he receive loans or other payments from BCCI while he was Ambassador to the United States?

Mr. SAKHIA. Not to my knowledge, not while he was Ambassador.

I have seen the documents with various agencies, that subsequent to his leaving the Ambassador position, he got some loans from BCCI.

Senator KERRY. Now let me ask you something that has been curious to a lot of people. Where were you when BCCI was indicted for the Tampa drug-money laundering case?

Mr. SAKHIA. I was in New York. The day indictment took place, I was in London. But my posting was in New York.

Senator KERRY. And when the indictment occurred, I gather a team of lawyers was put together to deal with that?

Mr. SAKHIA. Sir, in the immediate hours there was lawyers in Florida, in the middle-of-the-night when people were arrested, there were lawyers put together by the people who were present there.

Subsequent to that, Mr. Naqvi had talked to Mr. Altman. And Mr. Altman, subsequently put together the team of lawyers from Washington. He made the selection for the bank, both the entities of the bank and for the individual defendants.

Senator KERRY. Was there concern about these individual defendants perhaps talking about bank activities?

Mr. SAKHIA. According to the BCC culture, everybody was confident that these people, these individuals would not betray the bank.

Senator KERRY. Would not be—what?

Mr. SAKHIA. Would not betray the bank.

Senator KERRY. Would not betray the bank.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Well, did the bank not take some rather extraordinary efforts to guarantee that they would not betray the bank?

Mr. SAKHIA. Well, they provided the attorneys and they kept them on the payroll. But other than that, no.

Senator KERRY. Well, did they not do more than keep them on the payroll? Did they not provide protection for them, and house them during the trial, and provide their lawyers?

Mr. SAKHIA. Well, as I said, they were provided with the lawyers and the pay. But the security was, I think, the request of the court, or the Justice Department, that they be protected.

The condition of their release on bail was that they would be provided adequate security.

Senator KERRY. Well, this indictment took place in 1988, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And what month in 1988?

Mr. SAKHIA. October.

Senator KERRY. It was in October.

Mr. SAKHIA. Yes, sir.

Senator KERRY. So in October 1988, there is an indictment.

Mr. SAKHIA. Yes, sir.

Senator KERRY. One year and three months later—

Mr. SAKHIA. Yes, sir.

Senator KERRY.—there is a plea.

Mr. SAKHIA. Right.

Senator KERRY. How, in God's name, did you spend \$45 million on legal fees, for five defendants who pled in a 1-year, 3-month period of time?

Mr. SAKHIA. I don't understand it either, sir. I had questions on that. And I was very dissatisfied with the attorneys, both on the criminal case, as well as on the regulatory case. I had very strong objections.

And others in BCC had very strong objections. On an ongoing basis, we debated that.

Senator KERRY. Well, let me—I need to be more accurate there. There was a split, was there not? There were, the defendants went to trial, correct?

Mr. SAKHIA. Right, sir.

Senator KERRY. The bank, pled.

Mr. SAKHIA. The bank pleaded guilty.

Senator KERRY. So about \$21 million was on the bank plea, and \$20 or \$28 million, I think it was, was on the trial of defendants. Is that accurate?

Mr. SAKHIA. I am not aware of this price.

We were told in January 1990, that \$35 million had been spent on this case. Because when we were briefed by Mr. Naqvi, follow-

ing the day of the plea agreement, I was the one who raised objection in London.

Senator KERRY. I might tell you that in—I did not practice law for that long a period of time—but when I was a prosecutor, I dealt with a lot of defense attorneys. And then when I was private sector, I had my own firm for a few years. And I have to tell you, I never heard of anybody, in 1 year's criminal case, on a drug, money-laundering or any case there, like making \$1 million, or \$2 million—let alone \$21 million, or \$45 million.

Mr. SAKHIA. It's a surprise to me, also.

Senator KERRY. Well, who paid it? Who paid it out?

Mr. SAKHIA. All the money was given from BCC group, to Clifford & Warnke, who then distributed it to various lawyers. But all the payments went through Mr. Altman's office.

Senator KERRY. Was there an effort to use political influence to try to stop the Tampa indictments?

Mr. SAKHIA. Well, I had discussed with Mr. Naqvi and others, and I believe a contact was made with Sheikh Zayed of Abu Dhabi.

Senator KERRY. But you are not sure?

Mr. SAKHIA. I am more or less sure.

Senator KERRY. You are more or less sure?

Mr. SAKHIA. That the contact was made by Mr. Naqvi, with Sheikh Zayed.

Senator KERRY. What does "more or less sure" mean?

Mr. SAKHIA. Well, I wasn't at the meeting, and Naqvi did not specifically say—that I went to—but I know that he went to see Sheikh Zayed several times.

I also knew of discussions with other than Mr. Naqvi, that it is not possible to use all—the influence is not working. I was also aware of Mr. Naqvi having lunch with the then-Prime Minister of Pakistan. And I was aware that a meeting was arranged by Mr. Awan's father with the Prime Minister of Pakistan.

So once Mr. Naqvi—

Senator KERRY. They were specifically trying to use that as a connection, is that correct?

Mr. SAKHIA. Yes, both—

Senator KERRY. And she turned that down, did she not? She said—

Mr. SAKHIA. She did not.

Senator KERRY [continuing.] She was not going to help.

Mr. SAKHIA. Right, Mr. Naqvi once did tell me, in one of the lighter moments, that if General Zia was alive, that things may be different.

Senator KERRY. After the indictments, did BCCI hear from the Federal Reserve?

Mr. SAKHIA. Yes, sir, we had regular meetings. I used to have regular meetings with the Federal Reserve.

Senator KERRY. And what was the Fed's approach?

Mr. SAKHIA. Well, the Fed's in the districts was very understanding. The Fed board in Washington, was very tough.

Senator KERRY. Did the Fed want to talk to top officers of BCCI?

Mr. SAKHIA. I had arranged a meeting through the counsel—not through the Altman counsel—but the lawyers that I was using, a meeting between—

Senator KERRY. Why were you using separate lawyers?

Mr. SAKHIA. Because that was our regular lawyers. We used to use them on a day-to-day business. And we had hired them to help us in the regulatory matters, and the—

Senator KERRY. What lawyers were those?

Mr. SAKHIA. I was dealing in—from San Francisco—from Los Angeles and Washington, a firm of Morrison & Forrester. And they had arranged my meeting with the staff of the Board in Washington.

In fact, we had told them that Mr. Naqvi would come to the meeting.

But under the advice of Mr. Altman, Mr. Naqvi did not come. We tried to arrange a conference call between the staff of the Board, and Mr. Naqvi, to which the staff of the board did not agree that they would not have a conference call.

Senator KERRY. At that meeting with the Fed Reserve, were you asked about the relationship between First American and BCCI?

Mr. SAKHIA. Possibly, yes.

I would just go back to the period between October 1988 and February, March 1989. It was a very intense period. Senator, I would give you an example that you are driving at 80 or 90 miles an hour, with four tires are blown. And we are trying to hold it together.

So it is—it is quite possible that they asked me. But I don't have any notes to say that they did or they did not.

Senator KERRY. Now, I want to ask you—it is fair to say, though, that you did not reveal the link between the two banks at that time?

Mr. SAKHIA. No, sir, I did not.

Senator KERRY. You were still working for the bank.

Mr. SAKHIA. Yes, sir.

Senator KERRY. And it has only been subsequent to your departure in 1990 that you have revealed those links.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Was it your understanding that there were some sources at the Fed Reserve who were providing information to attorneys for the bank?

Mr. SAKHIA. Well, what had happened, sir, was that every 2 weeks, I used to meet every Fed agency that was concerned with BCCI—New York, San Francisco, Atlanta—and representative of the Board in New York.

And I was get what the feeling on the day-to-day basis was. And I would report to Mr. Naqvi. But as Mr. Naqvi would say, that but Mr. Altman thinks differently. I would—I would agree with Mr. Naqvi that sir, I am meeting them on a day-to-day basis, with a Fed examiner sitting in our offices. I am having a regular meeting every 2 weeks with a representative of the Board. And what they are telling me, yes, they are concerned about the compliance. Yes, they are concerned about the internal controls. But they are willing to work with us. They are willing to guide us. And they are willing to help us.

On the other hand, Mr. Naqvi's feeling was that there was some monster Federal Reserve which was out to get us. And this information was going from Altman to Mr. Naqvi. Now before October

1988, to all of us—the Federal Reserve Board in Washington was out of bounds. We were not allowed to go——

Senator KERRY. Not allowed to communicate or deal with that——

Mr. SAKHIA. With them. We were allowed to see the district banks, but not the Washington Fed.

Senator KERRY. Two months before BCCI was indicted in Tampa, the bank was subpoenaed by this committee, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. How did you first come to learn about the subpoena?

Mr. SAKHIA. By a telephone call from Mr. Rizvi to me, in San Francisco, Amjad Away resigning, and the background of Amjad Awan's resignation.

Senator KERRY. He told you that Amjad Away had resigned from the bank?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And that was Mr. Rizvi who told you that?

Mr. SAKHIA. Dildar Rizvi, yes, sir.

Senator KERRY. Did he tell you why Amjad Awan had resigned?

Mr. SAKHIA. Because he was asked to be transferred to Paris, and he did not want to go to Paris, because he thought he was under subpoena, and he could not be absconding from subpoena.

Senator KERRY. So he did not want to run away from the subpoena.

Mr. SAKHIA. Yes, sir.

Senator KERRY. But he was being transferred to Paris in order to get him away from the subpoena?

Mr. SAKHIA. Yes, sir.

Senator KERRY. How do you know that?

Mr. SAKHIA. Mr. Awan told me; Mr. Rizvi told me.

Senator KERRY. Two people told you that?

Mr. SAKHIA. At that time—subsequently, Mr. Farouqi and Mr. Assam Shafi told me that.

Senator KERRY. Did you try to get in touch with Mr. Awan to talk to him about that?

Mr. SAKHIA. Yes, sir, I got in touch with him from San Francisco, and later on he came to see me in New York.

Senator KERRY. What did Awan say to you when he saw you?

Mr. SAKHIA. He said he would not work with BCC lawyers. He would have his own independent counsel. I made him agree that both counsels would cooperate with each other, and we will hold his resignation until the Senate hearings were over.

Senator KERRY. And did he tell you that he was going to Washington to meet with investigators of my staff at that time?

Mr. SAKHIA. Yes, sir, he did.

Senator KERRY. And he was accompanied by a separate, D.C. attorney, is that correct?

Mr. SAKHIA. His own attorney, yes, sir.

Senator KERRY. And he told you he wanted his own attorney because he did not trust the other lawyers or the other people involved?

Mr. SAKHIA. Yes, sir.

Senator KERRY. In the period following the indictment, did you have a number of meetings with Mr. Naqvi?

Mr. SAKHIA. I used to meet him at least alternate week.

Senator KERRY. And did the issue, subsequent to the indictment, of the relationship between BCCI, First American National Bank of Georgia, did that relationship come up in those meetings subsequent to the indictment?

Mr. SAKHIA. The National Bank of Georgia had already ceased to exist. It had become part of First American.

Senator KERRY. It was now First American.

Mr. SAKHIA. It was now First American.

Senator KERRY. What about the relationship to First American?

Mr. SAKHIA. No, sir, after that we were concerned with putting our house in order, not in First American.

Senator KERRY. Well, was that not part of putting your house in order, was there not subsequently an effort to try to make a sale in order to try to get everything cleared up?

Mr. SAKHIA. Well, we had suffered a very major setback, a lot of customers had withdrawn. A lot of official agencies had withdrawn the customers from BCCI. Were getting bad press. We were under regulatory pressure.

So we had to put—all our energy was being spent to damage control. And that's why I was head made—made the head of marketing for BCCI, in August 1989, to do that damage control, and recover back the lost business, et cetera.

So all our energies within BCC were focused on putting BCC in order—whereas, the Clifford, Altman group had tried to insulate or put a fire wall between the two institutions.

Senator KERRY. So you are saying that at the time of the indictments, a special effort was made to put a fire wall between the two institutions?

Mr. SAKHIA. Yes, sir.

Senator KERRY. What form did that fire wall process take?

Mr. SAKHIA. Well, all the communication which used to be so frequent and so open, had ceased to happen. During the first 3 or 4 months of the indictment, when I was still in the United States, and we had a problem in getting our business accepted in the United States, we were a couple of subsidiaries of First American—I don't recall whether it was Virginia or Tennessee—which refused to do business with BCCI.

Senator KERRY. And the United Nations pulled its accounts from BCCI, correct?

Mr. SAKHIA. Yes.

Senator KERRY. So this was a moment where BCCI began to feel that things were crumbling a little bit?

Mr. SAKHIA. Well, very soon, in about 1 year's time, we had got a handle on it. And we had begun to grow again, in the second half of 1990. We had suffered withdrawal. We had suffered lack of relationship with many institutions, banks. But in the second half of—

Senator KERRY. Now, when you say you got a handle on it, you have the plea behind you, is that correct?

Mr. SAKHIA. No, sir, plea came in January 1990.

Senator KERRY. OK.

Mr. SAKHIA. But before the plea, we had reestablished relationship at least with the business corporations, with many commercial banks, with many central banks. So we were going to get back that relationship.

But the official agencies, like the United Nations, or the Ex-Im Bank, et cetera, they would not do—still not do business with us.

Senator KERRY. Now, did the effort to contain this also involve getting documents out of the United States?

Mr. SAKHIA. As I said, this related into plea indictment, and after the, your subpoena, in Noriega case. I had heard that some Noriega papers had moved from Miami to London.

Senator KERRY. After the subpoena?

Mr. SAKHIA. After the subpoena, but before the indictment.

Senator KERRY. Noriega papers left?

Mr. SAKHIA. They left from Miami to London.

Senator KERRY. Did you have any control over any of those papers?

Mr. SAKHIA. No, sir, those were the regional—the Latin America regional office, in Miami.

Senator KERRY. However, as I think you know, some checks have turned up—which were General Noriega's—through First American?

Mr. SAKHIA. Yes, sir.

Senator KERRY. So how would that have occurred? You have General Noriega using First American, also?

Mr. SAKHIA. No, sir, what I've seen in these documents were the checks on BCC account. BCC representative office maintained an account with First American. And they had disbursed some expenses. And they had made an addition of what these expenses were for, and they related to General Noriega's visit to the United States.

But as it could have been with any bank, it did not matter whether it was a First American or any other corresponding bank.

Senator KERRY. OK.

But those documents were housed, then, in Miami?

Mr. SAKHIA. The relationship file was with Mr. Amjad Awan in Miami.

Senator KERRY. Do you know who was—who had custody of those documents, when Amjad Awan left?

Mr. SAKHIA. They would have fallen under the jurisdiction of Mr. Assam Shafi, because he was the regional general manager.

Senator KERRY. Of Mr. Shafi.

Mr. SAKHIA. Yes, sir.

Senator KERRY. And this file, was this file transferred to Mr. Shafi, when Mr. Amjad Awan left the bank?

Mr. SAKHIA. At some time, when Amjad Awan left the bank, and the bank was subpoenaed, the papers were transferred.

Senator KERRY. OK, did you personally know in 1988 that Amjad Awan was handling this account for General Noriega?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Did you personally know that he was the custodian of this file in 1988?

Mr. SAKHIA. He had the relationship and correspondent file, yes, sir.

Senator KERRY. And did you know that when he left the bank, he left this file with the bank?

Mr. SAKHIA. This file should have been in Miami, because Mr. Amjad Awan, after his meeting in London, never went back to the office in Miami. He never attended the office in Miami.

Senator KERRY. With respect to the documents that were under subpoena, the subpoena sought the records of General Noriega's file in the bank records, correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Those records were in Miami at the time the subpoena was issued. Is that correct?

Mr. SAKHIA. Some of them. The accounts—account documents would be in Panama, account documents would be in London, but the relationship file was in Miami.

Senator KERRY. And it would have evidenced where other documents were. Is that correct?

Mr. SAKHIA. Yes, sir.

Senator KERRY. And the account numbers would have been known in those documents in Miami?

Mr. SAKHIA. Quite possibly.

Senator KERRY. You're not sure?

Mr. SAKHIA. I'm not sure.

Senator KERRY. Do you know who, if anybody, suggested that those documents would be better off in London than they were in Miami?

Mr. SAKHIA. I'm not privy to that information. I do not know first hand who advised them.

Senator KERRY. But you were told specifically, but you do know specifically about Mr. Awan not wanting to go to Paris that being told that he would be transferred to keep him away from the subpoena. Is that accurate?

Mr. SAKHIA. Yes, sir. Amjad Awan and Assam Shafi both independently told be that.

Senator KERRY. Personally told you that.

Mr. SAKHIA. Yes, sir.

Senator KERRY. And who was going to transfer—whose idea was it to transfer him to London?

Mr. SAKHIA. According to—again, according to these two people, there was a meeting in London in which Mr. Naqvi, Mr. Rizvi, Mr. Altman, Mr. Awan, and Mr. Shaffi were present. And in those meetings, the decision was taken that Mr. Shafi would stay behind in London, and Mr. Awan would be transferred to Paris.

Senator KERRY. Did any other people also tell you that he was to be transferred?

Mr. SAKHIA. Mr. Dildar Rizvi told me during this telephone conversation, and Mr. Farouqi told me later on when I was in London.

Senator KERRY. Let me ask you just a couple of large questions here, if I can. We have been through a lot of detail and a lot of very dry testimony, obviously, but I think it is important or the committee to get as factual a sense publicly in the record as we can. Some of the allegations that you make are obviously extraordinary and of huge weight in this entire episode. Not all of it, I will say on the face of it is testimony that is automatically admissible in any court by any sense of the word, and I think we recognize it.

Those aren't our rules here and we try to keep it as much as we can to firsthand observation and evidence, but obviously we don't have the same rules.

You have stated with a certainty, though, with a very strong certainty, that it is your testimony that it is impossible, according to you, according to the practices of the bank, according to the relationships that existed, according to the instructions that were given, according to loans that were made, according to the interlocking network of those loans, according to the front people that existed and their relationship to the various parties, according to conversations that took place in various countries and so forth, you are saying it is impossible for anything other than an ownership relationship, a fully controlled relationship to have existed between BCCI and First American and National Bank of Georgia, beginning in the early 1980's. Is that accurate?

Mr. SAKHIA. Yes, sir.

Senator KERRY. Is that completely accurate? Is there any waffle or variation or—

Mr. SAKHIA. No, that is my very strong and positive opinion.

Senator KERRY. Well, more than opinion. I do not just want opinion here. Is that something you knew to be a fact by virtue of the practice you carried out as the head of the BCCI in America?

Mr. SAKHIA. Well, you have enumerated the whole list of interlocking relationship, joint business, joint marketing, joint the staff transfers, hiring of staff, merger of First American and National Bank of Georgia, renting of space, appointment of chief executives, the documents now I've seen how the raising of capital and purchase prices were circulated. It is nothing but one institution.

Senator KERRY. And it is your testimony that Mr. Abedi, in fact, personally told you on a number of occasions, we are First American, we have First American, First American is part of us.

Mr. SAKHIA. Yes, sir.

Senator KERRY. In various ways he did that. Is that accurate?

Mr. SAKHIA. Yes, sir. Right.

Senator KERRY. Well tell me, in what ways did he do that. I mean, what was the language he used? His language, not mine.

Mr. SAKHIA. Well, again, it's difficult to remember the words, but any time a question came up or starting BCC's own presence, the reason we cannot do so much of the business which is out there, he would say, but we have our own First American. We have National Bank of Georgia. We have to put the business there. We have to make them viable.

So on an ongoing basis the staff is together, the business is being marketed together. You have seen the examples of businesses which is not arm's-length business. There are several examples that you have shown me which I've not brought it to you, that show that we were doing not only marketing but calculation of interests, passing of entries, introductions, selling, marketing. What does this show? That this is one and the same.

Now for regulative offices or legal offices or logistics, there may be separate corporations, but General Motors has several thousand corporations, but it's one entity. I may be incorporated differently, it may be registered differently, it may have different boards, it may have different management, but its one and the same institu-

tion. In some of our conferences, when we discussed the total assets of the group, we discussed the total assets including First American, National Bank of Georgia, BCCI.

And you have shown me papers, which you have shown it to me which are discussing the assets of BCCI which includes the total assets of First American and National Bank of Georgia.

Senator KERRY. How did BCCI come to exude what the head of the Bank of England has called a culture of criminality. How did this happen? You were there. You were a mainstay of this effort in this country. Everybody's claiming that you know, somebody deceived me, the other person deceived me, so forth and so on. Where did this come from, this culture of criminality?

Mr. SAKHIA. Senator, I am really ticked off at Bank of England. Bank of England have tried to hide behind some laws and secrecies and privileges, but Bank of England, next to them, two blocks away from Bank of England was headquarters of BCCI spread in five buildings. 3,000 people worked there. When it suited Bank of England, Bank of England became the regulator of BCCI. When it suited them, they said they have nothing to do with us. Bank of England collected taxes on 3,000 staff payroll. Bank of England now says they've nothing to do with it.

So if anyone has to be censored, it has to be Bank of England and Price Waterhouse.

Senator, in all the media and all the testimonies, there's been a broad brush that all 14,000 people were corrupt and criminals. But what I said in my opening statement, that this was a very small group of BCC executives, BCC directors, and Middle Eastern front men. Very small group. The whole institution was not corrupt. Now at times——

Senator KERRY. Can I just stop you there? Very small group.

Mr. SAKHIA. Yes, sir.

Senator KERRY. Why is not plausible, then, I mean there are a lot of here who would really like to believe Clark Clifford and Bob Altman, people were deceived, that this did not happen. Why is it not possible that this small group of people kept this and just did their little deals between themselves, that nobody knew how that stock had been transacted. That there was not—I mean, they did not know that the stock had been held. They said we represent these people. Here he is, a big Middle Eastern money person, got a big bank. He says I represent these people, and there is no showing to the contrary. Why is that not——

Mr. SAKHIA. Senator, you have shifted from one question of culture criminality to the First American——

Senator KERRY. But you are saying it is a small group. It is hard to believe that a small group spread such a culture of criminality, and that there was such a culture. I mean, a culture is not exactly a small group. A culture represents the concept of all through the banks, throughout it. That is essentially what was—let me just finish—that is essentially what the banking authorities in England said, what Lord Premiden said. He said this is pervasive fraud.

And now you have a bank being investigated in Egypt for money laundering. You have got relatives of Indira Gandhi and the Gandhi's being investigated in India for malfeasance. You have got problems in Latin America with presidents of countries who apparently

had arms deals going on that were surreptitious. We have not even gotten into the arms deals here. I mean, you have a whole host of criminal activity, and you are saying this was just a small group of people.

But you yourself were very worried about what was going to happen in Colombia. You were worried about the skeletons in the closet, as you have phrased it yourself that might come out, and you did not want to fight the indictment because you thought that would result in the skeletons flowing out. So there is more here than this small group, unless I am missing something.

Mr. SAKHIA. Yes, Senator, I have told your staff and various other agencies also that not only the time of Colombia, but in 1986, I was worried so much that I resigned from the bank. And I told Mr. Abedi, Mr. Naqvi, and Mr. Ameer Siddiki that this is tragedy waiting to happen. And BCC offices——

Senator KERRY. When did you say to them it is a tragedy waiting to happen?

Mr. SAKHIA. Because I was concerned about——

Senator KERRY. When? When did you say that?

Mr. SAKHIA. July 1986. I resigned from the bank.

Senator KERRY. 1986.

Mr. SAKHIA. I offered—I tendered my resignation in writing and I had subsequent several meetings. And I told three of them that this was tragedy waiting to happen. Some day BCC officers would be in jail, and I didn't want to be one of them.

After that, after a lot of persuasion, I agreed to stay behind, but I said I would not stay in Miami because of the link with South America.

But again, what I'm saying is that probably 14,000 people were criminals. What I am saying is it was few dozens. Not even few dozens, maybe 15, 20, 25 people who are responsible for the criminality. If this was a culture that 3,000 people in London were criminals, what was the Government of England doing about it? What was the Bank of England doing about it if there were 3,000 criminals. What has happened today is that 14,000 of BCC staff has been painted as criminals. They're not getting jobs anywhere. They're not being employed anywhere. They're not being given apartments to rent. And they're the big suffering.

And that's why I am here. To say that there was only handful of people. The senior management, some of the senior management, the attorneys, the directors, and the Middle Eastern front men. Between them, they did the fraud of different types.

Mr. SCHNAPP. Senator, perhaps I can interject. I believe what Mr. Sakhia is stating simply is that there are many people who work for BCCI, and it is unfair to taint everyone who has ever been employed by that institution or one of its subsidiaries as part of this culture of criminality. That is one of the reasons Mr. Sakhia is here.

Senator KERRY. I appreciate that.

Mr. SCHNAPP. It is certainly his testimony that a number of people were involved in criminal activity.

Senator KERRY. I appreciate that. And I thank Mr. Sakhia, I have to depart now for another meeting. Senator Brown is going to close out the hearing and we are going to reconvene. He has some

questions and then we will close out the hearing. We will reconvene tomorrow morning at 10—not with your testimony, but with Mr. Lance who will be appearing. And I think it probably will only amount to a morning session tomorrow.

But let me just say to you that you know, I think that basically you have been very forthcoming. I mean, you are submitting yourself obviously to the threat of perjury and you have come before the committee, and you have come voluntarily, and you have answered things, I think, to the best of your ability. Needless to say there are always gaps of different people's perceptions and memory and firsthand observations and so forth. And yet I think you have raised a number of theories and help shed some light on what possibly has taken place here.

I want to emphasize possibly because I do not think the committee feels equipped at this stage to make any conclusions. It would be inappropriate to. And I have consistently throughout this hearing process tried not to draw any conclusions. I think we have only drawn one, and that was my objection as to who did what, when, or how. Beyond that, I think the committee has tried to be pretty careful about that.

We will look forward to explanations coming forward to whatever you have laid on the table here today, which is plenty. And obviously, there is a lot of work yet for us to do.

But I want to thank you for your contribution to this. I know your life is in turmoil today. I know that seeing a life's work go down the drain like this is about as bad as it can get. And I do not know how to make any of that better except to say to you from the committee's perspective that I think you are on the right track by trying to be helpful and trying to lay out to all of us exactly what happened here. And we are going to have to sift through the various testimonies and try to draw our own conclusions and make judgments about what that really is.

So I want to thank you for taking time to be here and appreciate it.

Mr. SAKHIA. Thank you very much for the opportunity, Senator. It is up to you to draw the conclusions. I have answered everything honestly and truthfully, and my understanding of things as I saw them. It's up to you and various agencies of this Government, and various other Governments, to do what they can to mitigate this tragedy.

Senator KERRY. Appreciate it. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman. We just have a few additional questions. And obviously I want to give you a chance to add anything that you would like to at the end of this. We have not talked in depth today about CenTrust and any possible connections with BCCI. And I wanted to provide an opportunity for you to share with us any knowledge you might have in that area.

First of all, let me ask are you familiar with CenTrust?

Mr. SAKHIA. I'm familiar what organization was, CenTrust was a savings and loans in Miami. I'd had one or two social meetings with David Paul. But other than that, I wasn't aware of any link between BCCI and CenTrust. It did not happen in my time in Miami.

Senator BROWN. The meetings that you had were with who?

Mr. SAKHIA. With David Paul, Chairman of CenTrust. But I was in Miami, head of a foreign bank, and he was an important person. So we met on some social occasions. But other than that we had had no business relationship in my time.

Mr. SCHNAPP. Excuse me, Senator, may I talk with my client for a moment?

Senator BROWN. Sure.

Mr. SCHNAPP. I am finished, Senator.

Mr. SAKHIA. In—during my tenure in Miami there was no relationship between CenTrust and BCCI.

Senator BROWN. Do you know of any ownership interest by CenTrust—or by BCCI in CenTrust?

Mr. SAKHIA. Well, I have been asked many times and I've been shown documents that Dr. Pharaon owned about 18 percent of CenTrust. But I have no knowledge of that.

Senator BROWN. I'm sorry. I didn't catch the name as to who owned?

Mr. SAKHIA. Dr. Pharaon owned 18 percent of CenTrust stock. I've been shown documents in various agencies.

Senator BROWN. But you can't verify that on you own?

Mr. SAKHIA. I can't verify that. I have no knowledge of that.

Senator BROWN. Were you aware of the purchase of a subordinated diviture, \$25 million of subordinated divitures issued by CenTrust in May of 1988?

Mr. SAKHIA. I'm not aware of—I wasn't in Miami.

Senator BROWN. This is beyond the period of time that you were—

Mr. SAKHIA. In Miami. After I was in Miami.

Senator BROWN. So beyond the rumor you've heard about ownership, you don't know of any ownership.

Mr. SAKHIA. No, sir.

Senator BROWN. With regard to the purchase of subordinated divitures and their redemption, you don't know anything?

Mr. SAKHIA. I have no knowledge of those.

Senator BROWN. I appreciate that. I am going to enter here at this point in the record a phone log from David Paul. This was prevented to the Senate Judiciary Subcommittee on antitrust monopolies and business rights. It is a record of David Paul's calls and discussions. This is February 13, 1985. And I will enter that here in the record with unanimous consent.

[The information referred to follows:]

DLP TELEPHONE MESSAGES PAGE 1

WEDNESDAY, FEB. 13, 1985

9:30 Mitch Perkeil (212) 962-3300
Mrs. Paul Please call.

9:30 Robert Paul (412) 456-4453
Mrs. Paul Please call.

9:45 Sue Cochran (213) 205-5000
Drexel
Can you help her get a mortgage.
She wants to buy a condo in Orlando
for her brother to live in.
\$33,900, 95% financing, 5% down, fixed rate.

9:50 Nick Bayard (212) 214-2301
Please call.

11:00 Gene
Levitz Electric
He is at your house. Please call.

11:50 Al Tetl Ext. 5434
Wayne Brown has agreed to stay.
You need to talk with Vince Durne
re. Mickwee. Some issues need to be
resolved this week. IMPORTANT.

12:40 Abdur Sakbia (305) 374-0777 ext. 314
General Manager
Bank of Credit and Commerce
Would like to arrange a meeting with you.
He will be out of town until Friday, Feb. 22.
Feb. 22 or the week after would be good for him
if it is convenient for you.

2:28 Mike Kilmek (312) 736-3136
666
Please call.

3:00 Sheldon Guren (305) 374-2800
Please call today. Will be out of town Thurs and Fri.

3:30 Sylvan Schfler (214) 480-6432
Drexel
Please call.

3:30 Tom Myers (305) 255-3886-home
Please call him at home tonight.

Provided by *Senate Judiciary Sub*
Committee on
Antitrust, Monopolies and Business Rights SEN2991

TELEPHONE MESSAGES - PAGE TWO

JANUARY 28, 1964

11:30 a.m.

FREDDY KLITSIKIN

I have set up meeting at 12:00 NOON
with Freddy and his brother Peter
on Thursday - Will you take the time
to meet with them?

1:00 p.m.

ABDUR BAKHIA

Bank of Credit and Commerce
would like you to call him
today.

374-0777

1:00 p.m.

ANDY KOVICH AND SIMON REWITT

(212) 480-5614

Burger needs the \$6,006.00 for
the propellers.

1:15 p.m.

ANGEL CORTINA

Would like to speak with you.

2:00 p.m.

ROBERT PAUL

4:40 p.m.

RON BOCK

Returned your call

347-4716

4:25PM

PATRICK OCONNOR - GREATER MIAMI
CHAMBER OF COMMERCE
Luncheon cancelled Friday

6:00PM

VIC FORNER

SEN0447

TELEPHONE MESSAGES - DLFTHURSDAY, APRIL 17, 1986

9:50AM DICK WRIGHT
Will be here in office April 24, until 2PM;
plane leaves at 3PM; we have made hotel
reservations for him for April 23 evening.
Remember that day you also have Joe Pontoriero
and Ralph Milo coming in

9:55AM SAM ADLER
Will call back later

10:00AM BEN BENJAMIN
To set up a luncheon with his daughter and you
(she is an atty.); set up for 4-30 at 12:30PM

10:00AM ALAN MERKUR
Set up a meeting for 4-21 with Weitzer
group, and would like you to attend

10:15AM DAVID HEDLEY - DREXEL 212-480-3533
Are proceeding with a study of a specific
candidate for your

10:15AM GRACE ABEL - PHILHARMONIC OF FLA. 945-5180
Follow-up on letter they sent you

10:35AM ABDUR SAKHIA'S OFFICE 374-0777 X303
To reschedule lunch that was sched. for
4-24

10:35AM CLIFF MEYER - IBM (also, Board of Freedom) 849-9208
Re your request for data processing
study for CenTrust

10:45AM SAM ADLER
Will call again

11:00AM STEVE PECK 212-909-1850

11:00AM JIM DARE

11:15AM PETER MCGRATH - SOUND COMPONENTS
Called about piece of equipment from boat -
Don Andersen is taking care of it this
afternoon - asked about check - I told him I could
probably send \$10,000 today - okay?

12:20PM LARRY GREEN - REDISCOVER MIAMI BEACH 538-0090
Re letter he mailed to you on 4/10; we
received 4/11

SEN0635

1986

TELEPHONE MESSAGES - Page 2Monday - Sept. 2nd

<u>Time</u>	<u>Name & Message</u>	<u>Telephone</u>	<u>F/U</u>
1:15 p.m.	MAMMY MEDINA He bought your house on Star Island -- would like to have you over for Dinner. (Should I set it up?)	856-2626	<i>Personal</i>
1:30 p.m.	JIM CORONA Re: Initial C. Brewer deal -- asked to be transferred to C. Berry.	217-824-7893	
1:45 p.m.	Lily MR. SAKHIA'S OFFICE Bank of Credit & Comm. Would like to invite you to a Black-tie affair honoring Oscar de la Renta Collection at the Mayfair House on Friday, Sept. 26 7:30 p.m. (Would you like to attend?)	372-0911	
1:50 p.m.	MARK MEYER Thurs. - Sept. 4 Israel Philharmonic will be performing at the Theater of Performing Arts and would like the Tower to be lit in Blue and White.	976-8700	
3:40 p.m.	Stephanie DAN GOOD'S OFFICE Re: Dinner w/M/M Good and M/M Arthur Imperator in New York on Sept. 10 meet at Mr. Good's apt. and go to dinner from there. (Is set tentatively on your schedule -- is this date and time alright w/you?)	212-298-4327	

SEN0764

1986

TELEPHONE MESSAGES - Page 2

Monday - Sept. 22nd

<u>Time</u>	<u>From & Message</u>	<u>Telephone</u>	<u>F/U</u>
1:35 p.m.	ROBERT MOLL Arthur D. Little Re: Joint venture of a few large S&L's	617-864-5770	Shealy per DLP
2:30 p.m.	SARA LYONS Florida Historical Society Would like to meet w/you to discuss their new project - book on the history of Florida. (Would you like to meet w/them?)	445-9898	No
3:00 p.m.	MARVIN ROSEN'S OFFICE Mr. Rosen and Mr. Ross will be here at 4 p.m. today.		OK
3:10 p.m.	Lily ABDOU BAKHIA'S OFFICE S.C.C.I. Mr. Bakhia would like to set up a lunch w/you and Mr. Akhtar Anis from S.C.C.I. London Office on Oct. 3 at 12:30 p.m. (I have put it tentatively on your schedule - CONFLICT w/Europe w/the Barbara - Please advise.)	374-0777 ext. 303	OK
3:15 p.m.	GEORGE GOLDBERGER of the Grace Commission investigating waste and inefficiency in the Federal Government. He will be in Miami on Oct. 8, 9 & 10 and would like to meet w/you. (CONFLICT - You wanted to take Oct. 8 off and You will be in Pebble Beach on the 9 & 10. Please advise.)	202-628-6428	No

SEN0804

Senator BROWN. I might say I do note here his discussion with you at 12:40 on February 13, 1985. The note is, "Would like to arrange a meeting with you. He will be out of town till February 22." There are several other notes here. Do you recall conversations at this time? Would you like to look at the phone log?

Mr. SAKHIA. Sir, I remember there was a financing, there was a loan CenTrust was going to make to the purchaser of some LPG business, Liquified Petroleum Gas business from Texaco. A customer of CenTrust was going to buy, and CenTrust was going to make a loan. David Paul wanted us to participate in that loan. And we had had some telephone discussions in respect to that loan to the customer of CenTrust. But nothing happened in that transaction.

Senator BROWN. During this period of time that you were aware of did you all do business with—

Mr. SAKHIA. CenTrust, not till February 1987. While I was there we did not do any business with CenTrust.

Senator BROWN. Let me ask if there's anything that you would like to add at this point for purposes of the record.

Mr. SAKHIA. Well, I said it in the opening statement and I said it subsequently, that I feel very concerned for the thousands of former employees of BCCI. And they have suffered a lot. And any agency that would do something to mitigate their problems, and if any fines are imposed on these people who are involved, there should be some help given to the BCC staff in this country and elsewhere. And that is my request to you, sir.

Senator BROWN. I take it, it is your feeling that the overwhelming majority of BCCI employees were not aware?

Mr. SAKHIA. Yes, sir.

Senator BROWN. Of the criminal activity?

Mr. SAKHIA. No, sir.

Senator BROWN. Do you feel they should have been?

Mr. SAKHIA. Well an employee is hired to do a part of the business. And they are doing their part honestly and diligently. They are managing what they are asked to manage. It was only a handful of top people in London and the directors of the bank and the front men of the bank who are involved in various conspiracies of owning First American, an officer of a bank in Africa or in Europe or in Middle East, he's not involved in this. He's servicing his clients. He's providing good service. He's putting in 70 to 90 hours a week. He's working under extreme conditions. He's not party to any fraud. He's not party to money laundry. He's not party to ownership in California.

And yet, these are the people who have suffered. The rich Middle Eastern middle men who have collected fees and dividends and bonuses are enjoying part of this fraud.

Senator BROWN. A couple of questions to close out. Many corporations have pretty strict codes of conduct that deal with not only ethics but compliance with the law, not only the letter of the law, but the spirit of the law. Did BCCI have such a code of conduct?

Mr. SAKHIA. No, sir. That was a problem. The code of conduct we had some general notifications and circulars, but we did not have what a major bank would have, a compliance division. And we had tried to do it on our own in the field. I had tried to institutionalize that while I was in Florida and when I went to New York. And

that's where I ran into problem in Florida because we were trying to introduce internal controls and compliance.

The—subsequent to that, when BCCI was indicted, I wanted to hire an external agency to do the work whereas London decided that it will be done in house, the compliance procedures and compliance manuals. Because I had signed agreement with State of Florida, State of California, and State of New York to put the compliance procedures, I was the signatory to those. Well, that's why I wanted to hire external agencies which are experts. But Bank decided to do this internally.

And January or February 1989, I went in a huff to London to extend this compliance beyond the U.S. to the other offices of BCCI, like Panama and Colombia, and that time I was told by two Siddikis, Ameer Siddiki and Saleem Siddiqui that United States does not control the world. And I told them——

Senator BROWN. Others have made that observation, too.

Mr. SAKHIA. This was my reply to them. I said, Mr. Siddiki, the big Government changes in Panama, and if there's a pro-American Government in Panama, everybody from BCC will end up in jail. These were my words. After that Mr. Naqvi said would you like to move to London. I said thank God, yes.

Although in my personal life it was the worst time, I moved to London in March of 1989. In the same month my wife had a cancer operation. But still I went to London. I left my 14-year-old son, and I left for London. Because I saw that this was a big tragedy that was going to happen. I consulted the partner of Mr. Schnapp, Mr. Lumni, whom I knew. I said what shall I do? Shall I leave the bank? He said if you left the bank at this stage, you will become immediate target. And then nobody will pay your legal fees and nobody will support you. So it's better that you go to London until this case is concluded. And you can leave at that time.

And I left in April of 1990 at the conclusion of this case.

Senator BROWN. You have extensive experience in the banking industry, not only inside the United States but around the world.

Mr. SAKHIA. Yes, sir.

Senator BROWN. You occupied a key position with BCCI. What sort of laws should we look at that would have been helpful to stop this tragedy from happening? What kind of requirements would have spotted this and made it impossible?

Mr. SAKHIA. I'm not a legislative expert or legal expert, so my opinion would be from a common man's perspective. That the controls in the bank and the auditing of the bank should be tightened much more than they are not in many countries. There are hardly any regulations on the practices of institutions.

Senator BROWN. You mean internationally or inside the U.S.?

Mr. SAKHIA. Both in United States and internationally. The savings and loans tragedy is because of similar situation. No regulation, no accountability, no audits, or the auditors are not held accountable or responsible. Although this is a free market, and I subscribe to the form of free market, but free market to pay interest whatever you want and then have all of that deposit insured by FDIC. So the bank take money at whatever cost, make losses, and yet, the Government and the taxpayers subscribe to the mismanagement.

The management has to be made criminally responsible not just be fired. The auditors should be held criminally responsible. The auditing of the bank and the financial institution should become more organized. I've seen audits by the regulators in several countries, in Canada, in United States, in other countries. And the—I don't want to be misunderstood, but most of that stuff is very underpaid and untrained. Whereas the staff of the commercial institutions is highly trained, highly paid, highly organized. Any time auditors would come, the examiners will come from various agencies, their first intent would be get a job in the organization their auditing. They're underpaid, they're not trained, they're not looked after. They come to a commercial institution where there are exquisite dining rooms, cars, privileges, beautiful offices. They are working under stress. They're underpaid, they are overworked. They are not trained.

Now this part has to be corrected, particularly in United States because now I'm here in United States and if a separate agency was to be found—a commercial firms were to be given this work, and then this would be charged back to the institution which are being audited. But they're dealing in public trust and they are being insured by taxpayer's money.

Senator BROWN. You're feeling that some of the illegal activities might have turned up if the auditors had been more thorough, better trained, more conscientious?

Mr. SAKHIA. Again, in my view, if something was illegal, and acquisition of BCCI of the First American, Independence, National Bank of Georgia, at least the auditors of the bank knew that because they were auditing it. They knew the loans were made to CCH. They knew the loans were made to Pharaon. They knew the loans were made to others. Did not the question, did they not know that it was illegal? I can't understand where you, Mr. Chairman come from, vis-a-vis Clifford and Altman, that they might not have known, I can see your point of view. But I cannot see the point of view of the auditors of the bank because auditors had the books in front of them. They knew what the loan was for, what the collateral was, what the loan agreements were. The loans were not being serviced. For years they knew this.

Senator BROWN. You're saying all of it was there?

Mr. SAKHIA. All of it was in the books. It was in the record and they were privy to those records. The American lawyers may take the plea that they were not, but there's no way the auditors would have not known.

Senator BROWN. With regard to the dodge that went along in terms of ownership with the practice of having nominees take ownership of the stock when in reality BCCI was the owner. Any thoughts come to your mind as to how that can be spotted? What sort of arrangements would be helpful. I mean that is a case where obviously what they did was illegal under U.S. laws. And yet it lasted for many, many years, never spotted. Any thoughts on what kind of requirements would get at that?

Mr. SAKHIA. I would be at a loss to recommend. I can understand the predicament of the Federal Reserve and similar agencies because they were consistently lied to. And I would very much be at a loss to recommend how they can tighten up any of this—

Senator BROWN. Would some coordination, international coordination between countries with regard to bank regulation be helpful here?

Mr. SAKHIA. I believe there is a Basel Concordat of the Central Bank, and I read in the papers recently that a representative of the Federal Reserve is the chairman of that group of regulators. But again, there are so many national interests and so many political interests at each other. Now, BCCI to everyone was an illegitimate child so everyone has cooperated in the small degree they've cooperated in case of BCCI. But in other tragedies like Banco Ambrosiana and others, Banco Nazionale di Lavoro, and so on, these—even this sort of a group has not been successful because there are national interests of various agencies.

Senator BROWN. BCCI obviously was able to not only acquire significant banks with a minimum amount of capital or equity, but appears that they then used their control over those banks to acquire ownership in other banks.

Mr. SAKHIA. Yes, sir.

Senator BROWN. This ability to pyramid appears to give someone with almost no equity and ability—what was this, \$19 billion in assets at the time the empire was put together?

Mr. SAKHIA. BCCI?

Senator BROWN. Yes.

Mr. SAKHIA. BCCI group was \$24 billion.

Senator BROWN. Say it again.

Mr. SAKHIA. \$24 billion.

Senator BROWN. \$24 billion.

Mr. SAKHIA. The equity was about \$1.5 billion.

Senator BROWN. And when you say equity of \$1.5 billion, you are referring to the equity of all the institutions combined?

Mr. SAKHIA. No, sir. BCCI, according to BCCI financial statement, it had share capital or the capital fund of close to \$1.5 billion.

Senator BROWN. If the institutions were not terribly successful financially, how do they achieve that kind of equity?

Mr. SAKHIA. But BCCI in commercial business was very successful. It's profit was very high. It's return on equity and return on assets was very good. BCCI on the commercial side was an extremely successful organization worldwide.

Senator BROWN. How much of that, of the profit, can you give us an estimate as to how much of it might have been obtained legally and how much of it was obtained illegally?

Mr. SAKHIA. Sir, money is so fungible that you cannot identify how, what happened because there are not specific transactions. You raise deposits which you may invest in U.S. Government securities, and you may see that there's an earning on securities. Whereas the source of funds may have been drug money. So it's very difficult to identify how—which portion came from where. But in case of BCC, such a large proportion of its business was international business and foreign exchange operation and service oriented that a very large percentage of its business came from providing good service and needed service.

I am at a loss to understand why they would indulge in activity. But once you are caught into this web of ownership, cross owner-

ship, insider loans, to extricate that, they had to go on covering again and again and again. But on the commercial side, it was a very successful bank.

Senator BROWN. We appreciate your testimony and your coming in. Thank you.

Mr. SAKHIA. Thank you.

Mr. SCHNAPP. Thank you.

[Whereupon, at 5:13 p.m., the subcommittee adjourned, to reconvene at 10:08 a.m., October 23, 1991.)

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THE BCCI AFFAIR

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BEFORE THE
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OF THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE
ONE HUNDRED SECOND CONGRESS
FIRST SESSION

OCTOBER 23, 24, 25 AND NOVEMBER 21, 1991

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(III)

NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

WEDNESDAY, OCTOBER 23, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:08 a.m., in room SH-216, Hart Senate Office Building, Hon. John Kerry (chairman of the subcommittee) presiding.

Present: Senators Pell, Kerry, Brown, and Pressler.

Senator KERRY. This hearing of the Subcommittee on Terrorism, Narcotics and International Operations will come to order.

Senator KERRY. Mr. Lance, we welcome you this morning. Thank you for taking the time to come here.

I want to recognize that you have decided to come here voluntarily. There was no subpoena. You have cooperated with this committee and willingly, and, in fact, have volunteered to do so. We are appreciative for your help and assistance over the course of these last weeks.

I might also add that you have not been particularly public on the subject of BCCI. I think this is the first time that you've really talked in a significant way publicly about it. And so, again, we are appreciative for that. I do know that you have spent some time with the Federal authorities, Federal Reserve and others, the SEC, and I appreciate, given that fact, that you've been willing to come here.

This appearance of yours today is important to the committee for a number of different reasons.

It was you who gave BCCI, through the purchase process that took place with the National Bank of Georgia through which Mr. Pharaon and BCCI gained their first real foothold, as they viewed it, in this country.

Second, you introduced BCCI to what would become its flagship bank, Financial General Bankshares of Washington, Maryland, and Virginia, which was later renamed First American.

In addition to that, you introduced Mr. Clark Clifford to BCCI and to First American, thereby setting in motion a relationship which is now obviously the subject of considerable controversy.

It was also you who introduced Mr. Abedi to former President Carter.

I think it's going to be helpful to the committee to understand all of these relationships and to hear from you precisely what you knew at the time and what you understood to be the facts at the time and what you understand to be them now.

In addition to that, you had many meetings with a number of central players in this scandal, ranging from Aga Hasan Abedi, the founder of BCCI, to Sheikh Zayed of Abu Dhabi, a principal owner of BCCI, and with other high level BCCI officials.

It's our sense that you have a significant amount of information regarding the foreign policy aspects of the BCCI affair and some information regarding BCCI's relationship with U.S. intelligence.

I might comment that you said to us privately in discussions that you never had difficulty getting publicity here in Washington, and we can appreciate that it is not with great pleasure that you return to Washington as a witness in this situation. I just want to express my gratitude to you for being willing to do so.

Before I make any further comments, let me turn to my colleague, Senator Brown, to see if he has any opening comments.

Senator BROWN. Mr. Chairman, I simply want to add my thanks to the witness also. The fact is that this is an area that the Congress needs to do some work in. Our ultimate objective is to find areas where statutes, where new legislation, can be helpful in controlling foreign influence and developing standards in which countries can cooperate to control the abuse of the banking process. I know our witness has not only a great deal to say about the topics we've outlined, but my hope is before the hearing is over, he will share with us any ideas he may have with regard to future legislation that will be helpful in addressing what really is an international marketplace problem.

Senator KERRY. If I could pick up on that, I want to take advantage of the moment just to refocus some people on what the committee is doing and why it's doing this and where we began. I'll be very brief.

This entire investigation grew out of early allegations regarding a confusion between foreign policy goals and interests of the United States and intelligence goals or other kinds of efforts that sometimes collided with each other.

We wanted to look at the degree to which narcotics trafficking and other criminal activity might be infiltrating the legitimate interest area of U.S. policy. That specifically started with the Contras and allegations that they were involved with drug running and gun smuggling, and laws were being broken in Florida.

What we learned as we got into it was that it just got bigger and bigger and bigger. There was this extraordinary network out there of private arms dealers, of private profiteers of one kind or another, either on visas or on black market or something out of Panama and these countries.

What was particularly disturbing was the degree to which they seemed to have a capacity to influence decisions by governments and government officials. Our Government's severed alliance with General Noriega obviously became the paramount example of that kind of confusion as senior policymakers sought to help protect Noriega while he was smuggling narcotics into the U.S. because he supported the Reagan administration Contra program.

Recently, 10 percent of the Miami Police Department was fired or forced to resign because it had become involved in narcotics trafficking and in actually selling narcotics, not just hiding evidence and so forth. Many other countries have similar problems with drug related corruption today. Because of the huge funds involved, the lawlessness and the power that attach themselves to these kinds of illegal activities have the ability to subvert democracy itself.

Recently, I had a meeting with narcotics people and others in Italy who talked about the degree to which the entire southern portion of Italy was threatened by organized crime. It seems to me that this goes to the heart of the BCCI problem. When banks can be taken over illegally, or when foreign interests have the ability to be able to gain a foothold and, by buying influence and peddling influence you have at least begun a process of chipping away at your system.

The clear question here is why, when so much was known and when so many people seem to have a sense that these illegal activities were going on, things didn't happen to stop it. What got in the way of the larger interests of our society? Why was it that law enforcement or others didn't take steps? Were there larger interests at stake here?

I don't know the answers to all those questions, but that's a large part of what we are trying to get at.

Clearly, for the average person in the street, who is worried about a system of government that seems to have several different standards in applying its laws, this is also an important lesson: whether or not it means truly that those who have access to the lawyers and the power are going to have a different standard applied to them, while the average citizen, is the person who pays the full measure of the laws in this country. That is supposed to be, I believe, a significant part of what this country of ours is about, applying our laws fairly and evenly.

Mr. Lance, if you would stand, I would like to swear you, please.

Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LANCE. I do.

Senator KERRY. Would you state your full name and, if you would, please, if you'd like to give an opening statement, I'd appreciate it.

TESTIMONY OF THOMAS BERTRAM LANCE, FORMER DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Mr. LANCE. My name is Thomas Bertram Lance, Sr. I live in Calhoun, GA.

Senator Kerry, Senator Brown, I would like to be able to say that I am delighted to be here this morning. I have had this occasion before, and sometimes it was fun and sometimes it was not. I am privileged to be here this morning. I think that any time that any citizen of this country has the opportunity to appear before the Senate or the House or any other governmental agency that is seeking the truth, that it's a privilege. And I feel that way very strongly about my presence here this morning, that it's a privilege.

I am here to tell you what I know that may be helpful to you as you seek the truth, and I appreciate what both of you gentlemen had to say.

I don't have a prepared statement because, frankly, I have been traveling for the last 2 or 3 days, and I did not have a chance, after fairly short notice about my appearance here. What I would like to do, if it meets with your approval, is to simply maybe narrate some of the events that took place in my relationship with Mr. Abedi and BCCI and the other people that have been involved. Obviously, I will allow you to interrupt me at any point that I raise a question or anything else.

But I thought that it might be more helpful in that regard than simply reading a prepared statement.

Senator KERRY. I appreciate that.

Mr. LANCE. Plus the fact that it will keep the press on their toes and that's always a good thing to do, when they don't have something that they can read there in regard to the situation.

Senator KERRY. Well, they know you know how to keep them on their toes.

Mr. LANCE. I don't know about that. Sometimes I wonder.

Senator KERRY. I'd appreciate it if you'd begin by giving us just a brief sort of resume and a little bit of your background.

Mr. LANCE. All right, sir. I'd be delighted to do that.

I am a native Georgian. I had a high privilege in Georgia, serving as the director, and ultimately commissioner, of the Department of Transportation while Governor Carter was Governor. I, at the same time, had the opportunity to run for Governor of Georgia in 1974. I got beat in a close election. It probably would have suited me better if it had been more definitive because you wonder who voted for you and who didn't.

After that, I went to the National Bank of Georgia. I had been chairman of the Calhoun First National Bank prior to that. I went to the National Bank of Georgia in 1975 as the president and chief operating officer.

In 1976, I was active in the Presidential campaign of Jimmy Carter and subsequently came to Washington to serve as Director of the Office of Management and Budget.

In 1977, I subsequently resigned, in September 1977, and went back to Georgia, and at that point in time began to try to make a living doing various and sundry things, mostly in the consulting area because of other circumstances. I will get into some parts of that experience as we move along.

Basically, that's what I have done since 1977. I still live in Calhoun, GA, and have maintained an interest in the political process in this country as well as elsewhere around the world.

Is that sufficient background?

Senator KERRY. That is sufficient. Thank you.

Mr. LANCE. Now, what I thought would be the most appropriate thing for me this morning and perhaps save you and Senator Brown and others as much time as possible would sort of be to just merely narrate what happened in regard to my meeting Mr. Abedi, what I recall as having taken place with regard to that, and then I have some thoughts, as we develop questions back and forth, that

may be incumbent for me to respond to as it raises questions in your mind.

I was Director of OMB from January 20, 1977, until September 21, 1977. I had some difficult times to go through during that period of time of allegations, innuendo, and charges that all of the other things that sometimes people in public life go through.

I finally came to a point in time when I made a decision, and it was my own decision, that, in order for President Carter to move ahead in dealing with the problems of the country and the rest of the world that he felt an obligation to deal with, that it would be better for him to be free of Bert Lance and answering questions all the time about this, that, or the other as it related to me. So I submitted my resignation in September 1977, after 3 days of Senate hearings that are well noted in the public record.

Along in early October 1977, I had a call from a friend of mine in Georgia, a former State senator by the name of Eugene Holly, who said that he had developed a relationship with a gentleman by the name of Aga Abedi, who had a bank in London named BCCI, which stood for Bank of Credit and Commerce International; and that he had had some conversations with Mr. Abedi about me and whatever few abilities I might have and things of that nature; and that he thought it would be worthwhile if I had occasion to meet Mr. Abedi and discuss with him what his interest might or may not have been in regard to the United States, in regard to investments, in regarding to banking generally, and so on.

I was not an unknown banker at that point in time, I might add, because of the circumstances that I had been through.

Early in October, I met in New York at the Waldorf Astoria. I met Senator Holly. I met a gentleman named Mr. Abedi, a gentleman named Mr. Naqvi. I believe that those were the only four people that were involved at that point in time.

Basically, Mr. Abedi said to me: I am building a bank headquartered in London that has a deep and abiding interest in the problems of health, hunger, economic development, things primarily in the Third World, problems that we all are familiar with and problems that we all want to see resolved in one form or another.

I shared that concern, especially about economic development, because I had come from a poor section of Georgia, where I saw what the utilization of resources in a bank could really mean to the people in that community through job creation. And, I might add, we need it very badly today, in my judgment, when I look at the economic circumstances that are taking place in our Nation.

So I felt that I knew something about economic development, job creation, with utilization of assets and resources.

That was the kind of conversation that I had with Mr. Abedi at that point in time.

Mr. Abedi's comments to me, without trying to be specific because it's been such a long period of time, happened to be that look, I'm trying to build this global institution. Obviously I have an interest in the United States. My rejoinder to him was that obviously you cannot be a global bank, an international bank, without some sort of presence in the United States. This is the most powerful, rich nation in the world and this is certainly something that you ought to look at.

It was that sort of conversation that we had initially.

Now, after that, after that initial conversation, which was fairly general in its totality, basically philosophical in nature, I came back and said look, before I go any further, I have just resigned from OMB in order to not cause any further problems for the President of the United States. I am not about to get involved in a situation whereby the relationships that I establish after having resigned would create any problem of embarrassment, concern, or anything else for the President of the United States.

I was very keenly aware of that problem. And, because of my relationship with the President, I felt very, very strongly about that.

And so, I said not only to myself but to my family and the friends that I had who were knowledgeable about what I was talking about doing at that point in time: Look, I have to do due diligence about Mr. Abedi and BCCI. He was not reluctant for that to be done. He had brought some annual reports, as I recall, about BCCI, at that first meeting that he gave to me.

I went to see Mr. Clifford, who had represented me since the Labor Day weekend of 1977, and I said: Mr. Clifford, I have made the acquaintance of Mr. Abedi. His bank is BCCI. He has some interest in talking to me about future relationships, whether that is in regard to being merely a consultant or being actively involved in one of his operations somewhere, that sort of conversation. But before I do that, it is absolutely imperative and incumbent upon me to make sure that we know what kind of people that I am getting involved with if, in fact, I do get involved.

I asked Mr. Clifford, because of his knowledge and expertise and things in not only here but around the world, to do his due diligence on my behalf, as my attorney, and that I would, likewise, do mine.

I want to make that very, very clear to both of you, and the committee, and the country as a whole, because it's very important.

I have had a situation in the press where I constantly get tangled up with regard to BCCI, and it's been very harmful to me, personally and in a business sense. I want to make sure that everybody understands what I did initially with regard to that situation.

I feel very strongly about that being important because of the circumstances that subsequently have developed in regard to BCCI and the fraud and scandal that obviously has taken place.

I did the checking that I could. Again, as I said, I was not an unknown banker at that point in time or unknown in the country. I had easy access to having telephone calls returned and that sort of thing.

I asked people that I thought would have some knowledge of BCCI and Mr. Abedi what they thought. Were they people of character and integrity? Was the banking institution itself one of character and integrity?

I knew that I still had a good way to go in regard to the process winding its way ultimately to some conclusion, and, therefore, that, too, was important to me, not only as it was important in the concerns that I had about President Carter.

Every instance of report that I either got or from what Mr. Clifford told me came back that Mr. Abedi was a man of integrity and character, that BCCI was a new kid on the block, so to speak, in

regard to trying to make inroads into the banking community in London, in Europe, and so on, but that they were people of integrity and character.

So, subsequently, having received that assurance, as I recall at that point in time there were two senior executives from the Bank of America who were on the board of directors of BCCI. They spoke highly of the institution, of what role it wanted to play, and so on.

So, we moved on to take the next step, and that was the conversation.

I think that that took place in London—again, to both of you—in a conversation with Mr. Abedi and Mr. Naqvi. Let me say at the outset, so that in case I should misspeak or something, generally, when there was any meeting with Mr. Abedi, except on some rare occasions, Mr. Naqvi was generally present. So I sometimes may leave him out of the conversation. But, generally, on most occasions he was present.

Now, at that particular point, it was talked about, about Mr. Abedi's interest in the United States as it relates to banks.

Senator KERRY. This is at what point now?

Mr. LANCE. This was in October, still, or early November 1977. I expect that it was in late October, to try to give you a definitive date.

I think this is important to begin to put what you're seeking into some context of where they were at that point in time.

Mr. Abedi said, as I said, and the way I generally describe it is that, in effect, he wore three hats at that point in time.

He said that he was the founder and managing director, for lack of a proper term, of BCCI. He represented certain investors who were people of significant wealth, primarily Arab investors out of the Middle East; and then he had his own interest in a personal matter; that obviously there was an interest in the United States; that BCCI, if, as I said, were to be a global institution, then obviously I felt very strongly that it had to have a presence in the United States. I did not know any of the details of regulatory supervision or so forth and so on of BCCI, other than the fact that I guess I had been told that it was chartered or headquartered in Luxembourg, or under their regulation, what have you; that there was an interest in BCCI acquiring a position in U.S. banking, there was an interest in individual investors acquiring a position in U.S. banking, as well as other type investments.

I had several conversations from that point on about what made the most sense. My advice to Mr. Abedi at that point in time was very clear and precise, as I recall, that you need to get acquainted, you need to go through the regulatory process in the United States; that, obviously, despite my difficulty sometimes in dealing with them, that I thought it to be the best process in the world; that banks who were regulated in the United States offered their depositors safety; that it was the kind of climate that was appropriate and proper, and that was what they ought to do.

There was never any comment, as I recall, by Mr. Abedi, about any previous effort to take a position in any U.S. bank. He did tell me that it was obvious at that point in time that the Bank of Commerce in New York City was available for purchase.

Well, I happened to know enough about Financial General because when I was at the National Bank of Georgia, they were owned by Financial General. I and other directors of the bank had bought control of the National Bank of Georgia from Financial General. So I was aware of the banks that they had because I'd met most of those people and had some familiarity with it.

During the course of all those conversations, it became clear that Mr. Abedi was interested in the United States; that he had this particular interest in the Bank of Commerce.

Now there were other stockholders in Financial General at that point in time that I happened to have an awareness of who had, I don't think had been very happy about their investment. They were looking for purchasers. General Olmstead, who had been the guiding force, for lack of a better term, with regard to Financial General, had found himself, I think, having to make a basic decision as to whether he was going to divest of Financial General or the international bank because of a Fed order. And so I knew about all that.

During the course of the conversations that were held, it soon became very obvious to me, Mr. Chairman, that if there was an interest in the United States, that it made more sense to talk about acquiring Financial General than it did just of acquiring the Bank of Commerce in New York; that the purchase price, as I recall—and please don't hold me to this because it's been a long time—was somewhere between \$25 million and \$30 million for the Bank of Commerce, which primarily was in New York City, and may have had branches in other parts of the State. But you could have acquired the whole of Financial General, which enjoyed a very unique position in American banking at that point in time in the sense that it was one of the two or three, maybe four, multistate holding companies that were in existence in the United States.

And so, from an economic standpoint, from a practical standpoint, it made more sense to me to talk about the acquisition of Financial General instead of the acquisition of the Bank of Commerce.

Senator KERRY. So you really flagged Financial General for him?

Mr. LANCE. That is my total and complete impression, Mr. Chairman. I have seen statements that said somebody else had mentioned Financial General and so on. I do not know anything about that.

I never had any conversations that related to any aspect of that. Everything that I saw related to the fact that Mr. Abedi was familiar with the Bank of Commerce.

Now, I subsequently have found—

Senator KERRY. I'm sorry. Let me just interrupt me there if I may because I don't want to come back to it later.

There's a letter from Kamal Adham to the Federal Reserve dated April 10, 1991. That states that a man named Hasan Yassin advised Adham that Financial General Bankshares would be a good investment, and he turned to Abedi to evaluate it.

Is that account correct in your view?

Mr. LANCE. In my view, that is not something that I knew anything about.

Senator KERRY. So the first conversations that you remember Mr. Abedi having were with you?

Mr. LANCE. That's correct.

Senator KERRY. And you brought it to his attention?

Mr. LANCE. I brought it to his attention because I was familiar with Financial General. I think that it was an awfully good franchise then. Obviously, it's a good franchise now, as far as I'm concerned, in the sense of the banking business. And it made sense for him to look at that, instead of just the Bank of Commerce.

I never heard anything about any prior conversation about Financial General, Mr. Chairman. So I'm not saying that's not accurate. I just simply don't know about that. But I never had any conversations with Mr. Abedi or anybody else that there had been any prior interest.

Senator KERRY. Did you ever know Hasan Yassin?

Mr. LANCE. No, sir, I do not.

The other thing that I subsequently have learned, I think basically through your committee hearings, is the fact that at some point in time there was an interest in a Chelsea bank.

Senator KERRY. Correct.

Mr. LANCE. I knew nothing about that. And so, anything that I would say would be merely hearsay and what I've read. I know nothing about that situation.

Senator KERRY. Let me just clarify that since you've raised it.

So whatever due diligence was done by Messrs. Clifford and Altman or by yourself did not turn up that, at the time, BCCI had been refused a license to take over the Chelsea Bank?

Mr. LANCE. Absolutely not. There was never any comment about that until your hearings.

Senator KERRY. And you never learned that the New York regulators, in fact, believed that the would-be purchaser for the Chelsea Bank, a so-called Mr. Gokal, was possibly a front man for BCCI?

Mr. LANCE. No, sir. I did not know that.

Senator KERRY. So at the time this due diligence was done, the due diligence did not turn up that the New York bank regulators had refused BCCI access because BCCI was deemed to be trying to make a purchase through a front person?

Mr. LANCE. I had no knowledge of that. And, subsequent to that, as, again, as I said through I think your hearings—

Senator KERRY. Does that suggest anything to you with respect to the due diligence?

Mr. LANCE. No, I don't think so, because I subsequently have read—and I don't know whether this is accurate or not, and I'm sure that you have the answer—that actually there had been no application by BCCI as it related to the Chelsea Bank, that that was done in the name of someone else. Whether that was a direct, straightforward or a nominee transaction, obviously I have no knowledge of. But what I had been told was that BCCI never filed any sort of—

Senator KERRY. Formally?

Mr. LANCE [continuing]. Formally; and, therefore, there was never any response about any difficulty that they had had with the Fed or anybody else.

Senator KERRY. So that might, in fact, work the other way and say something more about the quality of their deception, perhaps.

Mr. LANCE. Well, it possibly could, from that standpoint, if they were, in fact, engaged in deception at that point in time.

I'm not sure that I am yet ready to reach that conclusion. Because of what my knowledge has been about Mr. Abedi and BCCI, I will withhold judgment on that for at least a while in regard to that.

But in regard to any prior knowledge about Financial General, Mr. Abedi never told me of any interest in that regard whatsoever prior to my mentioning Financial General. That came about after there had been comments about the Bank of Commerce.

Senator KERRY. In your conversation with him, did he appear to react in a way that indicated to you this was the first time he was hearing about it?

Mr. LANCE. That was my impression.

I did not think at that point in time, and I have seen nothing that I have recalled or read or anything of that type since then that would cause me to give you a different answer in that regard. That was my impression.

I told him again and made it very clear to him that, if you're going to have a presence, if you're going to be a world bank, if you're going to be a global institution, then, obviously, you have to have a presence in the United States. That's not against the law. That's to be welcomed. That speaks well for both parties, and so on.

My advice to him always was that, you know, you need to go ahead and go through the process of getting regulatory approval for whatever you do and make sure that you do it in direct fashion.

Now, again, I don't want either one of you to think that I am alluding to the fact that I thought there was some deception in saying that. I just learned a long time ago that what you can't do directly you can't do indirectly; and you'd better not get caught up in that.

So my approach I think is fairly open about my saying that you can do it directly and whatever you do, you make sure you do it properly. I've tried to do that, and, despite the controversy and other things that have arisen sometimes about me, I think it's very clear that I've done that.

The situation was such that that began to move along. At the same time—and I don't now how much you want me to delve into the question of NBG at this particular time because, obviously, that was much more important to me than the acquisition of Financial General because I had put myself in a position where it became important for that bank to be sold and I was looking for buyers. There had already been buyers that had looked at it. Obviously, every time anybody looked at it, they got an article in the press somewhere or on television that they were looking at it. They suddenly lost interest.

It's amazing how that happens sometimes.

Senator KERRY. Well, I think we would like to hear this. We are going to ask you some questions about the NBG purchase. So if you want to deal with it now, you can, if it sequentially fits. Otherwise, we'll come back to it.

Mr. LANCE. Well, basically, basically they were occurring at the same time, "they" being the interest that was shown in Financial General and the sale of NBG by me.

Now, again, to put it into proper perspective, Mr. Clifford and Bob Altman represented me at that point in time as a result of the Senate hearings in September 1977. They were very aware of what I was trying to do and were very helpful to me in trying to do that.

The circumstance involving NBG was discussed with Mr. Abedi when I said to him: Look, you have these investors that you have said that you represent, who want to be involved in U.S. investments, and so on. Now what about the National Bank of Georgia? Again, it's in a fine community, it's in a growing area, it's had the opportunity to grow and develop. But there's a lot of potential there in Georgia and the southeast, in the Sun Belt.

And he said: Well, I have an investor who, by the name of Ghaith Pharaon, who has acquired banks in the United States previously. He acquired Commonwealth Bank in Detroit, I believe is the proper name, and the Main Bank in Houston, as I recall, and he is interested in the acquisition of another banking facility in the United States.

Senator KERRY. Mr. Abedi said this to you?

Mr. LANCE. Mr. Abedi said this. And he said it appears to me that that would make a lot of sense.

So that moved along basically on the same sort of track that the interest in Financial General moved along.

Now, I think that it's important for me to try to separate the two from your standpoint, simply so that we can begin to try to ferret out all of these different relationships.

Pharaon, as far as I knew at that point in time, was not an investor in Financial General or a potential investor, depending on the time that we were talking about.

Senator KERRY. How did you know that?

Mr. LANCE. Because, as acquisition of Financial General stock was being made, those investors were identified, as I recall, and, basically, they were people other than Ghaith Pharaon. And, of course, I wanted to make sure, as I said earlier, I had a commitment and obligation to the shareholders of the National Bank of Georgia, and I wanted to make sure that an offer was made to them in regard to the whole situation because of the circumstances previously, to my hearings and all the things that had transpired that we don't need to go into this morning.

So, it was very clear that there were two groups of investors there that Mr. Abedi said that he was representing. One happened to be the investors that subsequently ended up as the individual shareholders in Financial General, and Ghaith Pharaon, who ended up as the sole investor in the National Bank of Georgia.

Now, I may not have made it as clear as I ought to, but all of this was happening in a relatively short period of time because of the circumstances.

You had investors in Financial General that had to make some sort of decision fairly quickly about what they were going to do about the price of their stock, whether they were going to keep it, whether they were going to dispose of it, or whatever the circumstances might be in that regard.

You had the situation involving me. I was only a 12-percent shareholder in the National Bank of Georgia. But constantly it was referred to as "Bert Lance's bank," and so forth and so on, and "Bert Lance sold his bank to Ghaith Pharaon," and it's always my picture that's in the paper with Ghaith, and all this, that, and the other. I was only a small shareholder who had a concern, a commitment, and an obligation to the other shareholders because I had been responsible for many of them being investors in the National Bank of Georgia.

So I was concerned about that first and foremost. Financial General could wait, as far as I was concerned, until I was able to do something about that.

But all of this was happening very, very quickly. And during November and December 1977, it pretty well took place in the broad beginning of purchase of Financial General on the one hand and, obviously, the acquisition of the National Bank of Georgia on the other.

There were two different, I hate to use the word "groups," whenever you talk about things in a banking matter because the SEC and other folks get all excited whenever they hear something about a "group" and all this. But there were two different entities, is what I'm trying to say to you, that were involved. I guess I was central to both of them. Mr. Abedi was central to both of them. Mr. Clifford and Bob Altman were central to both of them. And, in fact, Mr. Clifford and Bob Altman represented me in a legal sense.

Senator KERRY. Now, they represented you; they also represented BCCI?

Mr. LANCE. I don't think so at that particular time, Mr. Chairman. I think that came later.

Senator KERRY. OK. Fair enough.

Mr. LANCE. We'll talk about that and try to keep it in some sort of chronological order.

But by, let me try to put a timeframe on it because it may be helpful, again, to your committee as you look at other things.

I recall that there was a meeting in Atlanta over Thanksgiving weekend in 1977, whereby there was basic discussion and negotiation about the purchase of NBG. But there also was negotiation—not "negotiation," as such, but conversation—about the purchase of Financial General. The people who were involved in that area, from the standpoint of BCCI, would have been Mr. Abedi, a gentleman named Mr. Sami—and I'm sure you've heard about him in this committee—and Mr. Naqvi, again, and perhaps a gentleman named Dildar Rizvi. Those were the gentlemen that were there in regard to BCCI.

Pretty basically, after discussions with Mr. Abedi about the National Bank of Georgia, I turned over those negotiations to Bob Altman to deal with Pharaon's attorney, a gentleman by the name of Frank Van Court, who is a member of the Vincent & Elkins law firm in Houston. They pretty well handled that part of the negotiations and things of that type.

I don't think that I ever met Ghaith Pharaon until some time in January 1978. I, again, have only seen him, to my recollection, on two occasions, and both of those took place at a night and the next day when we had a press conference in Atlanta, announcing the

purchase of National Bank of Georgia by Ghaith Pharaon. That has been the limit of my knowledge and involvement on a direct basis with Mr. Pharaon.

Senator KERRY. Let me just ask you, if I could interrupt you again there, up until that time, all the negotiations and discussions with respect to the purchase of National Bank of Georgia, your sale, was with Mr. Abedi?

Mr. LANCE. That's correct.

Senator KERRY. You never met Ghaith Pharaon until the night of the closing?

Mr. LANCE. No, sir. It was the night, or the day before. It was not the closing because, obviously, he had to get approval before we—

Senator KERRY. The day before you announced the wrap-up of the deal?

Mr. LANCE. That's correct.

Senator KERRY. And prior to that, all negotiations, to your knowledge, that were conducted by Mr. Altman on your behalf were with Mr. Abedi?

Mr. LANCE. No, sir, with Mr. Van Court—

Senator KERRY. Mr. Van Court.

Mr. LANCE [continuing]. Who was Mr. Pharaon's attorney from Houston and has been involved in one of his domestic U.S. corporations, as I understand.

But, basically, those were the sequence of events as it related to NBG.

Now, it took quite some time, obviously, because I felt, again, very strongly about the shareholders of the National Bank of Georgia, and that I was not going to sell my stock to Mr. Pharaon unless all the shareholders of the bank had the same opportunity.

So, basically, he ended up making a tender offer for 60 percent of the stock, which would give him control; and, obviously, he had to have approval of the Comptroller of the Currency because of change of ownership, and that sort of thing, all of which went through its own process.

Now, again, just so that the record is clear, I had no involvement with the National Bank of Georgia at that point in time except as a shareholder. I was not involved in the management in any form or fashion, and had not been since I left to come to Washington. So, therefore, the negotiations were handled by Bob Altman. My stock was still being handled by my trustee that had been set up when I came to Washington because of the short timeframe and so on. He was involved in those negotiations. I don't know a lot of the details that were involved in that. I was out trying to get my life put back together after the experience that I had had.

So that was taking place at the same time that the interest in Financial General was taking place.

As I said—can you hear me all right?

Senator KERRY. Yes, that's fine.

Mr. LANCE. The basic timeframe indicator, I think, that would be important to your committee would be sometime around that Thanksgiving weekend, that things at Financial General probably moved fairly quickly after that. By January and February and March 1978, again, we had been subjected to SEC litigation, we had

been subjected to private litigation, "we" being all the people who were involved in that process—BCCI, Mr. Abedi, the group of other shareholders of Financial General that I mentioned, headed by Mr. Middendorf, as I recall, and so on. Mr. Middendorf was not part of the group that was involved in our situation, but he was a part of the other group that brought the litigation.

And so, everything was encapsulated in a very, very brief period of time, from that standpoint.

I can continue to try to give you a chronological view now of what began to happen after that or if you have any questions.

Senator KERRY. Well, let me ask a few questions there, if I can.

After you sold the National Bank of Georgia, did you have any further involvement at all with NBG?

Mr. LANCE. No, sir.

Senator KERRY. That ended right then and there?

Mr. LANCE. That ended. Right.

Senator KERRY. And Mr. Pharaon paid you \$20 a share?

Mr. LANCE. Well, it took place in two different sales, Mr. Chairman, as I recall. I think the first one was \$20 a share. Then the second one, I think, was \$14 a share. So it averaged out to something like \$18 a share.

Senator KERRY. Do you know how that value was arrived at by Pharaon?

Mr. LANCE. No, I do not.

I think, basically, what it amounted to, as a percentage of book value, at that point in time was somewhere around 80 percent of book value. Again, I got excoriated in the press from time to time that this was some bailout situation. That's some bailout: he paid \$20 million and got \$220 million. That doesn't sound like a bailout to me where I come from. But those were the circumstances, as I recall them.

Senator KERRY. I suppose the issue was raised because at the time the stock was selling for something like \$10 a share.

Mr. LANCE. But, generally, there had been no real market in it because the influx of a buy or sell order would, you know, create a severe imbalance because no shareholders were selling and there weren't any buying that I knew anything about.

Historically, in Georgia—I can't speak around the rest of the country—but bank stocks generally have sold for 2 or 2¼ times book value. Obviously, that must have been—

Senator KERRY. I don't want to dwell on that. I simply wanted to know how Mr. Pharaon actually arrived at that price.

But you became a consultant after that, though, to BCCI, is that correct?

Mr. LANCE. That's correct.

Senator KERRY. What was the nature of your consultancy?

Mr. LANCE. Basically, to talk about investments in the United States and to talk about, as I said earlier, about economic development around the world as it related to utilization of assets and resources from a bank, what could you do to create jobs in the Third World countries, and so on, that Mr. Abedi had an overriding interest in. Part of that interest led to my introducing him to President Carter, which we will get to in the course of time.

Senator KERRY. What was your understanding at that point in time, Mr. Lance, of the role of BCCI's entity in the Grand Caymans, ICIC?

Mr. LANCE. I knew very little about ICIC. The comments that were made to me by Mr. Abedi related to that. It was, to give you an example, it was more like a commercial finance operation would be in the United States, that it was that sort of operation, as opposed to being any sort of banking operation, and that that would be an entity that perhaps would be involved in making loans and commercial development in Third World countries.

I never was totally familiar with the structure of that.

Senator KERRY. But you, in fact, were paid by ICIC? Is that right?

Mr. LANCE. I think it turned out that way, Senator. I think that was actually it.

Senator KERRY. Did you understand ICIC to be a bank?

Mr. LANCE. No, I did not think it was a bank. I thought it was, as I said, to best compare it to something that we would be familiar with, I would say that it was a commercial finance operation.

Senator KERRY. And that is what you would describe the nature and function of ICIC, as you understood it at that point in time?

Mr. LANCE. As I understood it. That's correct.

Senator KERRY. Did you have any further understanding of what it was at that time, or is that it?

Mr. LANCE. No, sir.

Senator KERRY. Just a finance entity?

Mr. LANCE. That's correct, and that was a very brief conversation, as I recall.

Senator KERRY. And you base that understanding on that conversation?

Mr. LANCE. That's correct.

Senator KERRY. And that conversation was with Mr. Abedi?

Mr. LANCE. That's correct. I have not had any further conversations with anybody that I recall about ICIC. So I really don't know very much about it.

Senator KERRY. So the transaction with NBG takes place. And, to the best of your knowledge, your testimony is that Ghaith Pharaon at that time was perceived by you as being the legitimate purchaser?

Mr. LANCE. That is absolutely correct. And my impression has been, throughout, that that was the case. And I think if you should have occasion to ask other shareholders in the National Bank of Georgia, or the lawyers who were involved in the transaction, everybody would tell you the same thing. That was the impression, that was the knowledge, that was the obvious—I didn't see all the documents, as I recall, obviously. But the ones that I saw all related to the fact that Dr. Pharaon was, in fact, the purchaser.

Senator KERRY. Now, that was the impression that people received, correct?

Mr. LANCE. That is correct.

Senator KERRY. Yesterday, Mr. Sakhia—did you ever meet Mr. Sakhia?

Mr. LANCE. I do not know him.

Senator KERRY. You don't know who he is?

Mr. LANCE. No, sir, I do not.

Senator KERRY. Mr. Sakhia, who worked in BCCI for some 13 years and was head of the American division, told this committee that within the bank, within the group of particularly Pakistanis, but within the group of people who were the managers of the bank, there was a common understanding that Mr. Pharaon was a front person for BCCI and for Mr. Abedi.

Mr. LANCE. Do you want me to—

Senator KERRY. What would your comment be to that?

Mr. LANCE. My comment would be that everything that I saw was to the contrary of that; that Dr. Pharaon was acting on his own behalf. He was portrayed, my impression of him was that he was a businessman who had other investments in the United States, he'd owned other banks in the United States, that he had this interest in the banking business in the United States, and that he was a person who obviously comes across as being in charge of whatever he's doing, and makes decisions, and that sort of thing. And that was my impression.

Senator KERRY. That is the impression, I suppose, that he was supposed to give, is it not? I mean, if, indeed, he were what Mr. Sakhia has purported that he was, that's what he was supposed to leave you with, the impression that he was exactly that. Correct?

Mr. LANCE. Yes, sir. I would think that would be the case, that if you were trying to perpetrate a deceit or something of that type, then, obviously, that's what you would get.

But I never saw—I hope that sometimes I'm a fairly keen observer. I doubt that I am, in retrospect, about a lot of things that I found myself involved in. But I, at least, try to listen to what people say and draw some conclusion about that. Again, if I thought otherwise, I would not hesitate for a minute to tell both of you gentlemen what I thought about that.

My impression was that it was a Pharaon transaction, that he was not acting on behalf of anybody, that he marched to his own orders, he knew what he wanted to do, and that, obviously, he had a relationship with BCCI.

I think at some point in time, this is where you get into this land of you're going to have to ultimately find the truth. And I hope and pray that you do find the truth about the whole situation because I've been mystified, as I'm sure other people have been mystified, about this whole developing scandal, problems, and what have you. And that is that, at that point in time, again, you had a situation where you could not eliminate BCCI from any involvement because you had Mr. Abedi there.

Dr. Pharaon, as I understood—I didn't know this first-hand—I think the way Mr. Abedi had characterized him to me early on was that he was a significant shareholder in BCCI. I don't know that. I subsequently have read that perhaps he was the largest. I don't know that. Mr. Abedi did not characterize him as the largest. I think he just said that he was a significant shareholder.

So BCCI was never any secret to anybody. They were out there all the time in regard to the whole of the circumstances. And, therefore, you can come back and, in the light of retrospect, obviously make certain conclusions that would be difficult to refute.

I can only tell you what my impression was at the time.

Senator KERRY. But that's very important and that's exactly what we're asking for here. We are trying to find the truth and we're trying to find out what happened and how this could have happened.

Mr. LANCE. Absolutely.

Senator KERRY. Obviously, I mean you've just used a word that Clark Clifford used, "mystified." I think it is helpful to understand what the picture was that people had at the time and then how that picture changed as you went along.

Obviously, one of the interesting questions here is what did you know and when did you know it—

Mr. LANCE. Absolutely.

Senator KERRY [continuing]. That awful question that keeps emerging in Washington.

It seems to me that there is considerable evidence—and I'm not drawing conclusions at all at this point—but considerable evidence at the early stage a group of Americans could easily have believed that this Middle Eastern investor group, or whatever entity it was acting under Abedi, was coming in with a lot of money and legitimate interests. It was petro-dollar time, as we all remember.

Mr. LANCE. That's correct.

Senator KERRY. There were a lot of bucks around. There was a lot of opportunity. And people sought to take advantage of it.

I find it very interesting when an insider in the bank and documents sort of contradict the face of what created the mystery to you and to Mr. Clifford and others. And then you begin to go down the road and say well maybe something began to change somewhere.

That's sort of, I think, the larger question here. In my own mind, I have reservations that anybody got into this thing knowing the full story about BCCI from the outset. But we need to go further, obviously, to understand it.

Mr. LANCE. Well, certainly I think that you are at the point of the critical questions that need to be asked, and, hopefully, there is an answer there somewhere that is the truth.

Senator KERRY. Well, I know that you have some more to shed on that as we go along here chronologically. So I don't want to interrupt you.

Mr. LANCE. And, as I said, I wanted to try to put both of them into proper context for both of you, though, so that you would understand that all of these things were taking place at a very encapsulated period of time.

Now, obviously, the process slows down in regard to the acquisition of Financial General. The process involving the acquisition of NBG moved ahead and went its own way, and that is another story that obviously you will get back to in some form or fashion.

The Financial General transaction began to slow down for obvious reasons. There were lawsuits that were instigated. I guess the way the Government would refer to them is a private litigation versus a governmental litigation. The SEC got involved in the controversy.

There was a consent order signed by myself and other people who were involved in regard to the 13(d) situation, as I recall.

Again, it's been a long time. Basically, that continued a period of time, for a period of time.

There was private litigation that was brought against the proposed takeover, if that's a proper word, and so on that obviously also was happening during that period of time.

So most of 1978, again, to try to put it in some proper timeframe for you—I know that you get so many dates and places and people and everything that sometimes it's hard to keep it in an orderly fashion—most of 1978 was spent during, trying to put out a brush fire here, trying to end litigation there, and that sort of thing. If I am making myself clear to you, I'm just trying to give you some feel of what was taking place.

There were meetings with, again, when I say the "shareholders," that was my impression, that were the shareholders of Financial General, whereby I, Mr. Clifford, Bob Altman met with Mr. Abedi and Mr. Naqvi and Kamal Adham, to be specific, in regard to his investment.

Senator KERRY. Did you meet with any of the other investors?

Mr. LANCE. Yes, sir. Ultimately, I had a visit with Sheikh Zayed, who was one of the investors, as I recall.

I recall a meeting with Mr. Darwaish, who was involved in managing the Abu Dhabi Investment Trust, or something of that nature. I don't think that's actually the proper term. But he, obviously, was an investment manager for Sheikh Zayed.

I recall the conversation about Faisal Foulraig, who, at that point in time, was chairman of the Kuwaiti Airlines. I do not recall that I ever met him. I do not believe that I did.

And, frankly, I did not meet any of the other shareholders, unless I may have, just by chance, met one of Sheikh Zayed's sons and I didn't really realize who it might be. I think he only has 60 or 70, and having 4 boys, I have a hard enough time keeping up with them. So, when you get into that number, I just sort of wasn't sure.

Senator KERRY. But you met, you are certain, with the two principal shareholders-to-be in the purchase of Financial General?

Mr. LANCE. Yes, sir. I think that's a proper descriptive term.

I really believe that Kamal Adham and Sheikh Zayed were the principal shareholders. I think that, obviously, there were these other two or three shareholders whom I did not know. But I think they were the principal shareholders. And I got the impression from the conversations that I had with Kamal Adham, in the presence of, again, the people that I mentioned earlier—Mr. Clifford, Bob Altman, Mr. Abedi, and Mr. Naqvi—that he was perceived as being certainly one of the principal shareholders and would sort of lead the other shareholders and so on.

Now, again, to try to put things in perspective for you, as you grapple with the complexity of this—and this is a complex issue. I mean, there are a lot of people, there's a lot of culture differences, there are world differences and things of that type that I certainly don't have to tell two distinguished Senators of the United States about. But all these things were there and it was complex.

Now, again, I told Mr. Abedi in very direct terms that you have said—and, again, I don't want there to be any inflection when I say "you have said" about there was any deceit or anything of that

type; what I say is what I say—but I'm trying to characterize the conversation that I had with him along this line which, again, I think is important to you. I said that you have said that these individual shareholders are people of wealth; that they are from the Middle East, primarily Arab investors.

Now, whenever you start talking about investment in a U.S. financial institution, and certainly one that bears some degree of uniqueness in the sense that it is a multistate holding company which, at that point in time, were rare in that regard, that you're going to have certain problems of perception, as well as reality, to overcome with regard to the way that the press in the United States covers this transaction with regard to whatever role the regulators have to play, and so on.

I think that's important from your standpoint, to be able to come up with some way of dealing with that in the most direct fashion. I said I can only tell you what I would do in those sorts of circumstances.

You have told me that these are passive investors who have access to large sums of money, who have no interest in managing or operating any sort of institution in the United States. They are not going to be on the board, they are not going to serve in any sort of management capacity. If that is the case—and I have no reason to think that that's not the case—then what I would suggest to you is that you take an outstanding American citizen who has no blemish in regard to anything in a public sense, and you take the stock that these individual investors are going to own, and then you put that together in some sort of trust and give that trustee irrevocable voting rights about that stock, and you will have taken a major step in dealing with some of the perception problems that you may have about individual investors.

Now, obviously, again, my comments about BCCI, if BCCI is involved, you must go through the regulatory process, you must make sure that there's no question about anything that comes along. That was my advice to him then; that would be my advice to him now; and I expect that if my advice had been totally followed in that regard, perhaps we wouldn't be here today talking about some of these things.

Senator KERRY. On the issue of Sheikh Zayed, you went over there to meet with Sheikh Zayed, correct?

Mr. LANCE. I did.

Senator KERRY. And you sought to persuade him to become involved in the purchase of Financial General Bankshares, correct?

Mr. LANCE. No, I don't think that's a fair characterization. I think that he—

Senator KERRY. Did you suggest that he put up two of his sons as investors?

Mr. LANCE. No, sir. That was already done. That decision, as I recall, had already basically been made.

Senator KERRY. This is in 1978?

Mr. LANCE. I think it must have been in 1978, Mr. Chairman. That's what I would recall just off the top of my head in regard to the visit with him, because, as it turned out—

Senator KERRY. Did Abedi suggest you go visit with him?

Mr. LANCE. He did, and he was present.

Senator KERRY. During the meeting?

Mr. LANCE. We went to a bustard hunting location in Pakistan, which was outside of Lahore. I notice that Peter Truell had a story about bustard hunting in regard to BCCI in the Wall Street Journal this morning, and that was the area where Sheikh Zayed spent his time. It was during the particular time of the year. So it may have been, I would guess that was in February or March 1978, as I recall that particular time.

But he had already made the decision about the investment, as far as I knew, in regard to Financial General, and that his sons were involved.

Senator KERRY. After you made that trip, did you come back and meet with Clark Clifford and Bob Altman to report to them on that?

Mr. LANCE. I'm sure that I did. I don't recall a specific meeting in regard to give them any report about that. As I said, Mr. Clifford and Bob and I had met with Kamal Adham and Mr. Darwaish, and I believe those were the only two in London. So I'm sure that I told Mr. Clifford and Bob of that meeting with Sheikh Zayed.

Sheikh Zayed, and again, in your interest, the interest of this committee, I think it might be well if I gave you some sense of the flavor of that meeting as it related to things other than the circumstances of a banking investment.

Senator KERRY. I was just about to ask you that. I was going to take advantage of the fact that we slid on to Sheikh Zayed now to try to follow down that course of inquiry. So I would appreciate it if you would share with us the sense of those discussions because I think they are helpful in shedding some light on his involvement here.

Mr. LANCE. Let me try to describe Sheikh Zayed for the two of you. He was an interesting man at that point in time when I met him. Not only did he not speak English, I don't think he understood the first word of English. That's one of the few people that I've ever run into that didn't understand anything that I was saying.

I know I talk funny. But it was obvious that he didn't have the slightest idea of what I was saying. He did respond to a smile, and I decided that might be the best way to communicate, particularly with all those folks running around with those falcons and everything else. Those falcons were a little bit more effective than the falcons I had been familiar with in Atlanta. So I didn't want to take advantage of too much of the situation.

But he was able to talk very definitively through an interpreter about his concerns of the treatment that he was receiving from the U.S. Government. That related to the fact that he had not had a good relationship with the U.S. Ambassador, and I don't recall who it was at that point in time, but that he was being treated in a manner that really wasn't befitting the strategic importance or the fiscal importance of the UAE and things of that nature. Basically, I would have imagined, Mr. Chairman, that we spent most of our time talking about that sort of thing, rather than actually talking about Financial General. That was not a big blip on his radar screen at that point in time, I don't think. It subsequently has

gotten rather major, I imagine. But it, at that point in time, was not very big.

But there was obviously a concern about the relationship of the United States to UAE, what was going to happen in the future, was there going to be this kind of concern shown to him and to his country as was shown to other Arab nations and things of that type.

He was not, as I said, a sophisticated man and being able to talk about global implications. My big experience had been with Dr. Brzezinski, as you know, and he was no Brzezinski in regard to talking about what he wanted to talk about. But he had obviously a concern.

Senator KERRY. Well, did he express to you pretty directly that he felt the United States discriminated against the Arab community in the Middle East?

Mr. LANCE. Well, not—basically two things that he talked about. One was obviously the call for even-handed treatment, which you have heard before. But he was basically, I would think, equally as concerned about discrimination as it related to the UAE vis-a-vis other Arab countries, and that they were obviously receiving more attention and more concern than perhaps the UAE was. And this was a matter of concern to him.

Senator KERRY. Was this bank marketed to him somewhat by Mr. Abedi, as well as by you, as a means of getting a more equal playing field, that this would be advantageous.

Mr. LANCE. Excuse me. I didn't mean to interrupt.

I cannot really answer that because I do not know what conversations that Mr. Abedi and Sheikh Zayed may have had about Financial General.

Senator KERRY. Did he not express that to you in some way in talking about leveling the playing field and gaining some influence?

Mr. LANCE. No, not really. And when we start talking about Mr. Abedi and so on specifically, I'll try to cover that part of his personality and what have you and the way that he responded to things, which may be of interest to you.

I think that there's one thing that is very important to be said at this juncture in the relationship that I saw with regard to Mr. Abedi and Sheikh Zayed and what that meant to an outside observer who obviously was not well versed in the ways of the Middle East and what have you. But I could understand what was being said because I had had the same experience as a country banker in Georgia, whereby you take somebody and you risk the assets of the bank by loaning them \$5,000 to start a carpet mill, and then you read in the paper, you know, some years later that they sold it for \$10 million or \$15 million. You obviously have an appreciation and a respect that grows from that person toward you if all other things are equal.

That was the relationship that I sensed between Sheikh Zayed and Mr. Abedi, that he was Mr. Abedi, who had, in effect, for lack of a better term, been kind and attentive to Sheikh Zayed when he was still wandering around in the desert and he had all his assets in his tent somewhere; and that it was not easy at that point in time; that the relationship with Mr. Abedi—and I think this is im-

portant to you as you search for the truth, to understand that that relationship went back a long way—and it went back before Sheikh Zayed became “the richest man in the world” at that point in time, with an income of some \$4 billion or \$5 billion, as the press reported; that there had been a relationship that had developed that Mr. Abedi had helped Sheikh Zayed when he had no real power or influence or he was not the rules of the country. As I understand, his brother perhaps was. I don’t know all the history that I ought to know about that.

But there was a unique relationship that related to the fact that Sheikh Zayed had absolute and total trust and confidence in Mr. Abedi, that whatever Mr. Abedi said or suggested was something that Sheikh Zayed would look on with favor; that Mr. Abedi had, in effect, built the house where we were outside of Lahore without any guidance or direction from Sheikh Zayed, and it was that sort of relationship.

It was very, very unique.

Now if you want me to, I can contrast that relationship for you in the hope of being enlightening about what I’m trying to say to you. That was different than the relationship that Mr. Abedi had, that I saw, with Kamal Adham, for example, or that I saw with Ghaith Pharaon. And if you want me to—I don’t want to get far afield in trying to talk about relationships and so forth and so on. If it’s helpful to you, I’ll try to tell you what that difference was.

Senator KERRY. Well, I think it might be helpful if you could do it in succinct fashion. I think it would shed some light on it.

Mr. LANCE. Well, it was just a difference in the relationship.

Kamal Adham, it appeared to me that he had respect and confidence in Mr. Abedi, and that he would listen to what he had to say, and so on; that Mr. Abedi had respect in a relationship with Kamal Adham.

I never sensed that with regard to Ghaith Pharaon. That was an entirely different relationship. I guess that’s one of the reasons that I remain convinced that Pharaon was acting on his own behalf whenever he first acquired the National Bank of Georgia; that there was a difference in that relationship between him; there was a difference in the relationship between Kamal Adham and Mr. Abedi and Sheikh Zayed and Mr. Abedi.

Senator KERRY. Now, did you come to believe or have a sense from those conversations that there was a link between the signing of the Camp David accords and the decision to try to purchase Financial General Bankshares?

Mr. LANCE. That’s an awfully searching question.

Senator KERRY. I thought you had expressed some views with respect to that.

Mr. LANCE. Well, I think that the views that I had expressed about that related to the role that Kamal Adham might have played in regard to the Camp David accords and what have you; that there was an opportunity there for Kamal Adham to have done the kind of work that he did with regard to Sadat’s visit to Jerusalem and that sort of thing, and subsequently playing a role in regard to satisfying some of the Arab countries with regard to the action that Sadat had taken, both in going to Jerusalem and also in the Camp David accords.

To tie the two together, no, sir. I don't believe that I have expressed that.

Senator KERRY. What about Adham's role within the intelligence community?

Mr. LANCE. The thing that I recall being told about Kamal Adham's role in the Saudi intelligence community was the fact that he had been, in fact, the head of the Saudi intelligence activities, and that he was well known in that regard, and that part of his "worth," again, for lack of a better term, was to be able to play a significant role in regard to the relationship Arab-to-Arab that was taking place in regard to what else was happening.

But it was very clear that I was told, as the other people were told—the "other people" being Mr. Clifford and then Bob Altman—that Kamal Adham was the Saudi intelligence chief. I never verified that on my own, obviously.

Senator KERRY. Now, after you left government, apparently you traveled to Pakistan on a diplomatic passport?

Mr. LANCE. There was a brief period of time that I had a diplomatic passport still. But that was a relatively short period of time, as I recall. My subsequent friend, Mr. Safire, had a lot to write about it. You know, I remember the title of that column. It was "X00065," and that was the number of that passport. And that happened to be my height. I'm glad they didn't put my weight on there. But I recall that it was my height that was issued to me when I was Director of OMB.

But that was a relatively short period of time. I don't know that I even traveled on that passport, Mr. Chairman. I may have.

Senator KERRY. The reason I ask it is because there have been all kinds of insinuations, innuendo, and allegations about intelligence. Here you've got Kamal Adham and this or that. I'm just trying to sort out who was doing what for whom under what guise.

Were you traveling in any official capacity for the U.S. Government then?

Mr. LANCE. No, I was not. And I'm sorry if I misunderstood you.

Senator KERRY. Now in the deposition taken of you by lawyers for the Middelndorf group when the suit was taking place on Financial General Bankshares and the takeover, Mr. Altman was representing you at that time. During the questioning on the trip you took to Pakistan to meet with Mr. Abedi, Mr. Altman objected to your having to answer a question, and the question was what was the primary purpose of your meetings with Mr. Abedi in Pakistan.

Is it inappropriate that at this point in time, since that is now some 12 years or so ago, to ask you what the purpose of the trip was and why Mr. Altman would have objected to your answering that question?

Mr. LANCE. No, sir. I really, it's not inappropriate for you to ask me. I don't know that I have any better answer than I would have had at that point in time. So why don't you ask the question the way that you want to.

Senator KERRY. Well, I think they have. Why did you go to Pakistan? What was the purpose?

Mr. LANCE. Well, now, I made more than one trip to Pakistan.

Senator KERRY. But in March, in February and March 1978, you went there to meet with Mr. Abedi.

Mr. LANCE. That's correct, and Sheikh Zayed.

Senator KERRY. And that was the meeting that occurred?

Mr. LANCE. Yes, because that was, again, as I said, bustard hunting season, as I recall, in Pakistan, and Sheikh Zayed was in residence there. But there was no foreign policy implication or anything involved in regard to the trip. I really don't know why Mr. Altman would have objected to that at that point in time.

Senator KERRY. All right.

The reason I'm sort of wondering and I'm trying to get at this is there was a memo sent to Mr. Abedi by Mr. Sami, whom you've mentioned, regarding the January 30, 1978. This was prior to the visits. But what this was regarding was the whole situation regarding the takeover effort of Financial General Bankshares. He did a summary: "The situation of acquisition of Financial General Bankshares is as follows:" Paragraphs 1, 2, 3, 4, 5, and so forth, through paragraph 14, and then signed Abdus Sami.

Paragraph 11 of that memo, which I think you now have in front of you, says: "In view of the possibility of this contest and also for presentation of the holding company application to Fed, our friend"—and it's our understanding from sources that "our friend" refers to you—"advised us that we may retain Mr. Clifford as chief counsel, the preparatory functions being handled by Mr. Metzger's firm.

"Accordingly, I met Mr. Clark Clifford and explained to him our strategy and our goal. He was happy to know the details and has blessed the acquisition."

Then, in the next paragraph, No. 12, "In the next few days we would start putting together material for a tender offer. To keep individual ownership to below 5 percent, we have to distribute the ownership to four persons of substance. We have already given the names of Sheikh Kamal Adham and Mr. Fulajj. We want two other names immediately.

[The information referred to follows:]

23750 AHA PK
886500 BCCILM18

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

AD 129

000101

LDN/3811 DT 30.1.78 CD

TO: AGHA HASAN ABEDI
BANK HOUSE
KARACHI

THE SITUATION OF ACQUISITION OF FGB IS AS FOLLOWS:-

1. BY TODAY WE WOULD HAVE ACQUIRED OR CONTRACTED TO ACQUIRE ABOUT 17 1/2 (SEVENTEEN AND ONE HALF) PER CENT SHARES, THIS INCLUDES SHARES OF GEN. OLMSTEAD'S FAMILY ABOUT 4.5 PERCENT. THE AVERAGE COST FOR 13 1/2 PERCENT SHARES AS ABOUT 12.75 AND OF THE 808 SHARES IS 15.
2. BESIDES MR. JACK STEPHENS AND MR. METZGER HAVE ABOUT 3 PERCENT SHARES, WHICH WE CAN BUY NOW OR LATER. IN ANY EVENT THEY WILL GO WITH US. FOR THIS PURPOSE THE STEPHENS GROUP IS NOW BROKEN UP, THE MEMBERS HAVING EITHER SOLD THE SHARES OR BEING NON COMMITTED.
3. THIS BRINGS OUR ACTUAL STRENGTH TODAY TO ABOUT 23/24 PERCENT.
4. MR. CASEY HAS A BLOCK OF 8.6 PERCENT ABOUT SALE OF WHICH HE IS STILL UNDECIDED, OF THIS HE HAS GIVEN A CONTINUING PROXY OF SUBSTANTIAL NUMBER OF SHARES TO MR MIDDENDORF. OUR FREIND HAD A TALK WITH HIM AND CAME BACK WITH A FEELING THAT MR CASEY WILL NOT GO TO THE OTHER SIDE. HOWEVER THIS BEING CRITICALLY IMPORTANT TO US, I HAVE REQUESTED OUR FRIEND. TO CONFIRM IT IN OUR FAVOUR BY A PROXY OR OPTION TO PURCHASE AT A PRICE.
5. THE CONTESTING GROUP OF SAUL AND MIDDENDORF AND FRIENDS HAVE CLOSE TO 17.5 PERCENT. BESIDES THEY HAVE MANAGEMENT CONTROL. AS OF NOW THEY ARE IN A CONTESTING MOOD AND HENCE CASEY'S IMPORTANCE FOR US.

WATER FURTHER.

666105

7. IF THIS MEETING IS FRUITFUL OUR FRIEND WOULD IMMEDIATELY THEREAFTER TALK TO MIDDENDORF INFORMING HIM OF OUR STRENGTH AND ALSO OUR DESIRE THAT THEY GO ALONG WITH US EITHER BY SALE OF SHARES TO US OR ALTERNATIVELY COOPERATE IN OUR DESIRE TO MAKE A PUBLIC TENDER AND THE ANTECEDENT ARRANGEMENTS FOR PASSING ON CONTROL TO US.
8. IF MIDDENDORF AND SAUL AGREE TO SELL (AND THIS MAY BE AT A PRICE) WE NEED NOT GO FOR TENDER OFFER AND ACQUIRE MAJORITY BY BUYING SOME MORE SHARES FROM THE MARKET.
9. IF ON THE OTHER HAND SAUL AND MIDDENDORF DO NOT SELL AND ALSO DO NOT GO WITH US THEY WOULD CONTEST ANY POSSIBLE TENDER OFFER OR OUR ATTEMPT TO TAKE OVER MANAGEMENT CONTROL. THIS THEY CAN DO BY CONTESTING THE DESIRABILITY OF ACQUISITION BY FOREIGNERS FROM THE POINT OF VIEW OF FINANCIAL AND OR MANAGERIAL ABILITY AND OR LOCAL SENTIMENT AGAINST PASSING ON CONTROL TO A FOREIGN GROUP.
10. THIS WOULD BE APPARENT IF AND WHEN THEY TAKE THE FIRST STEP BY GOING THROUGH APPOINTMENT OF NEW DIRECTORS IN THEIR MEETING OF FEB. 23RD NOTWITHSTANDING OUR NOTICE THAT THIS BE POSTPONED. NO DOUBT OUR ATTORNEIES WILL ATTEND THE MEETING AND ASSERT OUR RIGHTS - AS APPROPRIATE
11. IN VIEW OF THE POSSIBILITY OF THIS CONTEST AND ALSO FOR PRESENTATION OF THE HOLDING COMPANY APPLICATION TO FED OUR FRIEND ADVISED THAT WE MAY RETAIN MR CLIFFORD AS CHIEF COUNSEL, THE PREPARATORY FUNCTIONS BEING HANDLED BY MR METZGER'S FIRM.
 ACCORDINGLY I MET MR CLARK CLIFFORD AND EXPLAINED TO HIM OUR STRATEGY AND OUR GOAL. HE WAS HAPPY TO KNOW THE DETAILS AND HAS BLESSED THE ACQUISITION.
12. IN THE NEXT FEW DAYS WE WOULD START PUTTING TOGETHER MATERIAL FOR A TENDER OFFER.

COPIED AND SUBMITTED
 AT THE REQUEST OF
 FEDERAL BUREAU OF INVESTIGATION

1788

TO KEEP INDIVIDUAL OWNERSHIP TO BELOW 5 PERCENT. WE HAVE TO
DISTRIBUTE THE OWNERSHIP TO 4 PERSONS OF SUBSTANCE. WE HAVE
ALREADY GIVEN THE NAMES OF SHEIKH KAMAL ADHAM AND MR
FULAIG. WE WANT TWO OTHER NAMES IMMEDIATELY. UNDER
SECURITIES AND EXCHANGE REGULATIONS WE ARE ALSO OBLIGED TO
REPORT TO COMMISSION AS WELL AS FINANCIAL GENERAL DETAILS
OF PURCHASERS. WE REQUIRE THEIR BIODATA AND POWERS OF ATTORNEY
FROM THEM. WE MUST HAVE THIS EARLY THIS WEEK TO AVOID
POSSIBLE LIABILITY ON MR METZGER AND PURCHASERS. WE HAVE TO
BE CAREFUL THAT OUR NAME DOES NOT APPEAR AS FINANCIER TO
MOST OF THEM FOR THIS ACQUISITION. THE NECESSITY OF FILING
THIS RETURN HAS ARISEN ON ACCOUNT OF CONCENTRATION OF OVER
5 PERCENT IN THE HANDS OF METZGER, HIS KNOWLEDGE AND OUR
INTENTION TO ACQUIRE CONTROL.

14. I AM SORRY THE TIME SCHEDULE IS TIGHT AND MAY ENTAIL YOUR
VISIT OR OTHERWISE CONTACTING SHEIKH KAMAL AND MR FULAIG
AND A FEW OTHERS.

I AM AWARE IT WOULD BE INCONVENIENT TO RUSH YOU BUT COULD THIS BE
DONE DURING

THE NEXT 3/4 DAYS AS THE MATTER IS OF SOME CONSEQUENCE TO US
IN WASHINGTON.

REGARDS

ABDUS SAMI

CORRECTION: PLEASE READ FOR THE LAST TWO BOTTOM LINES AS...

DONE DURING THE NEXT 3/4 DAYS AS THE MATTER IS OF SOME CONSEQUENCE
TO US IN WASHINGTON.

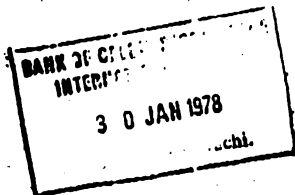
REGARDS

BANCORECOM LONDON

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Senator KERRY. Now, that seems to comport with the notion that the effort was then to try to get Sheikh Zayed to put up two sons or to get two other people to join into this. Is that fair? Is that the meaning of this?

Mr. LANCE. That's not my understanding of what actually took place.

Now, obviously, I have seen this document in recent days because of other people that have asked me about it, and I have made the same response to them that I'm getting ready to make to you.

It was my understanding that before I went to Pakistan at that period of time, that Sheikh Zayed was already one of the investors. I don't know, Mr. Sami and I never had a conversation along these lines.

Senator KERRY. Well, that may well be. The question obviously here is that there is a statement that Mr. Clifford has blessed the acquisition in a form that appears to be one to purposefully avoid the 5-percent problem and find a lot of people to spread around less than 5 percent, so that you actually wind up with a group, as you have referred to it, that is trying to make a purchase at less than, and wind up with a greater percentage.

Mr. LANCE. And I understand that, as I'm sure that you do.

But let me hasten to say to you that I think that the record at some point in time will show that the intent always was that there would be some sort of total offer for Financial General. And so, the 20 percent in my mind—and, again, I'm only talking about what my state of mind was at that point in time—that really was immaterial, because you were going to cross that level anyway if you went ahead and made some sort of tender offer or some sort of total purchase of Financial General, which was always my understanding that ultimately they would do.

This was in the very early stages, and I guess that—well, I shouldn't guess, but if you want me to I will—I would guess that Mr. Sami's concern was that he didn't want to have happen what ultimately happened fairly quickly in regard to being accused of hostile takeover and having a group that exceeded 20 percent, and so forth and so on, because of purchases that were being made at that point in time, as I recall.

Now, I was not involved, Mr. Chairman, in regard to the actual purchase of the shares except with several conversations that took place, some of which I think are referred to in that document about Mr. Casey, for example, who was a major shareholder of Financial General and a big, big shareholder of the class A shares, as I recall. I had a relationship stemming out of the NBG relationship with General Olmstead, so I had conversations with him about that instance, and so on.

But, basically, I think that you will find that all of the acquisitions of shares were basically handled by Mr. Sami, and he was the man who was responsible. I was not involved in that.

Senator KERRY. We now been joined by the chairman and Senator Pressler.

Mr. LANCE. Senator Pressler, Mr. Chairman.

Senator KERRY. We've gone chronologically so far. I think it's been helpful to do that. But at this point I want to ascertain

whether the chairman or Senator Pressler have any opening statement they want to make or any questions up until this point.

Mr. Chairman?

The CHAIRMAN. I have no opening statement at this point. But I appreciate your having these hearings and moving them along. I don't have any questions.

I am quite happy to see Mr. Lance and we wish you all well.

Senator KERRY. Senator Pressler, I'm going to let Senator Brown question first, but if you want to make a statement, that's fine.

Senator PRESSLER. OK.

I'm not a member of this subcommittee, but I'm here just to fill in some blanks in my own mind. I commend the chairman and ranking member for their work and the witness for his openness. I will have some questions or I will submit them for the record.

Senator KERRY. Well, let me turn to Senator Brown for questions at this point.

Senator BROWN. Thank you, Mr. Chairman.

Mr. Lance, you had served here in Washington before I came to town. My recollection of those years was that you were battling with some outrageous deficits of \$20 billion, \$30 billion, \$40 billion.

Mr. LANCE. That's correct, sir.

Senator BROWN. At the time, I thought that was irresponsible.

Mr. LANCE. I understand.

Senator BROWN. Since then, the standards seem to have been revised somewhat. But time does seem to put things in perspective.

Mr. LANCE. It depends on whether you're pitching or catching, I guess, Senator. At that point in time, we were trying to do both.

Senator BROWN. Well, more so here than out in the real world.

I have followed you with some interest for many years and I add my appreciation to your coming today.

If you wouldn't mind—I know this is pretty basic—but you could help us put this in perspective, or at least help me put it in perspective. Looking just at the piece of this puzzle with regard to the National Bank of Georgia, if I understand it, part of the concern here is a pattern of buying banking interests in nominees' names, rather than disclosing BCCI's interest.

With regard to the National Bank of Georgia, I take it, in looking back at it, though you didn't know it at the time, that part of the problem here was that the purchaser was really a nominee for BCCI?

Mr. LANCE. No, sir. I hope I haven't given that impression—

Senator BROWN. No. I'm trying to nail down—

Mr. LANCE [continuing]. That I thought that at any time even up until now.

What I tried to say was that I can understand with subsequent events where you may reach that conclusion, other people may reach that conclusion, and that, in fact, may be the truth. And I know again that that's what we're all seeking to find out because I'd like to know the truth.

But everything that I saw take place and everything that I was told related to the fact at that point in time that Dr. Pharaon was acting on his own behalf and not acting on behalf of BCCI.

See, where I have difficulty, Senator Brown, is the fact that I would have not hesitated to have BCCI try to get Fed approval. I mean, I don't understand that part of the whole thing.

Was there something there that they couldn't get approval about? Or what were the circumstances? Dr. Pharaon wanted to acquire NBG. He was able to acquire it. He had to get change of ownership control and all of the other regulatory things. But I never saw any reason if it had been, in fact, BCCI in transaction, why they would not have done it directly, because there was no secret about BCCI out there. BCCI was a part of those lawsuits. BCCI was noted in the press. Every time they mentioned me, they mentioned BCCI, I think, at that point in time. So there was no secret about it.

For that reason, I guess I assumed at that point in time and I assume to this time that these were people who knew what they were doing, ostensibly, from the standpoint of making an investment.

Senator KERRY. If you would just yield for a moment——

Senator BROWN. Sure.

Senator KERRY[continuing]. Didn't the Bank of America's 30-percent ownership make that impossible? I mean, it was impossible for BCCI to do it directly.

Mr. LANCE. That may be correct, Mr. Chairman. I expect that it probably is.

Senator KERRY. I mean, that's the answer to your question.

Mr. LANCE. It may be. I expect that that does answer the question.

But it was also my understanding at some point in time along in there that Bank of America was divesting themselves of the investment.

Senator BROWN. Well, these are pretty basic questions.

Mr. LANCE. I didn't mean to take that long to try to respond.

Senator BROWN. No, no. I assume Dr. Pharaon financed his purchase of the stock. I realize this is a number of years ago, but do you recall, did BCCI finance this purchase?

Mr. LANCE. It's my understanding, Senator Brown, from documents that I saw in the last week or so, that in the proxy statement there was the declaration that BCCI had, in fact, financed part of the purchase price. I don't remember what the amount was. As I said, I was not in a management position at NBG. So I really didn't see those documents. I didn't have any role in having them prepared or anything of that type. But I saw a copy of the proxy statement. I'm not sure I'd ever even seen it before. But I was handed one a couple of weeks ago and they pointed that out to me. That's in there. So that's a matter of public record that was there.

So the answer to your question is yes, I think that's correct.

Senator BROWN. My recollection is that, this time, during this period there was, and I suspect still continues, a limitation on the amount, on the percent of a stock transaction, a banking stock transaction, that's financible. In other words, this is not something you can loan 100 percent on. At this point or period of time, it would have been something in the neighborhood of 50 percent that's financible.

I assume that applies only if it's a publicly traded stock. But the National Bank of Georgia was publicly traded at that time.

Mr. LANCE. It was. Yes, the National Bank of Georgia was publicly traded.

I would not think, for example—and, again, haven't thought about this in a long time—but I do not think, for example, that BCCI would be subject to whatever the U.S. regulations might be, if any, as a percentage of the stock value that they would loan.

Do you understand what I'm trying to say?

Senator BROWN. Yes.

Mr. LANCE. That BCCI, being a foreign entity, that they wouldn't be bound by margin requirements in the United States and what have you.

Senator BROWN. I was trying to figure out why this method of operation, going through nominees rather than purchasing directly, and the chairman has obviously indicated the potential problem with the Bank of America. But even over and above that, would being registered as an owner of U.S. banks have an implication with regard to review of BCCI itself? Is that a possible reason here?

Mr. LANCE. Well, yes, sir. I think that, obviously, if BCCI had been the entity that had gone the approval route for ownership, then obviously they would be subjected to the regulatory requirements that would be imposed on other holding companies, and what have you. And that may well be a reason if that exists.

As I said, I think the chairman did have the proper response as to why BCCI probably didn't do it at that point in time, because of the Bank of America ownership, that they would be precluded from it.

But my idea about it always was look, you know, go to the regulators, and if you get approval, OK. If you don't, you know, OK.

But that was obviously not the decision that was there. And, as I say, again, we're talking in nuances from the standpoint of the different hats that Mr. Abedi wore that I understood, that he had this hat that I described, and another hat and another hat. And so, always I guess the bottomline of it is that there was a relationship with BCCI that the regulators had full knowledge about. They only had to read the newspaper in order to find that out, that here was a commonality of stock ownership. You had Mr. Pharaon, who was purchasing NBG, but he also was a shareholder in BCCI. That's a relationship. His investment adviser, for lack of a better term, again, was Mr. Abedi, who was the founder and managing director of BCCI. So you had all of these recurring relationships that were there.

If I had been the regulators and had been the other folks involved, I would have questioned what was the BCCI relationship just as a matter of course. As things went ahead, I guess at some point in time that was questioned by certain regulators.

Senator BROWN. One of the things we'll be looking at later this week is the background knowledge that Mr. Altman and Mr. Clifford may have had with regard to BCCI and their activities.

I introduce the question that way because, if I understand it, they acted as your counsel through part of this.

But I wanted to try to get a handle on what information they would have had through your experiences. If I understand what's

been said here today, you indicated that they were involved in getting some background on the principals here and that they were involved in the whole process you went through with regard to the 13(d) situation with the SEC.

Mr. LANCE. That's correct.

Senator KERRY. Any other involvement?

Mr. LANCE. Well, yes. I did not bring into the chronology how all that took place. If I have your permission, this might be a good time for me to try to do that, to put it into proper perspective, again, from a chronological standpoint.

As I said, Mr. Clifford had taken on the chore of representing me on Labor Day weekend in 1977, when I was subjected to real attacks in the press by certain Senators and what have you. And so, he had agreed to represent me as things progressed from that point on. That did progress fairly rapidly.

When I went to him after that, in October, about Mr. Abedi and BCCI, obviously it made sense to me, again from my own personal viewpoint, that, ultimately, that I thought that Mr. Clifford ought to be Mr. Abedi's counsel in regard to what he was doing. I had, and have, great respect for Mr. Clifford, and it made sense that he had knowledge because of his representation of me. He had done the due diligence that he reported back to me on from the standpoint of BCCI and Mr. Abedi.

So, somewhere along the way, I brought Mr. Abedi to Mr. Clifford's office and introduced Mr. Abedi to Mr. Clifford and to Bob Altman. Mr. Clifford then, as now, was very precise in everything that he did, and his manners and actions, and so forth and so on. He's not changed any from my observation of him at the House Banking hearings. He was very precise in talking to Mr. Abedi and saying to him: Look, I think that what you're talking about makes sense here in the United States, that sort of relationship.

Now, I have to tell you that my impression—and that's all that it was because of just my knowledge at that point in time—is different than what Mr. Sami has in this cable or telex or whatever it was, where he says that he's reached agreement with Mr. Clifford to represent BCCI.

I thought that that had taken place really in a little bit different manner, in effect; that I said to Mr. Abedi: Look, it's my recommendation that you retain Mr. Clifford as your counsel, again, wearing these different hats that were there. I don't know where it was actually said as BCCI or in relationship to your representing individual investors, that sort of thing. But that was my recommendation.

I really thought that that took place sooner than this, just from your standpoint. I don't know that that's material or it makes any difference. But that's the way it all came about, because I felt strongly—would be a pretty good term—that Mr. Abedi needed the guidance and direction of somebody like Mr. Clifford.

Senator BROWN. Any other contacts that you're aware of between BCCI and the events that led to the acquisition of First American or what turned out to be First American?

Mr. LANCE. Let me, if you will, maybe move on just a little bit past the litigation area and so on and sort of bring again back to you what had happened to Bert Lance in the process of timeframe

considerations and that sort of thing, which I, again, think will raise questions or maybe answer some that you already have thought about.

In 1978, as I said, basically, that was putting out fires, litigation, depositions, all the things that make lawyers happy, and so forth and so on. During that period of time, there were other actions taken that I am aware of that I can simply just tell you in passing, so that you'll know what my recollection is.

I ultimately was a "Humphrey-Hawkins Act for lawyers" in my own legal problems. I had more than I knew what to do with. This situation in 1978 sort of became a Humphrey-Hawkins Act for attorneys in New York and Washington, and what have you, because Mr. Clifford and Bob decided that, with the SEC action and so on, that the whole group needed—again, I use that word in the context in which I have tried to explain to you—needed professional counsel that knew something about securities and all this, that, and the other.

That was when the Wachtel, Lipton lawfirm was retained, and Marty Lipton became the lawyer who was involved in overseeing the depositions and so on.

It again made sense to me that, if you're going to do things in the United States, that you need to try to get people who are knowledgeable, who know what they're doing, and know how the process takes place in this country. And so, ultimately, Kidder Peabody was retained as an investment banking consultant in regard to this. I know that you're aware of that.

So that sort of thing was going on at the same time.

During that period of time, there were visits back and forth to London. I cannot tell you how many times, but there were several visits that were back and forth in talking about the litigation and what was happening, and trying to keep Kamal Adham and people who were the shareholders informed. As I said, I didn't know any of them.

Well, basically, that carries you through 1978, I guess, from the standpoint of the calendar year itself. All the time that that was going on, I had my own difficulties that were very well-known in the press that were taking place. I was the subject of many investigations that had started as a result of my testimony to the Senate and what have you in September 1977.

There were grand jury investigations going on in Atlanta, and so on. So I had to start thinking about what was going to happen to me in that regard.

Basically, to again just—I'm not proud of it by any means—but to give you again the chronological aspects of what was taking place, I was indicted on May 23, 1979, as I recall, and I will not be like some of the press folks have been. I was also acquitted on April 30, 1981, after a 16-week trial, which was the longest criminal trial in the history of the northern district of Georgia.

Sometimes the acquittal part seems to get lost in the process when they write about me, and I do not think that's appropriate or proper. So I have a built-in sensitivity to have to make sure that that's thoroughly understood, that I was acquitted, after having gone through that process.

But, beginning in, well, I guess from a personal standpoint I knew all the time that what ultimately would take place was what did take place. I thought that ultimately I would be indicted and that I would face trial and that ultimately I would be exonerated and acquitted.

But you can imagine that, from that standpoint on, beginning in late 1978 and early 1979, there were tremendous leaks coming out of the grand jury in Atlanta about what was going on. It was sort of like every day there was a story: well, the indictments will come down tomorrow; if not tomorrow, next week—and that sort of thing.

So, basically, in all of 1979, I was out of the picture as it related to BCCI, as it related to Financial General, and so on. Those things went on that related to the acquisition of the stock. Senator, I'm really not qualified to testify to you about all those things because those were not firsthand knowledge to me. I had my hands full. So I was trying to take care of that matter first and foremost. And that was what I did.

Now, subsequent to the indictment and the trial and the acquittal, after the acquittal, then it was obvious that, as I recall, from keeping up with the press coverage and what have you, that the acquisition of Financial General was going forward. I wanted to at least have some resolution of whether or not I was going to be involved any further in anything relating to Financial General or just what the case might be.

And so, I guess that, again, you have the records, and I won't try to quote a definite timeframe situation, but I think it obviously was some time in 1980, when the application that is in question—in question, being what facts were disclosed—was filed by Mr. Clifford and Mr. Altman.

Is that correct, that it was in 1980? [Senator Kerry nods affirmatively.]

The truth of the matter is that, at that period of time—and I think that decision had already been reached by basically Mr. Clifford, Mr. Altman, and I'm sure by Mr. Abedi at their behest—that “Bert Lance was too controversial to be involved in the situation any further,” and I would bring down the wrath of the regulators and all the powers that be because of any involvement and so on.

So, from that point in time, basically mid-1980, I really played no further role in regard to Financial General, BCCI, and what have you. That became a situation that, because of that feeling, because of that circumstance, that I was not involved.

So my actual participation, I guess, actually stopped in 1979. For lack of a better time, I'd say midyear or something of that type.

Now, my relationship with Mr. Abedi, from the standpoint of personal relationships, moved forward from that point on. And, while I was not involved in any form or fashion as it related to Financial General, National Bank of Georgia, or BCCI, as a banking entity, I did continue to have conversations and visits with Mr. Abedi. If you'd like for me to pick up in a chronological situation from that point on, I think perhaps I can do it, if that's what you want me to do.

Senator KERRY. But I think not at this moment, unless Senator Brown wants to do that. I'd rather come back to some specific areas.

Mr. LANCE. OK. But basically, that took place in 1980, after my trial and acquittal in Atlanta, that I was too controversial to be involved. So I had no role.

I might add, just as a freebie, I was never contacted or asked any questions about anything before the Federal Reserve.

Senator BROWN. What did it cost you to prove your innocence? You certainly don't have to answer that question.

Mr. LANCE. Oh, no, no, sir. I'd be glad to. It's hard to tell. Specifically, \$1,226,000 for just the legal fees. That doesn't mention 3 years of sterility of being able to do anything and impotence in regard to being able to do anything except worry about your own hide in that regard.

So it was a costly experience. The Government spent, as best I could tell, some \$7 million or \$8 million. That was a large amount of money at that point in time, because it's been several years ago, as you said, when deficits were only \$25 billion or \$28 billion. So we can see the difference.

Senator BROWN. Those were the irresponsible deficits.

Mr. LANCE. That's correct.

Senator BROWN. The responsible ones are now.

Mr. LANCE. I understand. [General laughter.]

Senator BROWN. Well, you might have been better off if you were guilty.

Mr. LANCE. Well, that's an interesting comment. Would you allow me the privilege of commenting on that since you raised it?

I've often had those feelings because there's something wrong in our country, Senator, that relates to people who win in that process, win being acquittal.

The system itself is skewed so that innocence becomes an aberration. You're not here to talk about the justice system and so on; I'd like to have that opportunity some time, at some point in the future.

You see, what happens in our system, if you're guilty, then you get rehabilitated, and everything is great. You know, you make a sudden comeback and so on.

When you get acquitted, then, you know, the system messed up and so you're always suspect. I feel very strongly about this subject, that there is something we talk about in this country. We've had a public debate about the death sentence. But there's also a living sentence that is involved. I happen to not be complaining about it. I simply say to you, as a matter of fact, that I've been under the living sentence for the last 14 years. I have great respect and admiration for Senator Danforth. He sat on my committee in September 1977, and he was tremendously fair to me, and I appreciate that and treasure that. But I noticed with great interest the other day during the confirmation hearings for Justice Thomas that he said it had been 103 days of trauma, tribulation, and things for Justice Thomas. You really ought to try 14 years, and you'll get a little bit different perspective.

That's what I've been subjected to.

Senator BROWN. Thank you.

Senator KERRY. Thank you very much. Senator Pressler.

Senator PRESSLER. Let me just ask a couple of questions on matters that I have been following.

These are not unfriendly questions just things about which I am curious—

Mr. LANCE. I understand.

Senator PRESSLER [continuing]. And if you've already covered them, please say so.

Now you were a consultant, as I understand it, to ICIC, which was BCCI's affiliate in the Grand Caymans. How much did they pay you and for what services?

Mr. LANCE. Senator, let me respond to you in regard to this, and I don't want you to misunderstand my reluctance to respond to that question.

I recently was subjected to an SEC deposition in regard to this whole situation, and it appeared to me that the purpose of that process was nothing but harassment of me. They wanted to spend all their time talking about that. All that is a matter of public record that was covered in regard to all the depositions and everything else. Most of it, the information, is also a part of the overt acts of my indictment.

I have to tell you, honestly, that sort of got away with me whenever they kept talking about that. And so, I'm in the position, strangely, of having said to them I'm not going to talk about that because I don't think that's appropriate. So it's not appropriate for me to come along and then talk to you about it when I refused, because of the circumstances, to talk to them about it. I want you to understand where I'm coming from about that.

All of that is a matter of the public record.

Senator PRESSLER. OK.

Senator KERRY. Let me just say, Senator Pressler, that I had agreed with Mr. Lance that I really didn't think it was necessary for this committee to go back through the very process he has just alluded to—

Senator PRESSLER. OK, fine.

Senator KERRY [continuing]. In the context of his answer to Senator Brown's question. I think it isn't really what the committee is interested in.

Senator PRESSLER. OK.

Now, in Mr. Clifford's book, he notes that, after you left the Government and returned to Georgia, for a time flew Mr. Altman to Atlanta once a week to counsel you. For what period of time did Mr. Altman continue to provide counsel to you, and during this period on how many occasions did you discuss BCCI with Mr. Altman?

Mr. LANCE. Let me try to respond to those several questions.

I don't recall that he actually came every week to Georgia. We talked on the telephone a lot, Senator Pressler, during that period of time, obviously because they still represented me in regard to all the different things that were happening to me. And so, I had numerous conversations with Mr. Altman.

Now, at a certain point in time, they felt like that I ought to retain other counsel with regard to the criminal charges that I perhaps was facing, and so forth and so on. Obviously I did that. I re-

tained Nick Chivlis, in Atlanta, to be my counsel there, and also had a Washington counsel that was recommended by Mr. Altman that you probably have run into during the course of these hearings, Hank Shulte, who has been a former assistant U.S. attorney here in Washington.

But I was not say that, I'm not questioning what Mr. Clifford writes, you understand. I just don't recall Bob Altman coming to see me every week because there wasn't a whole lot to talk about.

But, when I met with Bob Altman, we obviously talked about Financial General and things of that nature.

Senator PRESSLER. OK.

Mr. Chairman, I may have some more questions for the record.

Senator KERRY. Thank you very much, Senator Pressler.

Let me try, if we can, to focus again on sort of BCCI and the relationships that it had and some of the things that you learned.

One of the questions that keeps arising is the relationship that BCCI apparently had with the intelligence community, intelligence sources, and so forth. It's my understanding that you—well let me ask it this way.

Did Mr. Abedi ever discuss with you the Central Intelligence Agency?

Mr. LANCE. Yes, he did, Mr. Chairman. That's an important part, I think, that ultimately will relate to this whole circumstance of what you're looking at and what the ultimate conclusion may well be.

Senator KERRY. When did you first hear of any intelligence link to BCCI through Mr. Abedi?

Mr. LANCE. It was in 1983, I believe, in the fall, about this time of the year. I had—let me go back just 1 minute, if you don't mind, just simply from the standpoint of giving you the whole of the circumstance.

Senator KERRY. That's fine.

Mr. LANCE. There has been much made about the fact that I introduced Mr. Abedi to President Carter. That took place in August 1982.

I did that for two basic reasons. One was at that point in time, Mr. Abedi had a young daughter who probably was 8 or 9 years old—if that's a reasonable guess. He always had said that he wanted to have the opportunity to have a picture made with her and him and Mrs. Abedi and President and Mrs. Carter. That was one reason for the visit.

The other reason was that, at that point in time, President Carter was seeking funding to build his library, and he was traveling all over the United States, as well as the world, in order to accomplish that. I felt that Mr. Abedi would be possibly a benefactor of the Carter Library, which he turned out to be. I thought that, in addition to that, that he and President Carter had a commonality of interest in regard to what President Carter wanted to do with the rest of his life, and that was to deal with the circumstances of hunger and health around the world, predominantly in the African countries, and that Mr. Abedi had banking institutions there and could be helpful.

That was the beginning of that relationship.

I went with Mr. Abedi and Mrs. Abedi and the daughter to Plaines in August 1982, as I recall. We went, we landed in Albany. This was, I guess, my only trip on the famous BCCI airplane at that point in time.

We drove to Plaines and went to President Carter's house. There was an immediate relationship that developed between the two of them. You could sense it as they talked to each other there in the living room of the Carter residence. That was where that relationship began.

As a result of that, Mr. Abedi did, in fact, make a contribution to the Carter Library, and, frankly, I'm not sure what the amount was. I've heard different amounts. Whether it was \$500,000 or \$800,000, I really don't know. But there was that contribution made without any fanfare, without any blowing up about it, or anything of that.

President Carter then moved on to the idea of conflict resolution in regard to the Carter Center that he established in conjunction with Emory University. He and President Ford had a symposium, I believe in October 1983, at Emory University campus—the library was not built at that point in time—and it was the beginning, as I said, of the conflict resolution idea that President Carter I think has been very successful in regard to. He invited people from the Middle East and so on to come and have a program and symposium and debate and things of that type on behalf of him and President Ford.

Mr. Abedi came to that meeting. During the course of that meeting was the first time that Mr. Abedi ever talked to me about intelligence activities of the United States.

Now, let me say to you as a prelude to that that it was very obvious in the meetings that I had had with Mr. Abedi previously that he was extremely well versed in what was going on around the world; that he had relationships with world leaders; that he obviously had access to intelligence activities that were taking place in regard to the Middle East and what have you. I assume that that either came from Kamal Adham or perhaps Ghaith Pharaon, which I was not sure of what intelligence relationships he might have. But he obviously had access to them. He spoke in world terms and so on.

We went to the Carter Symposium and it was the beginning, I think, of worthwhile activities. As I recall, it was the first thing that President Ford and President Carter had done. When we left, I drove Mr. Abedi back to the hotel in Atlanta. I think he was staying at the Ritz Carlton in Buckhead. It's a 15- or 25-minute drive from Emory University over to the Ritz Carlton.

During the course of that trip, Mr. Abedi said to me, he said I want to talk to you about something and I want to tell you something that at some point in time may have great importance.

I had always listened to Mr. Abedi whenever he prefaced anything by that sort of remark. And I said well, this would be a good time for you to tell me what it is that you want to tell me about. And he said well, this is very, very important and you need to be aware of it. He did not explain why I needed to be aware of it. He simply said that he wanted me to be aware of it and not to forget it.

What he said was, and I basically am paraphrasing him now, he said: From the precise moment that Ronald Reagan was sworn in as President of the United States, I have been on the CIA Watch List. And my every movement, my every act, whatever I do, personally as well as through BCCI, is noted, watched, observed, under surveillance of the Central Intelligence Agency.

He expressed concern, as anybody would, I think, under that sort of circumstance. I could I guess relate to some of that concern because I know what it's like to be the focus of that sort of interest and investigation and what have you.

He mentioned that he had been not harassed—at that point in time it was not a good word. It might be different today in the circumstances that we face. But he had been harassed at points of entry here in the United States whenever he tried to enter, things of that type; and that this was a matter of grave concern and he wanted me to know about it.

I guess I showed my lack of sophistication and ignorance in regard, to respond to him because I said: Well, why, Mr. Abedi? The obvious question is that you say that this has happened. Why would you be subjected to this sort of surveillance and interest by the CIA beginning at a certain point in time?

And he said something that was very interesting, Mr. Chairman. He said: You have to understand that I fall into the category of being a Third World liberal; that I'm concerned about problems of hunger, social concerns, housing, medicine, that sort of concern in the Third World. And I, in my own way, have tried to do something about that; and I have a concern that is well known, and I deal and I'm involved with people around the world who philosophically also would be described as liberal Third Worlders.

And he says: I would think that that's in total opposition to what this administration—being the Reagan administration—would be interested in, and that I'm some sort of threat around the world because of my activities, and because of the growth and development of my bank, and because of what my concerns are.

I thought that was a plausible explanation and a reasonable explanation, and that pretty well was the end of that conversation. I filed that away in my mind because it was really what he wanted me to do.

I've thought about that incident an awful lot, especially as you've had these hearings as it relates to what has taken place in regard to all these accusations and facts and so on about BCCI and Mr. Abedi. I think that played a major role at some point in time in the history of that relationship.

I have my own thoughts about that. It's not fact, but it's my own thoughts. And if you want me to tell you what they are—

Senator KERRY. I'd like you to share your own thoughts. You've admitted it isn't a matter of factual certainty. But you are a thoughtful fellow. You've been around government. You know how these things work and I'd like to hear your thoughts on it.

Also, I just want to ask you as a preface to that, did there come a time when you perceived that Abedi's attitude and concern about the CIA had significantly changed?

Mr. LANCE. Yes, sir, totally and completely.

Senator KERRY. Would you pick up there.

Mr. LANCE. That was a fairly obvious thing, as best I could determine. This was determined in meetings that I would have with Mr. Abedi from time to time. This was not on a regular basis or anything of that type.

He had exhibited and evidenced concern, not fear in the normal sense of the word "fear," but he had certainly shown concern about this being "on the Watch List." Those are his words. I have no intimate knowledge of the way that they do things and so on. So I don't know whether that's proper. But that's what he thought.

And so, therefore, there was this great concern. There was an uncertainty about BCCI at that point in time.

Subsequently, beginning in 1984, I would say, I sensed a change in Mr. Abedi, that he no longer had any concerns about visits to the United States, that he showed no concern about his ability to start banks, if that's the proper term, in countries around the world, whereby at some point in time in the past he had talked to me about the difficulty in banks being formed vis-a-vis mainland China, for example, whereby, subsequently in 1977, I guess, he opened the first bank owned by a foreign interest in mainland China. All of a sudden that disappeared. There were no longer conversations about that.

Senator KERRY. You say "all of a sudden." About what period of time?

Mr. LANCE. I would say beginning in 1984 and then subsequently; that he had an assurance, he had a sense about it. We never discussed the CIA again, and I'm convinced, from my own personal knowledge of Mr. Abedi, that if that were still a problem to him, Mr. Chairman, he would have articulated that to me, because he and I did talk about that sort of thing, and we did talk about that sort of concern.

I know that if he still had those concerns, at some point in time he would have articulated it and said something about it.

Senator KERRY. And he never did articulate again a similar concern to you?

Mr. LANCE. No, sir, he did not.

Senator KERRY. On the contrary, he exhibited a kind of confidence and almost impermeability to any kind of intrusion by CIA or anything else?

Mr. LANCE. And no limitation about any visits to this country or anything of that type.

Senator KERRY. Whereas previously, he was very nervous about traveling here, isn't that accurate?

Mr. LANCE. He was nervous about traveling here and he, in effect, as I said, "harassed" is not probably the proper word, but as you well know, there are ways to make people feel welcome or unwelcome. It was very clear to me that, at that point in time, in his entry to this country, he was not made to feel welcome. He was put into holding rooms from time to time, that sort of thing that he actually talked about. I don't know whether he was ever searched or anything of that type. I didn't pry.

Senator KERRY. But he never again had occasion to complain to you that that had happened?

Mr. LANCE. No, sir. He never mentioned the subject again in any form or fashion.

Senator KERRY. Have you ever met Abdur Sakhia?

Mr. LANCE. No, sir, I have not.

Senator KERRY. You've never had a conversation with him by phone or otherwise?

Mr. LANCE. I've never had any conversation with him to my knowledge.

Senator KERRY. Did you hear his testimony yesterday?

Mr. LANCE. I did not. No, sir.

Senator KERRY. Well, the record should show at this point that, yesterday, Abdur Sakhia, on his own, made precisely the same observations that you have and heard the same conversation from Mr. Abedi, to the effect that he told Abdur Sakhia and other members of the bank that he was concerned about the CIA, concerned about the capacity to travel, and that he was on the Watch List, and that just about at the same time you have described, that cloud seemed to be lifted and he displayed an optimism and so forth.

So your observations are confirmed, in fact, by somebody who worked with him for 13 years and was a member of the bank.

Let me ask you, now. You said you wanted to make some personal observations or conclusions.

Mr. LANCE. The personal observation that I drew in my own mind as a result of those conversations—and let me hasten to add, I've never had that conversation with anybody connected with BCCI. I've never said to anybody who was an officer or any involvement with BCCI that here is what Mr. Abedi told me. He told me that in confidence, as far as I was concerned. He said: I'm telling you this because I think you ought to know it. So I've never had any conversation with anybody about that particular element of what happened.

I don't recall that I have ever even had a conversation with Mr. Clifford or Bob Altman about that in regard to what Mr. Abedi said. As I said, this is not fact. This is my supposition, and I think it's something that your committee has the power, and I hope the ability, to reach out and make some conclusatory finding about the circumstance, because I think it's important to all of us, as Americans, to know exactly what takes place.

I understand the need for covert activities, and I appreciate that, and I respect the fact that intelligence is awfully important. But at some point in time, I think the record ought to be made very clear as to what the role of our intelligence agencies really are.

I think at some point in time—and if I had to pinpoint a time, I would say in 1984—I think there was obviously an overt effort by our intelligence agency to, for lack of a better term, to coopt Mr. Abedi and BCCI and, in effect, turn them into the bank of the CIA. I have no facts about that. It is a conclusion that I have reached because of things that I have had happen to me, that I know about circumstances and so on.

Senator KERRY. I want you to share one of those instances, what happened to you.

Mr. LANCE. All right, sir.

The circumstance of why I say that I have reached that conclusion is that at a certain point in time in 1981, as I recall—it may have been late 1980, but I think it was more in 1981—I had differ-

ent visitors in Calhoun, GA. Calhoun is a wonderful place, but not a whole lot of folks want to have to make that trip just for the fun of it because it's 70 miles north of Atlanta and so forth and so on, and it's not in a major marketplace that people visit and so on. So I've been highly complimented from time to time to have people come to see me in Calhoun.

But during 1981, I had what I characterized as people who had some sort of intelligence background visit with me. This was something that was obviously interesting to talk about and to hear about and so forth and so on. There was very little I could do about it.

There was one gentleman who I think is very well known to those who deal in intelligence matters, by the name of Mr. Specter, who came to Calhoun and told me about various and sundry things that had been happening to him, and so forth and so on. He obviously, I guess, just felt a kinship with somebody who had experienced some trauma and trial and what have you.

But during the course of that event, there was a gentleman who came from London. I do not remember his name. I could not probably identify him to you today if he were in this room. He ostensibly was there for the purpose of saying that he knew that I represented people from time to time who had the capacity to make investments; that he had a hotel in London that was for sale; and that there was a good opportunity, a classic opportunity, and what have you; that he would appreciate any response that I might be able to bring forward from anybody in that regard.

And he said during the course of that conversation that sooner or later I ought to meet a certain individual who was a world class businessman, and that he felt sure that our paths would cross at some point in time in the future.

I noted again what he said and moved on about my business in that regard. He left, and I subsequently never heard from him, and I have, to my knowledge, not seen him since then.

The time came and went. That introduction to President Carter took place in 1982, in August. But in January, as I recall, in 1982, we had a Young Presidents Organization meeting in Hawaii that was unique in the fact that the YPO group happens to be a group of shakers and movers and doers, and vigorous, youthful executives, and so on. They, at their universities, like to put together people who cause things to happen.

And so, Peter Ueberroth and Chris Hemeter or people that I had known in YPO when I was a member—I don't fall into that category I just described to you, Mr. Chairman, but the others do—Chris Hemeter called me and said would you talk to President Carter about coming to the YPO University. We're going to have President Ford, and this will be a great opportunity for former political rivals to get together and talk about the process, and so forth and so on.

There were a lot of other people that were there. Bob Strauss was there. After him, you don't need anybody else, I guess, in that regard. Dr. Teller was there, Davy Jones was there, Larry Silberman was there.

Senator KERRY. So it was a big and well-attended event.

Mr. LANCE. It was a big, political grouping, I guess. Really, I guess you might say that it was President Carter's coming out party, again, for lack of a better term, after the election of 1980. During 1981, as you recall, he didn't get out an awful lot, and so on.

So this was important, I thought, for a lot of different reasons. This was a program that he did appear, and that took place. During the time that I was there, on Maui, I had a call from the gentleman that I had been told that I might meet some time. He said: I am at the Kapalua Bay Golf Club and would like the opportunity to visit with you and so on. Therefore, I've got a car and driver, and I'll send somebody over to pick you up and we will have a chance to visit, and so on. I said that would be fine because it was the name that I had been given previously by the visitor.

Senator KERRY. Let's get back. Now you had this mysterious visit. I want to try to clarify this.

You'd had a mysterious visit in Georgia twice, correct?

Mr. LANCE. I had more than that, but those are two that just came to mind.

Senator KERRY. You had a number of visits. These were folks that you immediately sort of pegged as being intelligence types, correct?

Mr. LANCE. That's correct.

Senator KERRY. One of them gave you the name of a guy that you really ought to meet on some occasion?

Mr. LANCE. That's correct.

Senator KERRY. And nothing happened for 1½ years.

Mr. LANCE. That was basically—well, it was not that long. It was probably in 1981. So it was 6 or 8 months.

Senator KERRY. Lo and behold, you turn up at this Young Presidents meeting. President Carter is there; President Ford; and this fellow, by the name of Bruce Rappaport appears. Is that correct?

Mr. LANCE. That's correct.

Senator KERRY. And you knew that was the person that you had originally been told about by this mysterious person who came to see you.

Mr. LANCE. That's correct.

Senator KERRY. OK. Then what happens?

Mr. LANCE. Then I went and met with him and we talked about a lot of different things. He obviously was and is a world class businessman. We developed a friendship at that point in time. He obviously likes to play golf; I like to play golf. We played golf at different places.

He made it very clear to me that he had a very close and definitive relationship with Mr. Casey, the Director of the CIA; that they went back a long way; that they had numerous contacts, and what have you; and that this was an important relationship to him, and so forth and so on. That basically was the type, circumstance, that was there.

I drew my own conclusions after all of the other things happened with regard to what Mr. Abedi told me, with regard to what I perceived to be a change in his attitude, again for not having a better term to describe it; that, because of the relationship that Mr. Rappaport had with Mr. Casey, that there was an interest in what my

relationship might be with Mr. Abedi on the one hand and what my relationship was with President Carter on the other; that there were numerous opportunities given in the course of conversation; that if, in fact, I was in the company of anybody who mentioned Mr. Casey, that if anybody in the Carter administration or Carter circle of friendships would know anything about the hostage problem or anything else, that more than likely I might be one of those; that the perception was, whether that's real or not, that I was close to President Carter, that we had a friendship that transcended my being a part of his administration and causing him some grief and turmoil in the process.

I guess that the common application of my own thought process, Mr. Chairman, that I put to that was that, if I had any information or if President Carter had any information, that I would make some reactive statement whenever Mr. Casey's name was mentioned, and so on; that that would be something that would be natural, and I would say well, you know, I'm delighted that you have a relationship with Mr. Casey, but I don't happen to think much of the situation about this, that, or the other.

That really was the—there was never any definitive circumstance there.

Senator KERRY. But you sensed at the time, you told us you sensed at the time that this was a defined, purposeful, intentional effort to try to elicit from you some kind of information and also to sort of send you a signal. Is that not accurate?

Mr. LANCE. That's my—yes, sir. That was my feeling.

Senator KERRY. You felt that back then?

Mr. LANCE. That was my impression. I don't know about the sending of a signal. The sending of a signal may have been, you know, on the other hand, that if I had certain information or knowledge, then I would certainly, probably articulate it.

Senator KERRY. Just in terms of sort of the circumstances that we're dealing with here, and as you said, this is very complex. It is very, you know, it's supposition at the time, and there are only sort of little threads that seem to connect and come together. But they're fairly significant when you put the pieces together.

Mr. Rappaport owns the Inter-Maritime Bank in New York—correct—and did then?

Mr. LANCE. In Geneva, I believe, Mr. Chairman.

Senator KERRY. Well, there is a New York—

Mr. LANCE. Actually, my understanding was that the Bank of New York subsequently acquired an interest in the Inter-Maritime Bank in Geneva. If they have an office in New York, I'm not familiar with that.

Senator KERRY. And Mr. Alfred Hartman is a director of BCCI and head of BCP, which is a BCCI subsidiary, and also serves on the board of Rappaport's bank.

Mr. LANCE. I read that in a Wall Street Journal article by Mr. Truel. I don't have individual knowledge of that relationship.

Senator KERRY. But, without knowing of those links, without even knowing that somebody who was a very significant friend of Bill Casey's had a link to BCCI through interdirectorships and so forth, without knowing any of that, you, on your own, and without knowing that Mr. Sakhia had these feelings, without knowing that

there was a \$10 million payment to Khashoggi, without knowing that there were CIA bank accounts, as now acknowledged in documents and so forth, without knowing any of that, you, on your own, drew the conclusion that this relationship had changed, and the conclusion you drew was that there had actually been a coopting, an overt outreach to Abedi, that he was comfortable, he knew the CIA wasn't going to bug him, that he could kind of move his operations with a certain sense of confidence. Is that accurate?

Mr. LANCE. That is totally and completely accurate, Mr. Chairman. That is my view and that's the conclusion that I reached as a result of my own experiences.

Senator KERRY. Now let me go back. We're going to wrap up here fairly soon and only will have to do a morning session here.

Let me ask you about a link of that. A Mr. Irvani, an Iranian businessman, was one of the original shareholders, was he not? Do you know who he is?

Mr. LANCE. No, sir, I don't believe I do.

Senator KERRY. You don't know him?

Mr. LANCE. Do you have any further description of him?

Senator KERRY. Well, when you were involved in the original Financial General Bankshares takeover effort, you were leading that effort. This is back in 1977-78.

Mr. LANCE. Yes, sir. I would say that's a fair characterization.

Senator KERRY. It's my understanding that Mr. Irvani, who is an Iranian businessman, was one of the original shareholders in that original Financial General Bankshares takeover effort. You don't recall him as being such?

Mr. LANCE. No, sir, I do not. I don't recall ever even hearing his name.

Senator KERRY. It is our information that he knew Mr. Abedi very well and that he, in fact, had a consulting firm in Washington, together with Mr. Richard Helms, ex of the CIA.

You weren't aware of that?

Mr. LANCE. No, sir. That's new information to me.

Senator KERRY. The questions are asked for a very obvious reason. There's no secret here. The question is did this bank somehow gain an immunity or an impunity for its actions, its capacity to be able to act with impunity? Was there a reason that, after the CIA sent memos to agencies of the U.S. Government indicating that it had knowledge this bank was illegally owned, and indicating—or illegally owned First American as far back as the early 1980's—and knowing that Senator Paula Hawkins had information about money laundering as early as 1984, somebody had to have informed her of that. It was raised with General Zia in Pakistan, and the FBI was on notice because somebody said there wasn't an investigation. I mean, all of this raises the significant question, again, of why this all went on.

When you see the \$10 million to Khashoggi, and you see the fact that the CIA had accounts there, the question just leaps up at you once again: did other interests of some individuals or agencies get in the way of other interests of U.S. policy being furthered? That is at the core of my comments at the opening of this hearing of what this committee began to look at and it's the core of the questions about this bank that are still on the table here.

We don't know. I don't have the answer whether or not there was this relationship. We'll hopefully learn more about it.

But there are certainly some key indications that something was going on there. Would you agree with that?

Mr. LANCE. I agree totally and completely, Mr. Chairman. And I would add, further, that, as you said that I used the term "mystified." I think that the people who knew Mr. Abedi at the point in time that we were talking about earlier, in the early 1970's, are truly mystified by what has developed as a result of this.

Now, it may be that BCCI is, from the outset, a criminal organization, something that is bad, something that is wrong, and all of that. I don't know that. I don't have the knowledge that relates to all that.

But I can only tell you that I, in my own thought process, think that the questions that you have raised and the comments that you have raised are questions that ought to be answered. Whatever the answers are, then that's the way that it will be.

But I think that it's proper, I think it's appropriate, I think that you and your committee are doing not only this country a service, but you're rendering a broader service about activities around the world of a global nature that relate to financial institutions, the confidence in financial institutions that is so critical, and things of that nature that become all important.

So I hope that you will find the answers. I think that, obviously, it ought to be awfully easy to disprove what role and what involvement the CIA may have actually had with regard to BCCI.

Senator KERRY. Well, the CIA admits it had a role. They have publicly so stated. Mr. Kerr has agreed to be here Friday morning to explain to us more openly what some of that is. I might add that we had a telephone conversation yesterday, and he has suggested that there are certain areas that may, for traditional reasons, have to be conducted in closed session. We have certainly agreed that that may be true. But the committee is going to try to make some judgments after that about whether or not tradition is getting in the way of truth seeking or not. We'll find out.

Let me ask you a couple of other questions.

Mr. Rappaport—he appeared in your life. He was fairly persistent, was he not, in pursuing you for a while?

Mr. LANCE. That would be a fair characterization.

Senator KERRY. Describe it. What do you mean by that?

Mr. LANCE. Well, in the sense that he had gold tournaments in Europe that I was invited to, and we had occasion to visit when he was in this country and play golf.

Senator KERRY. He would call you?

Mr. LANCE. Primarily. I've called him. It's not a question of who called who, necessarily. I mean, we had a friendship relationship and that still exists, as far as I'm concerned.

Senator KERRY. And was it your sense, Mr. Lance, that he was trying to elicit from you whether or not you had information or Mr. Carter had information, or friends around Mr. Carter were concerned about or were pursuing the issue of the "October Surprise?"

Mr. LANCE. That's my impression, Mr. Chairman, that that was a critical element that related to the whole of the circumstances, and

that if anybody knew that happened to be close to President Carter, that perhaps I would know. Again, the irony of things continue to come back into full focus, and you realize that irony sometimes becomes a predictor of what will happen. And there's no question in my mind that Mr. Abedi had an international reputation for knowing circumstances in Iran, that he was well versed in what was taking place there. And, interestingly enough, the one subject that he and I never discussed, which I always have found to be very, very interesting as I try to filter things out in my own mind, is the fact that we never had a discussion about the hostage issue, the hostage situation in Iran. We never had any conversation about that.

I have been tempted to ask President Carter if he and Mr. Abedi ever had any conversation about it. I have resisted that temptation up until this point. But I have always found that very interesting.

But, again, you had the singular event of Bert Lance, who had a relationship with President Carter, who had a relationship with Mr. Abedi, being out there in full view and noted well in the press, and so forth and so on.

I think obviously—I may be totally and completely wrong, and it wouldn't be the first time that I've been wrong; I fall into that category quite frequently, unfortunately—but it's something that has concerned me. It's something that happened, in my judgment, to Mr. Abedi, and it may explain some of the things that have happened in regard to BCCI.

Now, let me hasten to say to you and to the public at large that none of that is license for illegal, criminal activities here or anywhere else in the world. I think that, whatever they have done that's of a criminal nature and bad things taking place, that certainly they need to be punished to the fullest extent possible. And I've got no problem about that.

I'm not here, Senator, as you well know, to defend BCCI. I'm here to tell you the truth, as I know it. I've told you the truth, as I know it. I may have left out things inadvertently. But I stand ready any time that I can assist this committee with regard to your seeking out the truth to tell you what I know. I will separate the two. I will tell you what I know and I will tell you what I speculate about, and there may be a vast difference between the two.

Senator KERRY. Let me ask you another question.

President Carter traveled a number of times with Mr. Abedi, didn't he?

Mr. LANCE. Yes, he did.

Senator KERRY. And he traveled a number of times on Mr. Abedi's plane, or whatever, to China, to Africa. Am I correct?

Mr. LANCE. Russia. In fact, he made a trip around the world that I recall, simply because I'm proud of what the process was. In 1977, Mr. Chairman, President Carter made a trip, in effect around the world, because he went to China. That was when Mr. Abedi opened his bank there. Then they ended up, they went back through Russia and ended up in Newcastle, England.

Senator KERRY. These span what years? These were sort of from when?

Mr. LANCE. This was a specific trip in 1977, because it was the 10th anniversary of the Friendship Force, which is an organization

that started in Georgia, when President Carter was Governor, by Wayne Smith.

Senator KERRY. Well, you introduced, you didn't introduce President Carter till 1982, to Mr. Abedi.

Mr. LANCE. No, I said 1987. Did I misspeak?

Senator KERRY. 1987?

Mr. LANCE. If I said 1977, I'm sorry; 1987.

Senator KERRY. So the trips from 1982 through the 1980's, correct?

Mr. LANCE. That's correct.

Senator KERRY. The reason I ask that is that I'm a little baffled. It's my understanding, I mean, we all know President Carter is a very thoughtful, intelligent, and disciplined person, and it's my understanding that he has always debriefed the President, the Secretary of State, and perhaps other people on each of the trips that he made.

Mr. LANCE. That's correct. That's my understanding.

Senator KERRY. And on each trip he would make, I gather he wrote a long memo to President Reagan, he wrote a memo to Secretary of State Shultz, and it's my understanding this continues with President Bush and with Baker, even more warmly, perhaps.

Mr. LANCE. I think that's a very warm relationship, and justifiably so, I think.

Senator KERRY. It's just curious to me that you have a former President of the United States briefing these high officials about these dealings with Mr. Abedi, but nobody turns around and says to Mr. Carter what the CIA knew, what the Government knew, what everybody else in the agencies had known from the early 1980's, that BCCI illegally owned a bank in America and that it was involved in money laundering, and so forth.

I mean, it seems like they kind of left the President, the former President, out there when they knew he was dealing with this fellow.

Mr. LANCE. I don't understand that, Mr. Chairman. I have the same feeling that you do. I think it's almost incumbent upon an agency of the U.S. Government that has access to intelligence information when obviously the recipient of that information would be a former President of the United States who knows all our secrets, about everything else, that he would not be advised.

Obviously, I'm sure that the CIA or anybody else would not want to be in a position of telling a former President who his friends ought to be. But I think that just common courtesy would go to the fact that you would say: Mr. President, you can have whatever friends you want, but I'm telling you that, you know, these are bad guys that you're dealing with. And, again, President Carter, in regard to the entire relationship with BCCI, has made no secret of that.

There have been members of the press that have traveled with him on the BCCI airplane. There always was somebody, always was somebody from BCCI present. And you would think that, somewhere along the way, somebody would have picked up the phone and said look.

I mean, it appears to me, the thing that I don't understand—I'll take it one step further—you would think that CIA would say

something to the Secret Service. President Carter still has Secret Service protection. And if he's running around with folks described as "rogues, thugs, crooks, criminals," and all the other descriptions that have been put forward about BCCI, you would think that the Secret Service would have an interest in knowing that also, since they are there for the purpose of protection.

So I don't understand that, and I think that's a legitimate question to be asked.

I have asked the question of President Carter in regard to what he had been told about the circumstance of the drug laundering charge in Tampa. He told me, as it appeared in the press, that Mr. Naqvi told him that it was an isolated incident involving a few officers of BCCI and that the Justice Department had assured them—"them" being BCCI—that there were no other charges or no other cases or investigations pending against them at that particular point in time. And he traveled on that information.

Mr. Carter, as I think all of us would agree, is not the kind of fellow that just goes out looking for trouble. And to keep on in a relationship with somebody who was perceived, or, in fact, criminal and what have you, he's not that kind of man, and he doesn't have that sort of thought process.

Senator KERRY. Well, I don't think anybody in the country questions that. I think it seems to me that there was, obviously, a very legitimate reason for the introduction back in 1982 and a very legitimate reason for the President to try to further the noble goals that he has been pursuing in his post-Presidency.

I want to try to bring this to a close.

Mr. LANCE. Sure.

Senator KERRY. There are a couple of areas that I want to go back to, if I can, for 1 minute, unless you had something you wanted to say here.

Mr. LANCE. All I was going to say in that regard is that, while there has been criticism of President Carter and the relationship with BCCI and Global 2000, there have been very, very effective things realized as a result of that relationship in health and hunger problems in the Third World countries, particularly in Africa. I just think that that ought to be acknowledged.

Senator KERRY. Well, I understand that.

I happen to be particularly sensitive to criticisms for associations one has with people that you know nothing about at the time that you are associating with them.

Mr. LANCE. I understand.

Senator KERRY. You learn something later and it can be embarrassing.

Mr. LANCE. That's a political risk that everybody carries.

Senator KERRY. Let me just ask you, have any investigators from the Government interviewed you now with respect to your experiences with BCCI?

Mr. LANCE. Yes, sir.

Senator KERRY. The first interview you had was with Bob Morgenthau's office?

Mr. LANCE. That's correct. That was——

Senator KERRY. In 19——

Mr. LANCE [continuing]. That was a little bit more than an interview, Mr. Chairman. That was an appearance before the grand jury.

Senator KERRY. I understand.

Mr. LANCE. So I guess that might fall into a little bit different category. You are a former prosecutor.

Senator KERRY. I was being euphemistic; you were very direct. That's 1990, correct?

Mr. LANCE. In September 1990.

Senator KERRY. What about the Justice Department?

Mr. LANCE. Yes, I had a visit from the Justice Department.

Senator KERRY. When did they interview you?

Mr. LANCE. I believe that it was the first Saturday in September. I'll tell you, I went through this process of explaining to Senator Percy about flying to a University of Georgia football game, and so I sometimes couch things in football references. But it was the day of the Georgia-LSU game, whatever day that was. I wanted to try to get through at least to listen to it on the radio.

Senator KERRY. So, the important thing is, putting it in a football context, the New York District Attorney interviewed you in the football season of 1990, and the Justice Department got to you in the next year's football season?

Mr. LANCE. That's correct. It was that period of time. That was the first Saturday in September 1991.

Senator KERRY. OK. When you left as the lead person in the takeover of Financial General Bankshares, you were replaced by whom?

Mr. LANCE. That's a good question. I think the proper answer to it would be Mr. Clifford and Mr. Altman.

Senator KERRY. How did you feel about your departure? Were you somewhat upset?

Mr. LANCE. That's hard to characterize. As I said earlier, I felt like the, despite the fact that—

Senator KERRY. We don't even need that. Let me not ask you to characterize that. It's not critical to this. But let me ask you, did you come to have a sense with respect to the relationship that you saw emerging in terms of the hats that Mr. Clifford and Altman were wearing? Did you sense a concern about that?

Mr. LANCE. My concern was twofold, in regard to—just because I cared about them, I cared about what was happening ultimately with Mr. Abedi and BCCI, and that was a personal concern, not a business concern—that sooner or later the problem of being counsel and then becoming management would just come back to be somewhat of a problem. I never expressed that to Bob Altman or Mr. Clifford. It was not my business. That was my personal concern, that that would be a problem, and the only time that I thought that a basic mistake was made, if you want me to discuss that just for 1 minute, in regard to the whole situation there, was, as I recall, a lawsuit filed because there was failure to disclose the names of the investors in Financial General, at that time, I guess First American, and I thought that was a real mistake.

I give the press of this country a lot of credit. Sometimes I'm critical because I think that that doesn't hurt anything. But I also give them a lot of credit in being able to find out answers to questions

and so on. And when there was a decision made not to disclose the names of the investors in First American, I thought that was a primary mistake because I thought, first and foremost, it would happen; and, second, it was creating a sense, it was creating a problem out there that didn't need to be created.

So those are basically the only two circumstances that I had feelings about.

Senator KERRY. Did you or anyone suggest to Mr. Clifford and Altman at any time or did you know whether or not they had reason to believe that there were nominee purchasers or shareholders with respect to the BCCI involvement in First American?

Mr. LANCE. No, sir. I've never had that conversation with any of them. And, as I say, the problem that is out there in regard to that is that BCCI was always present. I mean, I think that you have to cross that level at some point in time, and I don't think Mr. Clifford, from what I have seen and heard—and I don't want to be putting words into his mouth or anything—but I haven't seen him deny the fact that BCCI was there. What he says is that he, in effect, ran First American and made the decisions without BCCI direction or involvement. That's a question that obviously other people have to answer. I don't have an answer to that.

Senator KERRY. Mr. Lance, trying to sum this up a little bit, what is this—you've now caught up with a lot of the documents that have been public, a lot of the stories that have been written. You've got a pretty good sense of this thing because you've watched it evolve. You've been around it since the beginning.

What does it mean to you? What should it mean to us, and what is this all about, so to speak?

Mr. LANCE. I think it means, first and foremost, that we do have safeguards that are built in in our own system that sometimes fall into conflict with other cultures, other countries, and things of that type. And I think at some point in time we have to understand some of that.

Our system is the best, and, while it can always be improved, I think openness, candor, coverage by the press, the absolute guarantees that we enjoy make a big, big difference. I think, therefore, that, as a result, we ought to be wary of institutions that can develop without single regulators being able to overlook them as it relates to the confidence of depositors or investors. I think that's awfully important.

I happen to believe in the regulatory process, again, even though sometimes that appears to be a contradiction of terms. But I think that we need to learn from that, that confidence in the banking system, not only of this country but around the world, is a very, very fragile commodity, and that it's imperative that we protect that confidence through whatever means necessary; and the ability that we have here to ultimately find the truth about BCCI and let the truth stand on its own will serve as a model in the future.

I'm sure that there will be legislative changes that you perhaps will initiate. You have fought a lonely battle, as best I can tell, in regard to standing out, saying that these things are necessary to be looked at, to be resolved, to be answered.

So I think that there are regulatory changes that need to be made. I think that the regulators, in regard to BCCI specifically,

that they could have found out at the point in time, in 1981, whatever involvement BCCI had with First American, if that's the situation that we're particularly focusing on.

It would appear to me that that would have been doable. So I think that, by virtue of what chronology and timetables and efforts that you develop out of this committee, that in the future maybe that'll happen, and we'll be able to have a system that is able to enjoy confidence on the behalf of depositors and people around the world.

Senator KERRY. May I take your introduction of that to add to that something that really concerns me as we look at this.

It's not something that the committee has talked about a lot or I've talked about a lot. But this BCCI event underscores a transition that has taken place in the marketplace that public policy is way behind. International, regulatory and financial services oversight is way behind, dangerously behind.

Now that we truly are what everybody loves to mouth, an international marketplace, we need to think about a whole different set of rules about how that marketplace is going to work. This underscores that, that when you have the different cultural infusion, et cetera, if you don't have an ability to have oversight or manage, you are subject to whatever local rules or local culture wants to apply to that process. So it is that we still allow the Cayman Islands, Panama—notwithstanding the invasion, there is more money laundering today in Panama than there was before Noriega. And there are some 21 or 22 locations around the world that the State Department puts on a list every year saying these are big time movers of money. But nothing happens—nothing happens.

The reality is that we've got \$1.3 trillion a day—a day—moving through the two clearing systems of this country, the CHIPS and the Fed Wire. And nobody knows where that money's coming from, basically. Nobody knows the point of origin, who it belongs to, or what it is.

As long as you've got these huge sums of money moving the way they are, with all kinds of cardboard cutouts as fronts for a lot of the place of origin of that kind of money, you have a huge problem in terms of tax accountability, money laundering and law enforcement accountability, white collar crime, capital flight, all kinds of problems. It's a huge market, which is why all these banks were struggling to get it, because in float alone, there is huge profit.

Mr. LANCE. No question.

Senator KERRY. So the question is really whether people are going to be serious. The Basel Convention has adopted this glorious notion that the principle of banking that is most critical is to know your customer. The reality is there are just too many institutions out there that make a practice of not knowing their customer and even of hiding their customers.

We hold our banks in the United States to an extraordinary standard of openness and accountability. And yet, even a U.S. bank is permitted to open a branch offshore, and instantaneously avoid the very rules that we apply by their being onshore. So the question is whether we're going to work in the international marketplace while we still have some economic leverage left to exert to

try to guarantee that we're playing on a field where law enforcement agencies and others can really get at this.

If you can't, I'll tell you, as a former prosecutor, it's impossible to put together a case adequately, as we're even seeing in the course of this, that allows you to prove it without expending extraordinary sums of money.

Now with supercomputers, the software programs that are available, a lot of this can be done today. The fact is the resources haven't been applied and there is very little thinking going on to try to arrive at how this can be done with minimal intrusion, maximum flexibility to the marketplace, but also maximum accountability to the system.

I must say to you I think that that is really one of the other pieces that sort of leaps out in terms of system and accountability, which needs to be looked at as a consequence of this.

Then there are all the other aspects of it, such as foreign policy, CIA, intelligence, law enforcement, narco-trafficking, terrorism trafficking, arms trafficking, all the other pieces which are so much a part of BCCI.

Mr. LANCE. If I can comment on that, Mr. Chairman, I think that what you say is eminently correct. I happen to believe that good comes out of all things ultimately, and I think that one of the good things that will come out of this effort that you and others are making is that there will be a long, hard look at how you bridge these differences and how you insure the confidence and safety and so on.

I can't help but recall, I remember that Hugh McCullough, who was the first Controller of the Currency, I sort of wish I'd known him when I was having my travails with that office. He said something that I never have forgotten. He said to never deal with a crook in the hopes that you can outsmart him.

So, the crooks are going to be there and we're going to have to make sure that they are dealt with at the earliest possible moment, and so on, but that you don't bring down a system in just trying to deal with them, and then let all the other things happen that sometimes happen. I think that's one of the things that will come out of what you're doing in this regard.

I might say I don't know what the truth is about BCCI. I have the thoughts that I've expressed to you. I don't know what the truth is about Mr. Abedi. I have the thoughts that I have expressed to you and to your staff.

I hope that, ultimately, that truth will out, that we will all have a better understanding of what went wrong, of what happened, of the decisions that basic individuals made, right or wrong, and how it all comes about; because I think, ultimately, then, the system of finance around the world will be stronger, and be better, and will have much more confidence in it. And so, I think that's what you're doing, and I appreciate it.

As I said, let me, if I might have one just personal comment that I would like to be able to make one more time in the sense of where I am, I have told you what I know about circumstances. I will at any time that I can tell you anything else if a question is raised, I will attempt to do that in every forthright manner that I'm possessed of.

And as I said at the outset, it is a privilege for me to be before your committee. I feel strongly about that. I have been critical at times when criticism was, I thought, appropriate. But this is a system that works, and the Senate of the United States works, and the House works, and the Government works ultimately, and these are things that are important.

We all have our shortcomings and all of us fail the perfect test in regard to being just that. But I think it's important for you to have the ability to find out the truth.

In saying my last words on that subject, my son, Beverly, happened to come up with me here today. He wasn't sure that I was able to defend myself in this situation up here. But he said: Now one thing you make sure. He said: Every time I pick up the newspaper and every time I've heard the radio in the last 2 or 3 days, they have said that you're going to testify before Senator Kerry's committee and that the bottomline is that Bert Lance denies any wrong-doing.

I haven't denied anything because I haven't been charged with any wrong-doing in this regard whatsoever, and I've been subjected to a lot of innuendo and things of that type that I don't think really are appropriate in our country.

Senator KERRY. Let me make it very clear for anybody who is listening in your State or who has heard those previous notions that somehow you had to deny something. This committee didn't bring you here to ask you to deny anything, nor did it bring you here with a view that somehow you had something to deny.

We asked you to come here because we wanted to shed light on what happened. I hope nobody will characterize this as a sort of somehow your having passed some test or having had to be put on the grill in some way. I don't think this morning has transpired that way. It's not meant to be that.

Mr. LANCE. No, sir.

Senator KERRY. And I might add it's not meant to be that tomorrow with Mr. Clifford and Mr. Altman, either, or with any of the other people here. This is an effort—this isn't a courtroom—it's an effort to try to understand this. We have purposely not even proceeded in a way that tries to "make the case" one way or the other. We're trying to really put people on the record and get some answers.

Mr. LANCE. I appreciate the courtesy that has been extended to me.

Senator KERRY. Well, I very much appreciate your doing this. I wish you well and we appreciate your coming.

Tomorrow, we will commence at 9 o'clock in the morning, and we are in recess until that time.

Mr. LANCE. Thank you.

[Whereupon, at 1:06 p.m., the committee adjourned, to reconvened at 9 a.m., October 24, 1991.]

NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

THURSDAY, OCTOBER 24, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:02 a.m., in room SH-216, Hart Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry, Simon, Brown, and Jeffords.

Senator KERRY. The hearing will come to order, please.

Good morning. Today the Subcommittee on Terrorism, Narcotics, and International Operations is going to hear testimony from Mr. Clark Clifford and Mr. Robert Altman, the former chairman of First American Bank shares, and formerly attorneys for the Bank of Credit and Commerce International.

Their testimony constitutes the eighth day of hearings of this subcommittee into the BCCI affair. And obviously, their role is a critical one in terms of trying to understand precisely what has taken place in the course of the last 12 years or so.

Their actions have already become the subject of widespread investigation, of Federal and local law enforcement, as well as Federal regulators, and other committees of the U.S. Congress, as well as this committee.

Both gentlemen have previously testified before the House Banking Committee concerning some of the matters under the jurisdiction of this committee.

Our intent today is not to try to repeat every single part of the testimony before the House, or all of the questions raise there—though inevitably there will be some repetition.

But we hope to try to broaden and to deepen the inquiry, and to cover a fair amount of ground that may not have previously been reviewed in public.

I would like to emphasize, on behalf of this committee—and I have tried to do this throughout the process—that neither the chairman, nor the committee, nor, I think members of the committee, have drawn conclusions or made statements that are conclusory, with the exception, perhaps, of one item—and that was the question of production of documents before the committee.

But as to who did what, when, or how, or who knew what, when, or how, or who knew what, when, or how, I must tell you I do not

think that we know enough yet. And that is precisely the purpose of this hearing.

I will say that I was somewhat surprised, even dumbfounded, on occasion, to listen to my colleagues in the House, many of whom I issued a verdict before they had heard any of the evidence.

I want to emphasize also that I do not view this forum as a perfect evidence-gathering forum. It is complicated. The inquiry does not allow us the kind of time, nor does the nature of the legislative and congressional process allow us the kind of inquiry that really is necessary, I think, ultimately, in allowing people to draw the ultimate conclusions here, using the words guilt and innocence to the degree that they enter into this.

What we are trying to do here is draw conclusions, based on facts that we can ascertain; and to ask some tough questions. And I think the committee is not going to pretend that there are not tough questions there. I think both of you have acknowledged that, and you understand that. And you have stated that you are well prepared to answer those questions, and to come before us voluntarily, without subpoena—as you did before the House—in an effort to do that. And we respect that, and we appreciate that.

There are many questions, obviously: How did a drug-corrupted, foreign bank manage to pull off whatever it did pull off? How many people did they take in as victims along the way? Why did BCCI want First American? What warning signs were present from early moments that might have drawn greater attention to BCCI? And were they ignored by anybody? Did BCCI and the Middle East front men who worked with BCCI have any foreign policy agenda, or any political agenda in purchasing a bank in Washington? Did the U.S. Government have any political, or policy agenda itself, or was it carrying out some sort of covert, or subvert effort with individuals? What were the responsibilities of those who worked for this bank, ranging from attorneys to accountants to officers, as they learned of facts that suggested that something was wrong? What were the responsibilities of accountants and lawyers to this committee, and to others, once a probe began, and once there was evidence of at least some people's wrong-doing?

In previous days of hearings, witnesses involved with BCCI such as Mr. Masour Rahman, who was the chief financial officer for BCCI, and Mr. Abdur Sakhia, the former head of BCCI for the United States both characterized themselves as victims; deceived by others, rather than as partners in the deception.

In previous testimony, Mr. Clifford and Mr. Altman have similarly described themselves in forceful terms, as victims of the criminality of others.

As I said earlier, our job here is to try to open a window on this affair. And I will insist that the committee do so in a way that is not recriminatory or in some way berating or ugly. I do not think that is the way we want to work, and that is not the way that we do work.

So let it be said, because I think it was said in the House, and I think all of us feel it, that it is not a comfortable, or happy occasion to have this kind of investigation. And I know that neither of the witnesses who have had distinguished careers, and who have been upstanding members of this community and who have made

major contributions, that neither of them are happy to be here, obviously—or comfortable with this situation.

But we are here. We have responsibilities. And the purpose of this is to try to shed light on this affair.

So I appreciate your willingness to be here, gentlemen. I know you have been through more depositions and meetings and presentations on this in the past month than you care to recite. And I hope today's hearing can be an important contribution to the process of truth-finding.

I would like to just make one comment, and that is that I picked up today's paper, after hearing yesterday of this event. And I must say that it upsets me. It concerns me. And that is the question of a 33-year-old White House aide who has now left the White House without prior legal experience of a significant kind, suddenly finding himself hired, as a former aide to John Sununu, to represent one of the principal litigants in this affair, Mr. Kamal Adham.

And apparently, he has gotten a fairly significant contract, to the tune of some \$600,000 for 2 years, to assist Mr. Adham in his efforts to deal with this matter.

I, personally, just from my own legal experience, must ask what someone without prior criminal experience, or major experience, who was prohibited from making contacts because of his recent employment, offers for that kind of money. And I think it is that kind of—that kind of link that raises so many questions in people's minds about Washington; about how this process works. And it just casts a cloak of suspicion over all of us, over the entire process. And I think the average American is sitting there saying what the hell is going on in the Nation's capital, with all this money passing back and forth?

I think it may raise more questions, as much of this does, than it gives answers. But so be it. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Mr. Chairman, thanks to your leadership, the web of secrecy that surrounded BCCI is slowly being removed. We are beginning to see a pattern of an international effort, which has involved many notable, well-thought-of people in this country, as well as people around the world.

Today we have witnesses that I think can provide some crucial information to us in this effort—witnesses who have not only been shareholders, but have been counsels to BCCI, and, indeed, officers of First American.

So I think the testimony today will bring to light, and bring out in the open a pattern of activity by BCCI, which will help us understand not only the method of operation, but how, indeed, they were able to achieve the remarkable results that BCCI did in accumulating the worldwide banking network.

So I think today's testimony will be crucial for us, not only in understanding the method of operation for BCCI, but I hope it will be helpful in understanding how we can formulate statutes that will protect this Nation in the future from an international banking organization that is bent on financing and promoting criminal activities.

Senator KERRY. Thank you very much, Senator Brown.

Gentlemen, by prior agreement with your counsel, the committee—we normally have 10-minute openings. But I understand that a significant amount of information has appeared publicly in recent weeks, since your last testimony. And you, understandably, have a sense that there is much you would like to answer to.

So by prior agreement, we are affording you 45 minutes to be divided, as you wish. And we look forward to hearing your opening statement.

I presume, Mr. Clifford, that you will lead off. Am I wrong?

**TESTIMONY OF HON. CLARK M. CLIFFORD; ACCOMPANIED BY
ROBERT BENNETT, ESQ., COUNSEL**

Mr. CLIFFORD. No, that's correct, Senator.

Senator KERRY. Can you pull the mike, for me a little bit closer? I think you'll find it—let me ask, I think, photographers, we had agreed, if you could, if you could move to the side so that it will not be distracting to the witness during his opening testimony.

I am forgetting my duty. Could you rise so I can swear you in, please? Would you raise your right hands? [Witnesses do so.]

Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. CLIFFORD. I do.

Mr. ALTMAN. I do.

Mr. CLIFFORD. I listened with care, Senator, for your opening comments. And I thank you. We welcome the opportunity to be here today, and to present our side of the story.

Over the course of the past 9 months, the other side of the story, in great detail, has been presented day after day after day.

Our side has pretty well gotten lost in the shuffle. I had wished a time that we might have a newspaper so that we could publish what we know about the matter. But we don't happen to have that privilege. So we have to depend upon opportunities of this kind to get our story before the authorities, and hopefully before the American people.

From the day the Feds started their inquiry, we have cooperated with the Government. We got in touch with the Fed at once, after they began in January, with their uncovering of the facts.

We appeared for long depositions under oath before Federal counsel. Then next, we testified at length before the U.S. grand jury here. In all the years that I've practiced law, that's the first time I'd ever had that privilege.

And then we went to New York, and again, were questioned in long days of grueling interrogation by the staff of Mr. Morgenthau. Then, perhaps one of our next opportunities was to appear before the members of the House Banking Committee. And during the course of that day's hearing, I would estimate that we were asked questions by each of the 50 members of that committee.

We welcome this opportunity here today. This gives us a chance for you to know our involvement, and to ask us all of the questions that you wish.

The reason that we have chosen the policy of using every opportunity to present our case, is—to state it simply—our consciences are clear. It is very clear to me—I go back over the details of our

involvement. We have not violated any law. We have not been guilty of any impropriety. And so we make ourselves available at every opportunity so that others may know as clearly as we, of our participation.

As you might suppose, I have given a great deal of thought, this last 9 months, as to how I could permit myself to become involved in this controversy, with a group of persons from far-off lands. And in the process of my statement today, and in answering questions, I would hope that might reveal itself as to how I became acquainted with a situation which has been a new experience for me, after all these years of the practice.

If you are to understand what took place, from our standpoint, then I must tell you the story. I will do it briefly. But it's a very personal story. And I think that's one of the reasons that our participation has not been, perhaps, understood clearly, is that it has been such a personal experience for me.

Here, is quickly the story.

I met Mr. Abedi first in December 1977. I had been practicing law in Washington since I left the Truman administration in 1950. He was brought in by a former client of ours, Bert Lance. It was to be merely a social visit, and it was. He said that Mr. Abedi was a foreign banker; he had come to know him; that they had become friends; and he had a high regard for Mr. Abedi. And he wanted me to meet him.

I found Mr. Abedi to be a man of considerable charm; a man of slight build and stature; a very attractive manner; spoke perfect English—nothing of the promoter type about the man at all. One of the main subjects we discussed in that brief social meeting was the aim that he had for his bank, of providing the Third World with banking services which they had not ever had before. And that that had helped so in retarding the progress of Third World countries.

I found him to be pleasant and a man of importance. Thereafter, I'd hear from time to time that the little reports would sift in that Mr. Abdei and BCCI were in the process of acquiring stock in a company called Financial General Bank Shares. That's a bank holding company, centered in Washington. I had not heard of them before.

But we were told later by another principal character in our story, Sheikh Kamgal Adham, that he had first heard about Financial General from the public relations man in the Saudi Arabian Embassy. There had been a number of articles talking about Financial General, and how it was breaking up into cliques of shareholders; and how it was going through a very difficult time.

The man in the Saudi Arabian Embassy looked into it in some more detail, and concluded that it might be an attractive acquisition. Apparently, that was one of his functions in the Saudi Arabian Embassy, to pass information of that kind back to Saudi Arabia.

Kamgal Adham was a recognized, highly regarded businessman in Saudi Arabia. Kamgal Adham then said, after getting that information, he passed it on to Mr. Abedi. Mr. Abedi served as investment adviser to Kamgal Adham, and to a number of important and very wealth Arabs. The fact is, they had produced the funds that permitted Mr. Abedi to start his bank. For he had a very close rela-

tionship with them, and maintained that during the course of the years.

When Financial General learned that some Arabs were acquiring stock in Financial General bank shares, they became concerned about it. They looked into it, and at that time, they found that four Arabs—good morning, Senator—had purchased each, about 4.5 percent of the stock, staying under the 5-percent limit. But it gave them a holding, among the four of them, of around 18 percent.

The owners of Financial General went to the authorities, and the SEC and said, we want you to look into this. These Arabs may constitute a group, and perhaps they should have filed.

Also, Financial General had a very efficient and effective New York law firm who brought a suit at once, in the district court in Washington, to prevent a possible takeover of their company by these Arab individuals. It was at that time that we were retained, our law firm—Clifford & Warnke—retained by Mr. Abedi, by the four Arabs, by BCCI, by Mr. Lance—anybody who was sued at that time, all came in together and retained our law firm. We went through 3½ years of the most strenuous litigation in that case. We also brought in an expert firm in the takeover field, Wachtell, Lipton of New York.

During that 3½ years, I got to know Mr. Abedi well, and I got to know Kamgal Adham well. A litigation of that kind is like being in a war. There is a series of battles—some of them you win, some of them you lose.

And you get to see men under stress, and under the different contingencies that follow that kind of litigation. I must say my regard for Mr. Abedi increased during that period of time. He evidenced a sense of fairness. He evidenced a wisdom about banking matters and all, that were really quite impressive.

During that time, gradually, fortune began to favor our side. And we got stronger, and the other side weakened. And after a while, I received a phone call from one of the principal figures in Financial General—a man you all may have known—Armand Hammer. He lived in California. I had known him from the Johnson administration. And he said Clarke, why don't we declare an armistice. He said, this war goes on interminably. And I'll come along and we'll sit down and talk this matter out.

And he did, and brought some directors over. And a day and a half, about, we sat in the office, talked it out from different arrangements. And then we agreed upon a disposition of it. We agreed upon a very fair price. And our investors and clients purchased 100 percent of the stock of Financial General, and paid cash for it.

Then we entered into a length period in going through the regulatory process. The purchase of the bank holding company had to be approved by the Fed, and by the regulatory agency in the States in which Financial General operated. We went through that regulatory procedure. The Fed, here in town, felt that the importance of the case warranted a hearing. So four of our clients came over from the Middle East and testified—representatives of the various States were there; representatives of the controller general. It was a good, long hearing that aired every detail of the matter.

As we were proceeding on in that regard, I became conscious of the fact that Kamgal Adham, whom we saw a great deal of—although he lived in Saudi Arabia, he spent a great deal of time in London. And we had developed a process of going to London at rather regular intervals during the litigation, meaning maybe every 3 or 4 months, something of that kind—keeping them very well informed; decisions had to be made, and so forth.

We continued on with that, because they indicated that they wanted Mr. Altman and me to continue to occupy an important place in the operation of Financial General.

Finally, it came to a climax. And at a meeting in London, with Kamgal Adham and Mr. Abedi, they said they had discussed the matter with the investors—that's what we called the shareholders—and they wanted me to become chairman of the board.

And they said why, they'd gotten to know us; they'd come to have implicit confidence in us. They were a great many thousands of miles away from this property that they owned. And they would feel comfortable if I would take over that position.

I asked a number of questions—would I be at the beckon call of the investors? By that time, instead of 4, they were 14. And they said not at all. And I said, will some investor call and say he wants us to make a loan to the ABC Company? And he said not at all. This is nothing more than a simple, financial investment on their part.

I said how do we get in touch with these 14 investors who have really become our clients, as owners? And they said, we've talked that out with them. And Mr. Abedi would be designated as the contact between us and the investors, along with Kamagl Adham. Kamagl Adham would refer to himself as the informal chairman of the investors.

That made sense to us. It would certainly make it more convenient to keep in touch with the investors, instead of having to do it with all of them. I agreed to do it. Now, why did I agree to do it? I was 75 at the time. There was nothing particularly interesting going on in the firm at the time. And this was a challenge to me. This was a company that had a real potential that was not being realized.

I had done work for banks over the years, off and on. And it was a challenge to me. It was another mountain to climb. And after satisfying myself that the arrangement was understood, I agreed to take it—only on the distinct and unequivocal understanding that as chairman, I would have total responsibility, and I would have total authority. I had learned that lesson in Government. The road to disaster is to take a job in which you have a high degree of responsibility, but you don't have adequate, or commensurate authority to go with it. They said that was agreeable to them.

The deal was made. I came back and started, at once, getting together the board of directors. I assembled the group of the most distinguished men that I could find. One of them was former Senator Stuart Symington, who had served with great distinction for 24 years in the Senate, now retired. He was my oldest, maybe my best friend. And I invited him to come in. He was delighted to do so. He was made vice chairman.

We agreed upon compensation with the board. I said that until we had proved ourselves, that I wished that to be very modest. And we wouldn't bother with that. We'd get to that when the right time came. And my salary was set at \$50,000 a year, and Symington's was set at \$20,000 a year.

We brought in other top-flight men—General Gavin, who had had a wonderful war record, a former Ambassador to France, and at the time serving as president of Arthur D. Little, investment advisory firm.

We brought in Elwood Quesada, who, together with David Rockefeller had made a great success of the L'Enfant Plaza Development. He had held three different positions in the Eisenhower administration—other men of that caliber.

I learned that—here's a great asset in the United States, that really was not being taken advantage of. Here were men who had had very successful careers, had gotten into their seventies, didn't have very much to do, and this really was a great and exciting opportunity to them. And we went to work.

I'm happy to say that our effort was an unqualified success. When we took over the company, its assets were \$2.2 billion. By the end of 1988, for instance, the assets had grown to \$11.5 billion. The deposits rose from under \$2 billion, to approximately \$10 billion—very significant at showing the confidence of the public and the bank.

Earnings—we doubled, in the first 4 years, and then in the next 2 years we doubled the earnings again. We were really beginning to roll.

Now, this was no ivory tower experience for us. This was a hands-on occupation. I took it as my first obligation—I then owned 12 small banks. I went to every bank. I got to know the boards and the officers, key employees. We made an analysis of each bank. We had an audit made of each bank. Some of them were undercapitalized.

And then we began to plan about strengthening these banks. We brought in new personnel—the fact is, that over the years, we've brought in a new CEO for every one of our banks. A number of those banks we consolidated. Others we sold off—they didn't fit our plan. We bought some excellent acquisitions—33 branches of Bankers Trust in New York, that gave us a splendid deposit base there. We bought a number of branches in Virginia, when two firms merged and had to divest themselves. But interestingly enough, most of the—most of the growth came from within.

Now, after 4 years of this, then we got to a point where we knew we were over the hump. And I thought the time had come for Mr. Altman and me to participate in the results of this very determined effort that we had made, that was proving to be so successful.

I took it up with the directors of the top-holding companies, CCAH. They said that they thought that was a great idea. We took it up with Abedi, and Kamal Adham. And they said we could participate easily in the next stock offering to shareholders—if all of the stock was not subscribed to by then, under the bylaws we could subscribe to stock. We did that in 1986, and became shareholders.

I'm watching my time, Mr. Chairman, so some parts of it, I must move over quickly.

I wish now to turn to the results of our efforts. In an effort to give the committee a quick sketch of the manner in which we conducted the banks, over a period of 9 years, here were certain standards that we set, and here is the result: One, there were no financial improprieties; two, no fraudulent lending practices; three, no account manipulations; four, no money laundering; five, no improper payments to BCCI; six, no lavish, executive purposes; seven, no lack of regulatory supervision—we maintained the closest relationship with the Fed, and it was a most pleasant relationship; eighth, in the 9 years, no U.S. taxpayer bailout, no bank had to be taken over; and ninth—but not last by any manner of means—no shareholder of First American has ever lost one penny.

Have we been deceived by what we've learned later? If all that we read about, this poisonous, constant stream of misconduct, if that is a true statement of what this bank did, then we have been grossly deceived. We never saw that. We never sensed that.

I don't suppose it's much comfort to us, but during this 9 years that we did not know what was going on, the fact is that we learned from reports, neither did the Bank of England, who had the right to examine them at regular intervals. The Bank of England apparently was deceived. A matter, most curious, we read—their own auditors, Price Waterhouse, apparently were deceived.

I read some place authoritatively, that for the years 1987, 1988, and 1989, Price Waterhouse had given to BCCI that very intriguing British expression: "the accounts are fair and accurate."

A former Prime Minister of Great Britain served BCCI for a substantial period of time. Apparently, they had developed a relationship with former President Jimmy Carter. How could it have been known to me? The past explanation was offered by somebody who has been into it very deeply, is there were really two banks: One was the outer bank, and that's the one that we saw. And that's the one that we dealt with. And that's the one in whom we developed confidence through these 9 years.

The other was an inside bank that was unknown. We never saw it, we never sensed it. I've thought about it so many times. Did we miss any signs? Should we have sensed it? I would give anything if we had, and it would have saved us, really, from this—this dreadful, painful year that we've been through.

But as I near the end of my time, I want to say when it all comes down, and I keep reading that Clifford knew, somebody says—then they say, well how do you know he knew? Oh, well, we don't know it, but he just had to know. A witness recently said he just couldn't have run First American for 9 years and not know. I've heard it over and over again. I speak up, all of you with your experience know how difficult it is to disprove a negative. Somebody says you knew, how do you prove that you didn't know? We've done our best in that regard, but it is a difficult process.

But here, I think is the final point: apparently that BCCI corrupted everything it touched. That's what we read about. It corrupted banks, it corrupted government—we read; thousands of people, depositors have lost; and we begin to get some notion from

the constant outpouring of news, of the manner in which it was able to corrupt so many different areas in the world.

The question is, did it corrupt First American? And that's really of great moment to us, and of great moment, of course, to this committee that has made such a deep and exhaustive investigation into it.

Did it corrupt First American? Not in any way. Do I ask you to take my word for that? I do. My word has been important here for a great many years in Washington. And I ask you to take it. Because I know that they did not corrupt First American in any way.

But I also, in addition to that, ask you to take the word of the Federal Reserve. You've heard Virgil Mattingly, the general counsel, testify—he has said they discovered through the years, no financial improprieties existing within First American. William Taylor, whom we regard as the chief enforcement officer, testified at no time were they ever able to find any improper payment to BCCI or any improper financial relationship with BCCI.

Recently, Mr. Robert P. Black, the president of the Federal Reserve Bank of Richmond, which has jurisdiction over First American and all the banks in this area, testified. I think I can end on no better note than just some selected sentences from Mr. Black's testimony when he testified under oath before the House.

Each of these is significant. Each of these is significant to the committee. First quote: "Examination and inspection record between 1982 and late 1988 is clear. Neither the reports of our First American inspections, nor any of the reports of examination prepared by other Federal and State regulators, contained comments or criticisms regarding involvement of influence by, or improper payments to BCCI."

The second: When new disclosures involving BCCI occurred in 1991, an indepth inspection of the First American organization was initiated. A total of 52 examiners from all 12 Federal Reserve districts, with an average experience level of 8 years, expended in excess of 7 manyears on this examination. And what did they find?—I'm getting near the end—quote, "And in delving into these records, we have found no evidence of influence and control, or any indications that he banks were involved in any attempt on the part of covert owners to influence others. This investigation is ongoing, but preliminary findings have disclosed no abuse of the banks, or significant exposure on the part of First American to BCCI."

And then this is his final sentence. "Simply put, no connection between the bank's lending practices and their unauthorized ownership by BCCI has been uncovered."

Under the arrangement that we've had with the chairman, I would take the majority of the time. Mr. Altman will present some portions of it that will fill out the mosaic, and he will limit himself to 10 minutes.

Senator KERRY. Thank you very much, Mr. Clifford. Mr. Altman.

TESTIMONY OF MR. ROBERT A. ALTMAN

Mr. ALTMAN. Mr. Chairman, Senator Brown, members of the committee, Senator Simon, Senator Jeffords, good morning.

I'm pleased to appear here this morning to assist the committee in this inquiry into the matter involving BCCI and First American. I am particularly appreciative of the chairman's reports at the outset of the hearing this morning, regrading the balanced and reserved approach that this committee is adopting in this inquiry.

And after offering these brief remarks, I look forward to presenting factual information, in response to the questions that you have. I also hope that I would have the opportunity during the course of the day to correct some misinformation, and some unfounded speculation which has been introduced into the record of these proceedings.

Many people wonder how Mr. Clifford and I came to find ourself in the midst of this controversy. And we hope to be able to shed some light on that question today. I think perhaps we can begin to examine that question by looking at the historical context of this case.

There is an unfortunate tendency to view the events of the past through the distorting prism of sensational reports about BCCI that appear today. And to understand our dealings with BCCI, one must evaluate past events, and our conduct in view of the knowledge and circumstances of BCCI that were then prevailing.

As Mr. Clifford has described, our law firm began representing BCCI in 1978. At that time I was a young lawyer in the firm. Our firm was actually quite selective in terms of the clients that we would agree to represent. And BCCI appeared to me to be an appropriate—even an attractive client for our firm.

In 1978, and thereafter through the 1980's, BCCI appeared to be a successful, growing, international bank. It was managed by professional, conservative bankers from Pakistan, after Pakistan nationalized the banking industry. It was a company that we understood to be owned by some of the wealthiest people in the world. These were respected businessmen, and leading political figures from the Middle East. It was a company that was regulated by the Luxembourg Monetary Institute, and by the Bank of England, in London, where BCCI had its world headquarters.

The Bank of America owned a 30-percent interest in BCCI, and participated in BCCI's management through representation on its board. And Bank of America was, of course, at that time the largest and—some would say—the most respected bank in the United States at that time.

We also understood that BCCI enjoyed important banking relationships with a number of major U.S. banks. These would include Security Pacific, First Chicago, American Express, Bank of New York, and, of course, Bank of America. And these highly reputable financial institutions in the United States also extended very large credit lines to BCCI.

And throughout this period, throughout the decade of the eighties, BCCI expanded its operations to more than 70 countries around the world. And in each instance, BCCI was able to obtain the licenses and approvals from the governmental authorities where it opened new banking operations. And to us, this signified BCCI's respectability, and its acceptance worldwide.

During the 1980's, BCCI also had known, close relationships with leading world figures, people of unquestioned integrity—such as former President Carter and Prime Minister Callahan.

BCCI is now portrayed in the media as an evil, corrupt organization. But I can say to you, our impression, throughout the period we were representing BCCI was distinctly different. And I think that our impression of BCCI was accurately described recently by a man named John Heimann, who was former controller of the currency. He was former New York State Superintendent of Banks. And he wrote in the Wall Street Journal recently. I quote: "When I look back at its origins, I am struck by how respectable BCCI appeared then. Among other things, Bank of America was a major shareholder; regulators in many nations—including Britain—opened their doors to what looked like a uniquely dynamic, welled-back, Third World bank."

We had an equally favorable impression of the Middle Eastern investors who we also represented in connection with the acquisition of First American. These investors appeared to be reputable people, of prestige and standing. Included in the group were the ruling family of Abu Dhabi, and persons and entities associated with them; there were also involved in this group rulers from two of the other emirates in the United Arab Emirates. There were leading businessmen from the Middle East, such as a Mr. Fulajj, who came from one of the leading families in Kuwait; former chairman of Kuwait Airways. Mr. Clifford mentioned Kamal Adham, he was a leading businessman from Saudi Arabia, and enjoyed a first-rate reputation. And we have attached to our prepared statement that has been submitted to the committee, some of the letters of reference that were submitted on behalf of these people, letters from some of the largest international companies and banks with which they dealt.

We, in short, were pleased to represent these people. Now, attention has been devoted to representations that Mr. Clifford and I made to bank regulators in connection with the acquisition of First American. The fact is—it's not much mentioned—but there were three, prominent law firms, all of us working closely together, all of us dealing directly with the clients. We all believed the information that we were presenting to regulators was accurate.

And here we had unusual confidence in the information being presented, because there were independent investigations of the proposed owners of First American by governmental authorities, investigations in which we did not participate.

And the extent of those investigation was wide-ranging, and, indeed, in light of the high-profile nature of this acquisition, it may well have been unprecedented. The Federal Reserve, in its testimony recently, has detailed the extent of those investigations. They were also the subject of hearings back in 1982. I will quote a couple of sentences from the hearing record. This was before Mr. Rosenthal's committee, testimony by Mr. Wallich, then member of the Federal Reserve Board.

"Question, Mr. Rosenthal: Mr. Wallich, can you tell us just a little bit how you checked to verify the backgrounds, the character, the integrity, the financial resources of the individuals? Mr. Wallich: The board worked very hard at this, because as my testimony

says, this is a crucial matter. We used all the resources of the U.S. Government—not only those of the Federal Reserve Board. And we developed information from a very broad informational source. We also, of course, obtained bank statements. We obtained financial statements of the individuals. And these were certified. So we did what I think is humanly possible to develop detailed information on these individuals.”

This investigation of the representations that had been made by these Middle East investors has also been described in a letter that was written by the banking superintendent of New York State, in a letter that was submitted to Mr. Rosenthal—again, I think a couple of sentences will give you the feel of it.

He writes, after detailing the extensive nature of the investigation that they conducted, he says: All the information we received indicated that the investors were prestigious and reputable people. None of the regulatory agencies involved found anything derogatory about any of the investors, nor did the former top management of Financial General, who fought the takeover for almost 3 years. And he says our investigation was thorough, and explored all available sources of information.

It does make—be ironic that we had available to us, in this transaction, much more information than a lawyer normally has in a commercial transaction. Here we had sworn testimony from the key individuals. We had extensive background information. We had certified financial statements, bank references, personal business references. And then we had these extensive investigations and cross-checks by the U.S. Government, and by the State regulatory authorities. And all of the information that was gathered supported the representations that were being made.

Let me conclude—we do not know what the truth is as to the allegations that have been leveled regarding certain of the First American shareholders serving as nominees for BCCI. The ownership issue is very confused. It's in dispute. Documents from BCCI which relate to this issue are suspect, according to Price Waterhouse—BCCI's auditors.

From our standpoint, we never had any reason to distinguish between shareholders, or to assume that some of the shareholders were legitimate, and other shareholders or nominees—all of them appeared to be of the same category.

Now I think the committee will understand that no corporate management can know what a shareholder does with his stock after it is purchased. However, during the initial regulatory proceedings, we made commitments to regulators that First American would be operated honestly and properly under the control of Mr. Clifford and the board of directors. And whatever the facts are that are developed, relating to the ultimate ownership of the stock of First American, I state to this committee without equivocation, that we kept that fundamental promise to regulators.

Thank you.

[The prepared statements of Mr. Altman and Mr. Clifford follow:]

PREPARED STATEMENTS OF CLARK M. CLIFFORD AND ROBERT A. ALTMAN

Chairman Kerry, Senator Brown, members of the committee: We are pleased to appear today before the Subcommittee on Terrorism, Narcotics, and International

Operations of the Senate Foreign Relations Committee and welcome the opportunity to discuss in this public forum the facts, circumstances, and allegations surrounding First American Bankshares and the Bank of Credit and Commerce International ("BCCI").

We submit this testimony as our joint statement. Our testimony necessarily concerns events going back many years and reflects our respective recollections of these matters.

We are, of course, aware of the widely reported allegations that BCCI has engaged in systematic fraudulent practices worldwide, and are familiar with the charge that BCCI may secretly have acquired a substantial stock interest in First American. We urge care in reviewing these complex allegations, and caution in reaching judgments about these events.

We note the natural tendency to view the events of yesterday in the light of charges or information available only today. We shall attempt to present the facts and circumstances as they were known to us at the time the events were occurring, so that a fair and objective review of the issues is possible.

We previously appeared on September 11, 1991, before the House Banking Committee. Subsequent to that appearance, representatives of the Federal Reserve have appeared before the House Banking Committee and presented the results of regulatory audits which answer certain fundamental questions that have been raised about First American and our management of that Company. We believe that testimony is significant and shall attempt to highlight salient portions of it today.

We also are generally aware of hearings involving the BCCI matter before this Subcommittee earlier this year. We welcome the opportunity to correct those parts of the record that we believe are in error. Through our testimony, we shall provide the Subcommittee the facts concerning our conduct and our legal representation of BCCI, so that no misinformation or error remains. We appreciate the chance to appear in this public hearing, and set the record straight.

We are comfortable in the knowledge that this Subcommittee and the American people can hear from us directly, and reach their own conclusions. We intend to be candid and direct. We submit that when we conclude our testimony, the following fundamental conclusions will be inescapable:

1. *Honest Operation.* First American—the banking organization we headed for over 9 years—was operated honestly and ethically. Whatever may have happened at BCCI—and those exact facts are far from clear—the record establishes, and comprehensive audits confirm, that at First American under our leadership there were:

- No financial improprieties
- No fraudulent lending practices
- No account manipulations
- No money laundering
- No improper payments to BCCI
- No transactions which benefited BCCI at the expense of First American
- No lavish executive perquisites
- No lack of regulatory supervision
- No U.S. taxpayer bailout
- No depositors that ever lost a cent

It has, after all, been the banking operations of First American for which we have been responsible all these years, and we welcome an examination of our record. This decade of honest, reputable banking at First American refutes any allegation that the activities of First American were controlled by an allegedly corrupt foreign institution.

2. *American Management and Control.* First American has been managed and controlled by prominent American Boards of Directors and experienced American bankers—in keeping with express commitments that were made to bank regulators. Together with final responsibility for the Company, the ultimate management authority at First American was reposed by the shareholders in Clark Clifford as Chairman. At no time did First American receive instructions or directives from BCCI regarding First American's business decisions. At no time did BCCI control First American's operations. The evidence is conclusive that the two companies had different—and incompatible—operating policies and procedures, strategic concepts, bank support functions, staffing and administrative programs, customer bases, and controls and systems. The two organizations did not share a common corporate philosophy or culture.

3. *Regulatory Audits.* The Federal Reserve's inquiry into the issues concerning BCCI and First American has involved intensive, wide-ranging audits of the entire First American organization. This inspection was conducted by the Federal Reserve, the FDIC, and state regulators in a coordinated effort. The findings of that inspec-

tion confirm the most fundamental assertions we have made during the current investigation—at First American there was no “involvement of, influence by, or improper payments to BCCI.”¹ These audits have established that *we* ran First American and we ran it *honestly*.

4. *Financial Record.* The administration of First American during our tenure was successful. Under our direction, a scattered group of local banks in various markets was transformed into a major, dynamic financial institution. The Company's assets increased dramatically, from approximately \$2.2 billion to over \$11 billion. This growth was accompanied by similar increases in deposits that relied upon stable core deposits, not “purchased” money. During this same period, profits quadrupled. Last year, with the precipitous decline in real estate values and the resulting need to build loan reserves, First American for the first time reported an operating loss (as did many banks in the region). Despite that setback, First American remains a uniquely valuable franchise with an excellent future. It employs over 6,000 Americans and offers first rate banking services.

5. *Ownership.* At no time, prior to the recent disclosure of allegations, did we become aware of any secret ownership of First American stock by BCCI. Despite the review of reams of First American and BCCI documents by investigators, including BCCI's so-called “secret” files, no evidence has been found that establishes that we knew BCCI illegally owned any First American stock, or that we knowingly misled regulators. To the contrary, there is a large volume of documents—correspondence, proxies, share transfer deeds, letters of waiver and acceptance, offering memoranda and Board minutes—which clearly show that we operated in the belief that First American was owned by Middle Eastern Investors.

6. *Bona Fide Shareholders.* The assertion that BCCI owns a large block of First American stock remains an allegation, not a factual determination. A number of the shareholders are not challenged as being nominees. Certain other shareholders, said to be nominees, have strongly denied the allegation. As of this time, the only conclusion that can be reached is that the true ownership of First American is unclear. (See Attachment A). It is, of course, impossible for the management of any corporation to know what secret arrangements a shareholder could have made with his stock. For our part, however, there was never any reason to distinguish one shareholder from another, or suspect that any of the shareholders were not bona fide investors.

7. *Shareholder Representations.* Whatever the truth is relating to BCCI's secret ownership of First American stock—and that picture remains murky—we and other counsel made every reasonable effort to ensure that the representations made to bank regulators in 1980–81 in connection with the proposed acquisition of First American were accurate. Three prominent law firms worked actively together during the regulatory process, and everyone involved at each of these firms believed the information being presented was correct.

8. *Regulatory Proceedings.* Descriptions of the 1981 Federal Reserve proceedings, which have suggested that regulatory approvals were largely based on some general assurances given to the agency by Clark Clifford, are refuted by the factual record. The 1981 federal regulatory approvals were based on the merits of that application, as reflected in a voluminous administrative record. Moreover, as Federal Reserve officials have repeatedly testified there were extensive, *independent* investigations—inquiries in which we were not involved—where various federal agencies assisted the federal and state bank regulators.² Information thus was obtained from the State Department, the Commerce Department, the FBI, the CIA and the Middle East specialists of several leading New York banks—which confirmed information in the application and presented no proper basis for objecting to the proposed acquisition.

As Alan R. Cohen, Acting Superintendent of the State of New York Banking Department, wrote to the late Representative Benjamin Rosenthal, then Chairman of the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations: “From none of the foregoing sources of information did we ever receive any derogatory information about any of the investors. On the contrary, *all the information we received indicated that the investors*

¹ Written Testimony of Robert P. Black, President, Federal Reserve Bank of Richmond, Before the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (Sept. 13, 1991), at 5.

² See, e.g., *Hearings on the Role of the Federal Reserve in Regulating BCCI Before the Banking, Finance and Urban Affairs Committee, U.S. House of Representatives* (Sept. 13, 1991) (hereinafter “*Sept. 13, 1991 House Banking Hearing*”) (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Legislative Transcript pp. 67–68, 96).

were prestigious and reputable people." (Letter from Alan R. Cohen to Rep. Benjamin Rosenthal, dated October 12, 1982, appended hereto as Attachment B) (emphasis added). This view was echoed by Henry C. Wallich, then a Member of the Federal Reserve Board of Governors, during his September 1982 testimony before Chairman Rosenthal's Subcommittee, in which he described the investigation conducted by the Federal Reserve to verify the character, integrity, and financial resources of the investors. A copy of Mr. Wallich's testimony is appended hereto as Attachment C. In short, after prolonged and exacting scrutiny, the regulators reached the same conclusion that we did—that the investors were reputable, wealthy individuals who were buying the stock as personal investments.

9. *Legal Representation.* During those periods in which we represented BCCI, we provided services and advice which BCCI was entitled to receive. At no time did our law firm take any improper action to obstruct or impede any lawful investigation of BCCI.

* * * * *

We believe these points are compelling. With this brief introduction, we shall now present the history of our involvement with First American and then address certain of the basic issues that have been raised.

BACKGROUND

Our initial involvement with BCCI dates back to late 1977, when we were introduced to Mr. Agha Hasan Abedi, the president and founder of BCCI. Mr. T. Bertram Lance, former Director of the Office of Management and Budget, had been asked by Mr. Abedi to serve as a consultant on investment opportunities in the United States. During subsequent meetings with Mr. Abedi in early 1978, we learned that BCCI served as the banker and investment advisor to a number of wealthy Middle Eastern rulers and businessmen. Without our involvement or advice, four of these investors had purchased stock in an American bank holding company called Financial General Bankshares ("FGB"), the predecessor to First American, without filing certain disclosures with the Securities and Exchange Commission ("SEC"). The SEC investigated these transactions, and the management of FGB, concerned that these purchases foreshadowed a possible corporate takeover effort, filed suit against the Arab investors, BCCI, Mr. Abedi and others. We were retained to represent Bert Lance, Agha Hasan Abedi, BCCI, Sheikh Mohammed bin Zaid al Nahyan, Sheikh Sultan bin Zaid al Nahyan, Faisal al Fulaij, and Abdullah Darwaish, certain of these defendants. The highly regarded New York law firm of Wachtell, Lipton, Rosen & Katz also was retained, at our suggestion, and served as co-counsel throughout these proceedings for the next 4 years.

It must be remembered that the credentials of BCCI and its founder, Mr. Abedi, at that time, were favorable, and even impressive. When we first came to know Mr. Abedi, information available to us suggested that BCCI was a legitimate financial institution which was associated with people and entities of high standing and repute. Based on our initial meetings, we personally found Mr. Abedi to be dignified, modest, intelligent and credible.

BCCI, the institution Mr. Abedi founded in 1972, likewise enjoyed respectability. It was notable that Bank of America was a partner in BCCI, owning 30 percent of its shares.³ The other investors in BCCI included "some of the most respected names in the Middle East and representatives of most of the ruling families."⁴ BCCI's annual audited financial statements indicated that BCCI's banking operations were sound and proper.

BCCI maintained correspondent banking relationships and lines of credit with a number of major domestic and foreign banks, including Security Pacific, American Express, Bank of New York, National Westminster Bank and Bank of America. Throughout the 1980's, it is reported that Bank of America handled over \$1 billion daily in clearings for BCCI.⁵ BCCI also developed relationships with leading investment banking firms. For example, in 1983 BCCI issued \$50 million in floating rate notes that were underwritten by such major investment brokerage houses and banks as Merrill Lynch, First Chicago Limited, Prudential-Bache Securities,

³ When Bank of America sold its BCCI shares, it issued a press release to deny reports that its divestiture related to concerns about BCCI or its management practices. Bank of America Press Release, Sept. 1, 1978.

⁴ *BCCI's Rise Based on Unique Management Style*, Washington Star, Oct. 22, 1978, at A-15.

⁵ See *Gilt by Association*, Time (Oct. 7, 1991).

Lehman Brothers, and Kidder Peabody.⁶ These facts demonstrated credibility and stability in the financial world.

Many regulatory authorities granted approval to BCCI to conduct operations within their jurisdictions during the 1980's.⁷ Thus, BCCI purchased banks and opened banking operations all over the world, including its licensed banking agencies in the United States in New York, Florida, and California. By way of illustration, Mr. Gerald Lewis, the Comptroller of Florida, wrote to Mr. Abedi in late 1985, urging BCCI to establish its U.S. banking operations in his state because Florida was the "most commercially attractive and viable state to locate and expand [his] bank's U.S. activities." A copy of this letter is appended hereto as Attachment D. Many public and private entities, including the United Nations, UNICEF, and the central banks of Peru, Nigeria, Zimbabwe, Bangladesh, and Kenya, kept substantial funds on deposit with BCCI.⁸ While we have no personal knowledge, we understand from recent reports that our own Central Intelligence Agency had substantial relationships with BCCI.

As former Comptroller of the Currency and New York State Superintendent of Banks, John Heimann, wrote in a recent article in the *Wall Street Journal*: "*When I look back at its origins, I am struck by how respectable BCCI appeared then. Among other things, Bank of America was a major shareholder. Regulators in many nations, including Britain, opened their doors to what looked like a uniquely dynamic, well-backed Third World bank.*"⁹

The FGB Litigation

As noted above, our law firm was retained in February 1978 to represent Lance, the Arab investors identified above, BCCI and Mr. Abedi in legal proceedings that arose in connection with the purchase of approximately 18 percent of the stock of FGB. In an effort to resolve the SEC case and protect the financial interests of the investors, a tender offer to acquire control of FGB was recommended by New York counsel. The documents settling the SEC proceeding expressly provided for a tender offer by the investors and/or ICIC, a corporate shareholder of BCCI.

When we agreed to assist in pursuing this acquisition, we understood that there was no legal prohibition against foreign ownership of an American banking institution. Indeed, a view was expressed by thoughtful U.S. policy-makers that the purchase of crude oil by the United States had resulted in the transfer of billions of dollars annually to the Middle East, and that it would benefit the American economy to have some of that money returned to the United States in the form of capital investments.

The SEC proceedings were resolved in March 1978, but the litigation with FGB management, which sought to prevent the acquisition, continued until the summer of 1980—making this one of the longest corporate takeover struggles in history. The extensive litigation with FGB was intense, and exhaustive discovery was conducted of the investors, BCCI and others. Sheikh Adham, Messrs. Fulaj and Darwaish, as well as Mr. Abedi and other BCCI officers, testified under oath in depositions. In all this extensive testimony, there was no evidence that established the investors were acting for BCCI.

The takeover contest contributed substantially to our understanding and belief that the investors were seeking to acquire FGB shares in their own right. During the ensuing depositions, the investors, Mr. Abedi, and other BCCI officials testified under oath in the presence of counsel. None of us had any reason to question the veracity of their sworn statements. In particular, their sworn testimony established that: (i) the investors were purchasing FGB shares for their own interest, because they valued the stability of investments in the United States; (ii) BCCI did not control, vote, or have the power to dispose of the shares purchased by the investors; (iii) BCCI would not finance the purchase of shares in the tender offer; (iv) BCCI's role with respect to the investors' purchase of FGB shares was that of commercial banker and investment advisor; and (v) the investors intended their investment to be managed by American professionals.

⁶ Prospectus, U.S. \$50,000,000 Guaranteed Floating Rate Notes due 1990, unconditionally and irrevocably guaranteed as to payment of principal and interest by BCCI Holdings (Luxembourg) S.A. (Nov. 22, 1983).

⁷ We were aware that there was regulatory concern about BCCI's corporate structure; BCCI lacked a single consolidated regulatory authority which would serve as its lender of last resort. These concerns, however, did not relate to questions about fraudulent practices or illegalities at BCCI.

⁸ See *BCCI: The Inside Story*, The Independent, July 14, 1991, at 2.

⁹ *Don't Overregulate After BCCI*, Wall Street Journal, Sept. 12, 1991, at A-18.

Nothing in the course of this litigation—neither the investors' actions nor their words—indicated in any way that they were nominees for BCCI, as is now alleged. During the course of the takeover litigation, they travelled to the United States to testify under oath and defend their investment. They were also willing to make extensive personal disclosures to regulatory authorities.

In July 1980 an agreement was signed with the management of FGB settling the litigation and providing for the acquisition of FGB by the Middle Eastern investors, subject to regulatory approvals.

REGULATORY PROCEEDINGS

Before the tender offer for First American could be consummated, various federal and state bank regulatory authorities had to approve the transaction. A lengthy written application was filed with the Federal Reserve Board setting forth all relevant facts relating to the transaction. This application was prepared collectively by lawyers at Wachtell, Lipton, Rosen & Katz; Clifford & Warnke; and Kutak, Rock & Huie. Each of these law firms had direct contact with BCCI and the Arab investors regarding the representations being made.

Further, the regulatory approval process followed heated, high profile litigation and took place in an atmosphere of bitter opposition, particularly in New York City, where one of FGB's principal banks was located. The investors' applications for regulatory approval of the tender offer therefore received intense scrutiny.

The Federal Reserve Board took the unusual step of convening an on-the-record hearing in April 1981, at which federal and state regulators had an opportunity to question some of the investors, who made themselves available for this purpose.¹⁰ At that hearing, four of the investors appeared and affirmed that they—not BCCI—owned and controlled their FGB shares. The investors also made clear that they intended to participate in the tender offer for their own accounts, and that they intended to leave the management of the Company to an American Board of Directors. Assurances were also given by the investors during the regulatory approval process that BCCI had not and would not finance the acquisition of FGB shares in the upcoming tender offer, or otherwise participate as an investor in the tender offer.

The *bona fides* of the investors throughout this process seemed evident to us. The initial group of investors had been expanded to 14 persons and entities of stature in the Middle East. Their number included members of the ruling families of the United Arab Emirates and their wholly-owned investment companies. One of the investors, the Abu Dhabi Investment Authority, was a wholly-owned governmental entity, responsible for investing the assets of the Emirate of Abu Dhabi. Charged with investing the resources of one of the richest countries in the world, it hardly could have appeared more substantial, and the logic of its interest in investing in a U.S. financial institution which promised long-term growth and stability seemed plain.

Sheikh Kamal Adham, the "informal chairman" or leader of the shareholder group—and reportedly a close associate of Anwar Sadat of Egypt—similarly was considered a leading citizen of Saudi Arabia. During those proceedings, we received references from major corporations which attested to Sheikh Adham's character, integrity, and financial resources. Similar references were provided for other investors. As examples, several such letters of reference are appended hereto as Attachment E.

One personal observation about these people also seems relevant. Along with Sheikh Adham, Sheikh Zaid bin Sultan al Nahyan, the ruler of Abu Dhabi, had helped Mr. Abedi start BCCI. These gentlemen were among Mr. Abedi's most important clients. In our experience, Mr. Abedi was always exceedingly deferential in the presence of any of the investors. It seemed plain to us that Mr. Abedi was an agent of the investors, not their principal.

Martin Lipton of the law firm of Wachtell, Lipton, Rosen & Katz had a similar reaction: "Mr. Adham talked to Mr. Abedi in a manner which clearly indicated to me that Mr. Abedi was Mr. Adham's agent, not his principal; Mr. Abedi, for his part, was entirely deferential to Mr. Adham."¹¹ No one questioned that Mr. Abedi

¹⁰ See Transcript of Meeting before the Board of Governors of the Federal Reserve System, regarding applications of Credit and Commerce American Holdings and Credit and Commerce American Investment, to acquire Financial General Bankshares, Inc. (April 23, 1981) (hereinafter "April 23, 1981 Federal Reserve Transcript").

¹¹ Affidavit of Martin Lipton (Aug. 9, 1991) (hereinafter "Lipton Affidavit"), ¶ 10.

served the investors, not the reverse. Again in Mr. Lipton's words, "no person who observed the interaction between them would have believed that Mr. Adham was a 'front' or 'nominee' for Mr. Abedi or BCCL." ¹²

The investors provided certified financial statements and other information, which documented their ability to purchase the Company. The regulators did not rely solely upon these materials, but rather made independent inquiries into the investors' financial resources and integrity that certainly were far-reaching in scope. In his 1982 testimony before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, Henry C. Wallich of the Federal Reserve described the scope of the Board's investigation:

The Board worked very hard at this because * * * this is a crucial matter. We used all the resources of the U.S. Government, not only those of the Federal Reserve Board, and we developed information from a very broad informational source.

We also, of course, obtained bank statements. We obtained the financial statements of the individuals, and these were certified by local accountants who in turn were certified by familiar named accountants of the Big Eight.

* * * * *

* * * [W]e used all sources that were at our disposal. I think a very unusual effort was put into this because of the importance of getting a clear picture. After putting it all together and getting the cross-checks, we arrived at the conclusion that these [investors] were satisfactory.

(Attachment C, p. 56-57). William Taylor, Staff Director, Division of Banking Supervision and Regulation, and Virgil Mattingly, General Counsel of the Federal Reserve, have repeatedly reaffirmed the extent of the Board's own investigatory efforts during testimony before both this Subcommittee and the House Banking Committee.¹³

The magnitude of this regulatory review also is well described in a letter written by Alan R. Cohen, Acting Superintendent of the State of New York Banking Department, to the late Congressman Benjamin Rosenthal, dated October 12, 1982, appended hereto as Attachment B. As Mr. Cohen wrote, the regulatory applications by Credit and Commerce American Holdings ("CCAH") and Credit and Commerce American Investment ("CCAI"), First American's parent companies, "received more scrutiny from more regulatory agencies than any other in recent memory." He went on to say that

[o]ver a period of 4 years, the application was scrutinized by the Federal Reserve Board, the Comptroller of the Currency, the Securities and Exchange Commission, and the banking authorities of the states of Maryland, Virginia and Tennessee as well as New York.

¹² *Id.*

¹³ In their written testimony to the House Banking Committee, submitted in connection with their Sept. 13, 1991 appearance, Mr. Mattingly, William Taylor and E. Gerald Corrigan of the Federal Reserve stated:

The Board did not rely solely on these representations that the investors were acting for themselves. The Board requested detailed information from the investors regarding their financial resources and affiliations, including financial statements prepared by accounting firms, some of which were affiliated with the largest accounting firms in the world. Financial statements were submitted, and, in the case of the largest shareholders, a statement about the source of funds to be used to make the acquisition was required. The Board also obtained letters from the largest investor's banks confirming balances and containing references. All these materials indicated that the investors were persons of considerable means and that the purchases were to be made from their own personal resources.

To further verify that the representations being made were accurate, the Board conducted background checks on the shareholders, soliciting information from the Central Intelligence Agency, the Departments of State and Commerce, and a foreign bank supervisor. The Board also obtained information from the SEC regarding the original acquisition and two CCAH shareholders.

None of the agencies performing background checks—the CIA and State and Commerce Departments—reported any adverse information on the investors, and the Departments of State and Commerce reported that the investors were persons of substance. Neither the Board nor any other regulator received any evidence from other sources that the representations made to them were false.

Written Testimony of J. Virgil Mattingly, Jr., General Counsel, and William Taylor, Staff Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, and E. Gerald Corrigan, President, Reserve Bank of New York, before the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (Sept. 13, 1991) at 23-24.

Mr. Cohen advised Congressman Rosenthal that the "vast investigative resources of the federal government" were brought to bear upon the investors and their application. According to Mr. Cohen, information about the investors was obtained, *inter alia*, from the State Department and the Department of Commerce.

Finally, the regulators "utilized the resources of multinational banks in New York City, in particular Morgan Guaranty Trust Company, Manufacturers Hanover Trust Company, Irving Trust Company and Citibank," as additional sources of information. As Mr. Cohen stated:

Middle East specialists at these banks knew the major investors, were able to confirm the accuracy of much of the information * * * [the regulators] ha[d] received, and were able to supply * * * additional information as well.

As the New York Banking Department informed Congress, "[f]rom none of the foregoing sources of information did we ever receive any derogatory information about any of the investors."

In short, the regulatory proceedings were thorough and extensive. Any suggestion that regulators approved this transaction on the basis of general assurances from counsel is completely refuted by the record.

We believed, as did our co-counsel from other firms and the many regulators who carefully had scrutinized the matter, that the investors were substantial persons who desired a passive investment in a valuable American banking franchise—not BCCI nominees. As co-counsel Mr. Lipton has stated:

During the course of Wachtell Lipton's service as counsel, I saw no evidence suggesting that BCCI or Mr. Abedi was a principal in the transactions, much less that Mr. Adham or the other Investors were "nominees" or "fronts" for BCCI or Mr. Abedi. To the contrary, it appeared that BCCI and Mr. Abedi were the advisors they held themselves out to be. By the same token, in all my dealings with Messrs. Clifford and Altman, I saw nothing which led me to believe that either of them knew or suspected, or had any reason to know or suspect, that BCCI or Mr. Abedi was a principal.¹⁴

For nearly 9 years following the takeover, nothing occurred to disabuse us of our basic belief about the Middle Eastern owners of this Company.

MANAGEMENT AND CONTROL OF FIRST AMERICAN

After the acquisition was approved by the Federal Reserve and the relevant state authorities, the tender offer for FGB—which later was renamed First American—was consummated in April 1982.

Mr. Clifford had been asked by the shareholders to consider serving as Chairman of the Company following the acquisition. At the time of the acquisition, Mr. Clifford was 75 years old, and had had a long and successful career in government and the private practice of law. The invitation to become Chairman was appealing. The investors, who had remained steadfast through the years of difficult litigation, clearly required assistance as passive investors in the Company. Equally important, however, was the challenge posed to try to realize the potential of this banking company.

Before accepting the offer, however, a fundamental agreement was made with the shareholders on the issue of authority. The express understanding was reached that Mr. Clifford would have *complete* authority for the management and direction of the Company and *complete* responsibility as Chairman for its operations. This agreement never was violated.

Against this background, Clark Clifford joined the Boards of CCAH, CCAI, and First American Corporation in 1981, and became Chairman of the Board of First American Bankshares in April 1982. Former Senator Stuart Symington was elected Vice Chairman of First American Bankshares, a Managing Director of its parent holding companies, and a director of the subsidiary New York bank. Robert Altman became President of First American Corporation and a director of various First American holding companies and subsidiary banks. A group of distinguished Americans—including, for example, James Gavin, a retired General of the U.S. Army, who had served as U.S. Ambassador to France and Chairman of Arthur D. Little; and Elwood Quesada, a retired Air Force General who had served as Administrator of the Federal Aviation Administration and Special Assistant to President Eisenhower—were invited to and became members of the Board.

A professional banking staff was employed to conduct the day-to-day banking business of the Company. We, together with the Board of Directors, thereafter established the broad policies, strategic directions, financial objectives, and operating phi-

¹⁴ Lipton Affidavit, ¶ 4.

losophy of First American. The law firm of Clifford & Warnke was retained, at the express request of the shareholders, to serve as general counsel to First American.

The investors committed themselves to having 60 percent of their shares voted by Senator Symington for the first 5 years. This dramatized the transfer of control from the shareholders to the American directors. Thereafter, the shareholders signed proxies for annual meetings which generally affirmed the recommendations of the American Board of Directors.

During the 9 year period when we headed First American, the Company prospered and grew. It was transformed from a small, lackluster group of banks into the largest banking organization in Washington, DC. A retail banking franchise was created that remains unique—and quite valuable. In August of this year, we resigned our positions with First American Bankshares and its related entities.

Management's Dealings With BCCI

Considerable attention has been given to our contacts with BCCI in the years following the acquisition of First American. It is only today's hypersensitivity to BCCI that makes these contacts appear controversial. Over the past decade, we met with officials of BCCI several times a year in London. We also had meetings in the United States. These meetings were not unusual, nor were they in contravention of understandings we had with bank regulators.

During the regulatory proceedings, the regulators repeatedly were told, orally and in writing, that BCCI had existing banking and other relationships with the shareholders and had provided, and would continue to provide, certain services to the CCAH investors in connection with their CCAH investments. Specifically, the regulators were advised that certain of the First American investors were also shareholders in BCCI; that the investors used BCCI as their commercial and investment bank; that BCCI had provided and would continue to provide "advisory and other services" to the shareholders with respect to their CCAH investments; and that BCCI served as a communications link with the investors (given the logistical problems in communicating with these foreign shareholders).¹⁵ It therefore was understood by the regulators that there were substantial ties between BCCI and these investors. Indeed, the regulators expressly were informed that BCCI "would continue to look after and provide advice to the Investors with respect to their investments," including their investment in First American.¹⁶ This was consistent with the roles played by BCCI during the years of the takeover litigation.

Following the acquisition, we continued to interact with BCCI and the investors as we had done previously. Sheikh Adham, as the leader of the shareholders, and Mr. Abedi, as an advisor to the shareholders, continued to meet with us on a regular basis over the years to hear reports on the shareholders' investment in First American. We did not resist or seek to avoid these contacts with BCCI. We understood that the First American shareholders were important clients and customers of BCCI and that, as the investment advisor to these shareholders, BCCI wanted the shareholders' investment in First American to be successful.

The various activities known to us that BCCI undertook for the shareholders after the acquisition were consistent with representations to bank regulators and seemed entirely unexceptional. In connection with annual meetings, proxies were sent to the shareholders through BCCI and were *signed by the shareholders* and returned through BCCI. A sample of these signed proxies is appended hereto as Attachment F. Letters of acceptance or waiver for share subscriptions in connection with our efforts to raise capital from time to time were sent to the shareholders through BCCI, and were received back *signed by the shareholders*, occasionally retyped on the shareholders' letterhead.

In connection with the Company's efforts to raise additional capital through rights offerings, we increasingly were asked by the shareholders to provide offering memoranda which would explain the need for additional capital. In this regard, we were informed by BCCI that the shareholders demanded more formal communication from management before they would commit substantial additional monies to First American's operations. Such demands for information, of course, were entirely consistent with our understanding that the shareholders had each made a personal investment in the Company. In response to these requests, in 1986 we prepared and distributed to the shareholders a lengthy profile of CCAH, which described the

¹⁵ See generally April 23, 1981 Federal Reserve Transcript; Application to the Board of Governors of the Federal Reserve System for prior approval of action to become a bank holding company (Oct. 3, 1980).

¹⁶ Letter from Robert A. Altman to Lloyd M. Bostian, Jr., Vice President, Federal Reserve Bank of Richmond (Nov. 24, 1978) (copy to William W. Wiles, Federal Reserve Board).

unique opportunity for investment presented by purchasing shares in First American's parent company. Offering memoranda were prepared and distributed to each shareholder in connection with the rights offerings held in 1987 and 1989. (See, e.g., Attachment G). These memoranda were intended to permit a shareholder to be informed fully about the investment decisions being presented.

As a result of these and other communications, it was our understanding that the shareholders of record were the owners of the Company. We believed that BCCI was in touch with the shareholders, and was keeping them informed about the status of their investments, as had been contemplated. BCCI, in its communications with us and others, certainly conveyed the impression that it was acting as a link with very real shareholders, consistently referring to "the investors," "the shareholders," and their views. (See, for example, Attachment H).

BCCI performed the same communications function with respect to all the shareholders, including Sheikh Zaid and others, against whom no allegation of nominee status has been lodged. We certainly had no suspicion that BCCI might have been treating certain shareholders differently from others. We ask, how were we or the Federal Reserve to distinguish a real shareholder from a nominee shareholder under these circumstances?

Of course, nothing in the books, records, or operating history of First American indicated that BCCI controlled any of the stock of the Company. No stock was ever issued to BCCI by CCAH or registered in its name or for its beneficial interest. No notice of foreclosure on Company stock has ever been received from BCCI. During the nearly 10 years of alleged foreign ownership of First American, BCCI never attended any Annual Meeting of shareholders or voted on any corporate matter, including the election of directors. Those votes were cast by the registered shareholders. BCCI never attempted to exercise any rights of an owner or control at any time.

In sum, all indications were that the investors were real and that they received information relating to CCAH through BCCI in its capacity as investment advisor and communications link—roles which had been disclosed to the Federal Reserve from the outset. After the acquisition of First American, as before, the conduct of the investors and of BCCI was consistent with our understanding that the investors had acquired First American independently of BCCI¹⁷ and were the real owners of their shares.

Absence of BCCI Control

We wish it to be plain on the public record that—whatever the facts are relating to secret control by BCCI over any First American stock—BCCI did not control the management decisions or actual operations of First American.¹⁸

As the recent Price Waterhouse report to the Bank of England states:

[BCCI's] former management have represented to us that the arrangements [between BCCI and First American] were in the form of a "merchant banking" transaction, in that it always acted as a "sleeping partner," *at no time using any voting rights or exercising any controlling influence over the management of First American.*¹⁹

This point has been reaffirmed by the Federal Reserve in numerous audits of the Company. Robert P. Black, President of the Federal Reserve Bank of Richmond, stated in his recent written testimony to the House Banking Committee:

¹⁷ As late as April 1990, BCCI's internal auditors reported to senior BCCI management that their review of BCCI's files and papers, and interviews, had revealed that

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 U.S. \$50 million syndicated bank term loan which was obtained by (FAC) First American Corporation.*

Hearing on Narcotics and Foreign Policy Implications of the BCCI Affair Before the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations, U.S. Senate (Aug. 8, 1991), Exh. 6, p. 13, ¶ 1.00 (emphasis added and omitted).

¹⁸ As Virgil Mattingly, the General Counsel of the Federal Reserve, recently testified before the Senate Subcommittee on Terrorism, Narcotics and International Operations, there is a legal distinction between control over bank stock and control over the day-to-day management of a bank. See Hearing on Narcotics and Foreign Policy Implications of the BCCI Affair Before the Subcommittee on Terrorism, Narcotics and International Operations of the Committee on Foreign Relations, U.S. Senate (Aug. 1, 1991) (afternoon session) (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Transcript p. 46). Even if, as has been alleged, BCCI acquired a secret ownership interest in the stock of First American's parent company, that stock ownership cannot be equated with actual control over First American's management and operations.

¹⁹ Price Waterhouse Audit Report on BCCI under Section 41 of the Banking Act 1987, submitted to the Bank of England (June 22, 1991) at p. 25, ¶ 6.4 (emphasis added).

[T]he Reserve Bank's inspections found compliance with the conditions and commitments of the original application and no violations of the law. The examiners . . . were well aware of the . . . concerns about the investors and the possible involvement of BCCI . . . The examination and inspection record between 1982 and late 1988 is clear. Neither the reports of our First American inspections nor any of the reports of examination prepared by other . . . regulators contained comments or criticisms regarding involvement of, influence by, or improper payments to BCCI.²⁰

Moreover, when this current controversy arose in 1991, and the Federal Reserve initiated its investigation of BCCI, a comprehensive, coordinated and simultaneous examination of First American and its subsidiary banks was undertaken. In this regard, the Federal Reserve recently explained that "a total of 52 examiners from all 12 Federal Reserve Districts with an average experience level of approximately 8 years have expended in excess of 7 man years on this examination."²¹ During this intensive audit, the Federal Reserve "found no evidence of influence and control or any indications that the [First American] banks were involved in any attempt on the part of covert owners to influence others."²² At no time during the past 9 years did BCCI control the management decisions of First American.

New York Operations

Some have focused on First American's efforts to establish a bank in New York City and have questioned BCCI's role in the hiring almost 10 years ago of certain officers of the original management group of that bank. The fact is that BCCI has not in any way controlled First American Bank of New York ("FABNY"), much less the First American organization. These events now being questioned cannot be viewed in isolation, and are related to unique circumstances in New York during the 1982-83 time period. It is noteworthy that during the last 9 years new CEOs have been selected at each of the First American banks. These selections were not made or controlled by BCCI. Similarly, many senior officers in the First American organization, including officers vested with broad management responsibilities, have been hired over the past 9 years. Again, BCCI did not make or control these hiring decisions of First American. Indeed, BCCI had a prior employment relationship with only four of the more than 6,000 individuals employed by First American over the last decade.

In connection with the 1981-82 regulatory proceedings to acquire two New York banks owned by FGB, an application was submitted to the New York State Banking Board. Due to strong opposition, the investors agreed to divest the New York City bank following the tender offer. The Middle Eastern investors, in effect, were forced to create a new bank in New York City—an unforeseen development.

As a result, an entire management group to operate the New York bank had to be identified and hired. Mr. Abedi, as investment advisor to the shareholders, was consulted about bankers whom he might know or recommend for employment by the new First American Bank of New York. This assistance was particularly welcome as FABNY was to have an international banking capability, and Mr. Abedi's background was devoted to international banking. At no time, however, did Mr. Abedi make decisions concerning the selection, hiring, or dismissal of officers. Final authority—as made clear by Board minutes—rested with Mr. Clifford and the FABNY Board.

The first CEO of FABNY—a candidate recommended to Mr. Clifford by Mr. Abedi—was a senior officer with Bank of America. He appeared well qualified for the position, and after due consideration was appointed as CEO of FABNY by its Board of Directors. As a result of operating differences that arose subsequently between this individual and Mr. Clifford and the FABNY Board, he was replaced after only 2 years. Another banker, William Duncan, who had been with Chemical Bank for many years, was identified by an executive search firm and was hired by the FABNY Board. The lack of BCCI control over FABNY is made clear by Mr. Duncan, who has been the CEO of FABNY for approximately the past 6 years:

Since I joined FABNY, I have not seen any indication that BCCI, or any of its officers or directors, has executed any form of control over the management, op-

²⁰ Written Testimony of Robert P. Black, President, Federal Reserve Bank of Richmond, Before the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (Sept. 13, 1991) at 5.

²¹ *Id.* at 7.

²² Sept. 13, 1991 House Banking Hearing (Statement of Robert P. Black, President, Federal Reserve Bank of Richmond) (Legislate Transcript p. 28).

erations or policies of FABNY. I have never been given a directive by any BCCI official or sought their advice on any issue.

Since becoming CEO, I have exercised broad authority in running FABNY. In consultation with FABNY's Board of Directors, I have been the person who has made the key decisions with respect to the management, operations and policies of FABNY.²³

The National Bank of Georgia

In connection with allegations of BCCI control, other questions have been raised about First American's acquisition of the National Bank of Georgia ("NBG") in 1987. An objective review of the transaction not only reveals that BCCI did not control First American's actions, but indeed demonstrates the complete independence of First American's management from BCCI.

The acquisition of NBG was a reflection of First American's consistent corporate strategy of expansion since 1982. In 1985-86, with the arrival of regional banking through interstate compacts, First American, a Virginia corporation, looked to expand outside its primary market areas into the southeast region. As we were considering expansion possibilities, we learned that the owner of NBG, Ghaith Pharaon, was in financial difficulty and might be willing to sell the bank.

NBG, one of the last major independent banks in Atlanta, was a particularly attractive acquisition prospect. In a conversation with Mr. Abedi, whom we knew to be an associate of Mr. Pharaon, we expressed First American's interest in purchasing the bank if it were to be sold. When we received word of Mr. Pharaon's willingness to sell the bank, the deal was actively pursued by First American with the assistance of outside regulatory counsel. In December 1986, based solely on its judgment of First American's best interests, the CCAH Board approved the proposed acquisition of NBG. BCCI did not influence these deliberations, nor did it control the Company's decision to acquire NBG. First American, not BCCI, initiated the NBG acquisition.

The price paid by First American was reasonable and determined free of control by BCCI. First American's financial staff had determined privately that a price in the range of that ultimately paid by First American—a net of approximately \$210 million, or 2.25 times book value—was reasonable. (Such multiples of book were not uncommon for bank acquisitions during that period.) Furthermore, the North Carolina National Bank ("NCNB") also was aggressively pursuing the acquisition of NBG at the same time. NCNB submitted a bid (consisting of NCNB stock) valued at approximately \$210 million. Mr. Pharaon, who reportedly considered the NCNB offer carefully, decided ultimately to sell NBG to First American, as we were making a competitive bid for cash.

It is also noteworthy that the funds used by the Company for the purchase of NBG came largely from our shareholders, not First American's capital. The net result of the transaction is that, while First American paid cash in the transaction, it acquired NBG—a valuable asset—without having to draw significantly upon its own existing financial resources for the purchase. The purchase was in the best interests of First American.

We are, of course, aware of allegations concerning BCCI's relationship with Mr. Pharaon and his alleged nominee arrangements relating to NBG. We do not know what those facts are, but we submit that—whatever the truth of those charges—the actions of First American after acquiring NBG are completely at odds with the theory that BCCI controlled First American.

Our analysis of NBG revealed that it had adopted or practiced many of BCCI's banking concepts when it was owned by Mr. Pharaon. After the NBG acquisition was consummated, First American implemented fundamental changes in the bank's management and operations. Senior officers at NBG who had been close to BCCI and Mr. Pharaon were replaced. A new Chief Executive Officer was appointed to run the Georgia operation. NBG's strategic banking focus was shifted from international banking to the traditional retail banking concepts characteristic of First American. First American dispensed with the NBG logo that strongly resembled the unique BCCI logo, and eliminated various operating elements—such as an open seating plan for officers—reminiscent of BCCI. First American also ceased the distribution of BCCI literature at the bank, which had occurred during Mr. Pharaon's ownership. These and other changes implemented by First American are at odds with claims that BCCI controlled First American's operations.

²³ Affidavit of William Duncan (Aug. 9, 1991), ¶¶ 10, 11.

No Financial Improprieties

There is no basis for any suggestion that First American may have been used by BCCI for money laundering. While no large financial institution can give absolute assurances that its facilities are not misused by others, both internal and external audits have confirmed that BCCI did not launder money at First American. In the spring of 1990, the First American internal audit group performed a 6 month analysis of BCCI's dealings with the Company. That audit found no instances of money laundering, nor did it find any First American account relationships with Manuel Noriega. Additionally, when the allegations surfaced about BCCI and First American early this year, intensive audits of the First American banks were conducted by federal and state regulators; to our knowledge no money laundering violations were uncovered.

We note that the Justice Department listing of 173 U.S. banks having accounts of the Medellin cartel in 1990 did not include First American. We also think it pertinent to note that the FDIC recently completed an intensive compliance audit and concluded that First American's money laundering control procedures were "state of the art" and a "model" for other commercial banks to emulate. We are gratified by these conclusions.

It is appropriate to observe that in recent testimony before the Subcommittee on Consumer and Regulatory Affairs of the Senate Committee on Banking, Housing and Urban Affairs, Virgil Mattingly, General Counsel of the Federal Reserve, noted that "[b]oth federal and state examinations indicated no irregularities in any dealings between BCCI and First American. * * * 24

A Record of Independence at First American

A review of First American's operating history plainly demonstrates that BCCI did not operate or control First American. Senior staff of the Federal Reserve commented on this subject in an earlier appearance before the Congress, when it was noted that "[Virginia Commissioner of Financial Institutions Sidney] Bailey has recently reported that the state [of Virginia] has no criticism whatsoever of the management of [First American Bank of Virginia], and no evidence of attempts by Middle Eastern investors to influence, in any way, the policy of that bank." 25 As a Board representative also noted during that same congressional hearing:

[O]ur first reaction * * * was * * * to look carefully at the U.S. entities here and see what kind of [BCCI] involvement there was and was any of it detrimental to the banks here. And over the years we have not had one single report of such an instance. 26

Certain of the current directors of First American Bankshares recently testified before the House Banking Committee and stated flatly that First American's banks "are not in any way controlled by BCCI." 27 We believe that the CEOs and members of the boards of the First American subsidiary banks also would make clear that BCCI had no role in establishing the strategic focus of First American banks, no role in creating or developing their investment or lending policies, and no participation in credit decisions. BCCI did not control First American's decision to acquire the minority stock of subsidiary banks, nor was it involved in other major transactions and expenditures by First American, such as the sale or merger of bank subsidiaries. BCCI had no influence in the creation and development of new FAB subsidiaries—such as Metro Corp., which was established to manage the majority of First American's assets—nor did it play any role in the development and consolidation of FAB's human resources policies. These and myriad other activities are a valuable measure of the First American banks' activities, and hence of the independent operations of First American.

²⁴ Hearing on the Bank of Credit and Commerce International and S. 1019 Before the Subcommittee on Commerce and Regulatory Affairs of the Committee on Banking, Housing and Urban Affairs, U.S. Senate (May 23, 1991) (hereinafter "*May 23, 1991 Senate Hearing*") (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Transcript p. 99).

²⁵ *Id.* (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Transcript p. 98).

²⁶ *Id.* (Statement of William Taylor, Staff Director, Division of Banking Supervision and Regulation, Federal Reserve System) (Transcript p. 140).

²⁷ Hearings Before the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives (Sept. 27, 1991) (Statement of Charles McC. Mathias, Jr., Director, First American Bankshares) (Legislative Transcript p. 15).

OUR INVESTMENTS IN FIRST AMERICAN STOCK

Public attention has been directed to our investments in the stock of First American, with special focus upon the financial arrangements for the transactions. We are pleased to explain our investments and place them in their proper context.

Following the acquisition of First American in 1982, we devoted enormous time and resources to the bank's management. Strategic concepts were adopted, financial objectives and controls were established, and a new spirit was created within the Company. In the ensuing 4 years, from 1982 to 1985, the assets of First American increased more than three-fold, from \$2.3 billion to \$7.2 billion.²⁸

The amount paid us by the Company was relatively modest. Mr. Clifford, as Chairman, requested, and was paid, \$50,000 a year—a modest amount compared to the substantial annual compensation paid to the top officials of major banks.²⁹ Mr. Altman, who served as President of First American Corporation and as a director of several First American banks, received no payments other than the usual director's fees. (As a separate matter, Clifford & Warnke, as general counsel to the Company, received fees for the legal services it rendered. Legal fees would have been earned without regard to the management positions we assumed at First American.)

Nor were we given the valuable perquisites that are normally provided senior officers of large corporations. We received no financial bonuses, incentive compensation, or profit sharing. We were not participants in the Company's thrift or pension plans. In 1987, at the age of 81, Mr. Clifford was provided use of a company car and driver. Mr. Altman received no car or driver.

If First American prospered under our leadership, we hoped to have the opportunity to invest in stock and thereby participate with the shareholders in the economic benefits we were creating. In effect, we chose to take our financial rewards as managers by making an investment in stock. This reflected our confidence in the future of the Company. In 1985, in the light of 4 years of sustained economic growth experienced by First American under our control, we discussed with Sheikh Adham the possibility of acquiring stock in the Company. We also discussed it with Mr. Abedi, as the advisor to the shareholders. We learned that the shareholders favored our investment in the Company.

We contacted our New York counsel, Wachtell, Lipton, Rosen & Katz, to obtain legal advice on the transaction. The attorneys consulted were experts in matters of corporate finance and in the structuring of stock purchase transactions. In addition, they had acted as co-counsel in the litigation and bank regulatory proceedings leading up to the acquisition of FGB in 1982 and were fully aware of, and directly involved in, the representations made to the Federal Reserve during those regulatory proceedings.

We did not obtain an outright grant of stock, nor were we awarded stock options. Rather, in the spring of 1986, an effort was going forward to raise additional capital for the Company through the procedure of issuing additional shares of stock. Each shareholder could purchase his pro rata interest in CCAH in those rights offerings. In conformance with established corporate practice, the shares were to be offered at book value. We had learned that certain of the shares in the offering might remain unsubscribed, and that we could purchase such shares *at the same price—book value—as was paid by the other shareholders.*

We determined to acquire shares on this basis, and, after considering alternatives, sought to finance this investment through bank loans, if possible. Wachtell, Lipton, Rosen & Katz advised us that any financing should be arranged on a non-recourse basis in view of the lack of liquidity of the shares of this closely held company. Counsel were particularly concerned that Mr. Clifford, who was then 81, should obtain financing on a non-recourse basis so that his heirs would not possibly be left with a substantial debt financing of an illiquid asset.

The first institution we approached for financing was Banque Arabe et Internationale d'Investissement ("BAII") in Paris, the consortium bank that acted as the lead lender in the syndicate that had lent \$50 million in connection with the acquisition of FGB in 1982. BAII was interested in making the loan and prepared draft documentation. When problems arose in the negotiation of terms by our counsel, however, efforts commenced to explore with BCCI financing for the contemplated stock

²⁸ Assets increased 41 percent and deposits increased by 39 percent during 1983. In 1984, assets grew by 26.7 percent and deposits increased by 32.7 percent. In 1985, assets increased by 20 percent and deposits increased by 21 percent.

²⁹ It is noted, for example, that the top officers of the other two major regional bank holding companies in Washington are reported to earn an annual salary of almost \$1 million, plus benefits and perquisites.

purchase. BCCI, too, was familiar with the stock being offered as collateral and the market for the shares.

BCCI agreed to provide the financing on the non-recourse basis recommended by our counsel.³⁰ We executed promissory notes to BCCI for our respective loan amounts of \$9,960,920 and \$4,979,352, together with related instruments. The borrowing was secured by a pledge of the acquired shares. (To be clear, the non-recourse feature of the debt meant that in the event of a loan default, BCCI would look only to the pledged security which had been agreed upon as collateral). We retained voting rights in the pledged shares. Thus, as Wachtell, Lipton, Rosen & Katz had originally advised, the structure of the financing satisfied our financial objectives while accommodating the lender's need to be adequately secured.

Neither the loans provided by BCCI nor the pledging of the stock violated any commitments to the Federal Reserve made in connection with the 1981 regulatory proceedings. This conclusion has been confirmed both by the New York attorneys advising us, as well as in the testimony by representatives of the Federal Reserve. As explained by Mr. Taylor of the Federal Reserve, "[t]here was no commitment not to borrow from BCCI. There was no commitment not to borrow from BCCI secured by the stock of CCAH, * * *"³¹ Stated differently by E. Gerald Corrigan, President of the Federal Reserve Bank of New York, "[t]he mere presence of loans secured by CCAH stock * * * in and of itself was no violation of law and was not a violation of the Board's 1981 agreement."³²

As noted earlier, our investment in CCAH stock was known to and encouraged by the shareholders. In addition, our intended purchase of stock was duly disclosed to and authorized by the Board of CCAH, the parent company of First American. In advance of the 1986 rights offering, Mr. Clifford personally informed Managing Directors Symington and Quesada that we intended to acquire stock in the corporation. The CCAH Board was informed of and consented to these purchases in writing. We also disclosed the acquisition of this stock to the Federal Reserve Board, by filing the annual reports required by the Federal Reserve for this purpose.

In 1987, the CCAH Board authorized another offering of new rights shares to raise additional capital for continued growth and expansion. As shareholders, we participated in this rights offering by purchasing our proportionate allotment of shares. As in the previous rights offering, BCCI agreed to finance this purchase of the shares, but only upon the condition that we discharge the accrued interest upon our prior loans, which had not yet come due. We agreed to this condition and paid the accrued interest—together over \$1 million.

In February 1988, Mr. Clifford wrote to BCCI to inquire whether a buyer could be found who was interested in purchasing some portion of our holdings. We wished to take advantage of the strong market for bank stocks that then existed. BCCI's relationship with Middle Eastern clients, who seemed the most likely candidates for a placement of these non-public shares, made BCCI the logical recipient of our inquiry. This also was consistent with the provisions of the loan agreements executed in 1986 and 1987.

In March 1988, BCCI advised that it had found a purchaser, subsequently disclosed to be an existing CCAH shareholder, Mohammad Hammoud, who was a Middle Eastern businessman of substantial means. Mr. Hammoud was said to be prepared to buy 4,800 shares.³³ If we agreed, this represented a sale of approximately 60 percent of our stock holdings. We decided to authorize the sale, and with the proceeds we extinguished our outstanding indebtedness to BCCI in its entirety.

We do not know whether Mr. Hammoud financed his purchase, though we understood he was a person of considerable wealth. We have been advised by accountants for BCCI that BCCI has no lien against those shares which were purchased in Mr. Hammoud's personal name. We note that Mr. Hammoud was not listed by the Federal Reserve in July of this year as one who had served as a nominee of BCCI.

³⁰ We believed at the time, and continue to believe that BCCI wanted us to become investors in First American because we had substantially increased the value of the shareholders'—its clients'—investment in First American.

³¹ *Sept. 13, 1991 House Banking Hearing* (Statement of William Taylor, Staff Director, Division of Banking Supervision and Regulation, Federal Reserve System) (Legislate Transcript p. 46).

³² *Id.* (Statement of E. Gerald Corrigan, President, Federal Reserve Bank of New York) (Legislate Transcript p. 57) (emphasis added).

³³ It is apparent that Mr. Hammoud had developed serious interest in First American, and purchased shares at each opportunity in 1986, 1987, 1988 and 1989. By purchasing our shares, he could purchase additional shares in subsequent rights offerings at book value and "average down" his cost.

It erroneously has been reported in these proceedings that we earned a \$33 million profit on this transaction, and that in March 1988 we sold our CCAH shares to BCCI. As noted, the stock was sold to the late Mohammad Hammoud, not to BCCI. Further, the net cash (after tax) we earned through this sale amounted to \$2.7 million for Mr. Clifford and \$1.35 million for Mr. Altman. (See Attachment I). The assertion that we "made" \$33 million on this investment is incorrect. The stock we continue to hold is of uncertain value, with no present market at all. Indeed, our subsequent investments in the stock probably represent losses.

In summary, our investment in the stock of the Company was undertaken with the encouragement of shareholders, with the unanimous consent of the managing directors of CCAH, and with the advice of counsel as to the structure of the transaction. We purchased an extremely small percentage of the outstanding CCAH stock (2 percent and 1 percent respectively) at the same price as was paid by all other purchasers in the rights offering. In 1988, we sold a portion of our stock, at which time our outstanding BCCI loans were fully repaid with interest. Our purchases were timely reported each year to the Federal Reserve.

The financing, purchase, and sale of this stock were completely legal and proper. Unlike the alleged sham loans to nominees, our borrowings were real obligations, fully documented, and were repaid over 3 years ago. These transactions did not contravene any representations made to federal and state regulators. Our participation in the rights offering benefited CCAH by providing capital necessary to permit continued growth.

In 1989, we again purchased our pro rata allotment of stock in a rights offering by CCAH. No BCCI loans were used to finance those purchases. In late 1990, when the Company again needed capital for support during the economic downturn, we invested in debentures that were issued for this purpose. No BCCI loans were used for that investment.

CLIFFORD & WARNKE REPRESENTATION OF BCCI

Clifford & Warnke has provided certain legal services to BCCI beginning in 1978 and concluding in 1990. We represented BCCI in the litigation and the related proceedings arising from the original acquisition of shares in Financial General by the investors. When that matter was concluded, we were asked, from time to time, to render legal services to BCCI on various corporate issues.

It should be noted that Clifford & Warnke was not designated as BCCI's primary legal representative in the United States. Rather, BCCI used many prominent firms in the United States. BCCI had significant legal representation by major firms in Florida, San Francisco, New York, and Washington, DC.

Attention has been given to our legal representation of BCCI after an indictment was returned against BCCI for money laundering in Tampa, FL. We were contacted by BCCI's London office and asked to recommend law firms to represent BCCI and its officers. Together with BCCI's Florida counsel, Holland & Knight, the largest law firm in that state, we provided the names of various defense attorneys, who were retained. We thereafter were asked to monitor the case for BCCI, consult with senior management, and assist with administrative functions, including the handling of a fund to pay legal bills.

Clifford & Warnke's legal services for First American and, separately, for BCCI were neither improper nor unusual. There were no ethical violations in these representations. Fees paid to the firm were consistent in amount with our normal billing practices.

RESPONSE TO "SECRET OWNERSHIP" ALLEGATIONS

In 1989 and 1990, we heard that BCCI might have acquired a secret ownership interest in First American. Certain press accounts during the period raised similar charges. While we believed these reports were wholly unfounded, we made inquiries to determine whether there was substance to the allegations.

In this regard, in connection with the Tampa criminal case against BCCI, an undercover conversation had been taped in which an individual, Amjad Awan, suggested that BCCI might own First American through nominees. We became aware of that evidence, secured a copy of the transcript, and reviewed it. In recent months, certain reports have quoted from the transcript and have made it appear that the individual had made conclusive assertions about BCCI's ownership of First American. The actual transcript is considerably less revealing or definite. Omitted from these recent reports is the following excerpt from the transcript, which places the comments in their proper context:

I have [a] totally different, uh, uh, assessment of the situation. And *it might be farfetched, it might sound stupid, but my assessment is*, that we own a bank in Washington. I may have mentioned it to you before.³⁴

The transcript of the undercover conversation clearly suggested that the individual was offering only personal speculation. We nonetheless asked BCCI counsel of record in that case to inquire of the individual and his separate counsel as to the basis for his statements. We were informed that the contention was, as it appeared, just a guess and the individual disclaimed any factual support for the assertion he had made.³⁵

We, together with the defense team of former federal prosecutors representing BCCI, pursued the subject several times in conversations with top management of BCCI. We received repeated assurances that these rumors and allegations were entirely untrue. We and the other attorneys found those denials to be credible.

As a separate measure, however, counsel later made a private inquiry of Price Waterhouse to determine if BCCI's files contained information which would support allegations of BCCI's ownership of First American, or its financing of the 1982 acquisition of FGB. We were informed that Price Waterhouse had been concerned about the issue, but that no documents had been found in BCCI's files that would substantiate the claim.

We also talked directly with some of the CCAH shareholders about these allegations. For example, at a meeting in July 1990 with Sheikh Kamal Adham and El Sayed Jawhary in London, we were emphatically advised that the allegations of BCCI ownership were untrue. We again found these statements to be credible.

In this regard, questions have been raised about our responses to federal regulators' inquiries when allegations arose during 1989-90 about BCCI's relationship with the First American investors. The record establishes that we informed the Federal Reserve of information we obtained—although preliminary and uncorroborated—that might relate to those allegations.

In 1989, questions arose about First American's relationship with BCCI. During the course of the Federal Reserve's review of First American's application to retain the Bank of Escambia, each First American bank CEO provided the Federal Reserve with information about its dealings with BCCI. In addition, in the Fall of 1989, in response to continuing regulatory concerns about BCCI, counsel suggested to senior Federal Reserve officials that they meet directly with the BCCI management in London and raise any issues they wished to discuss.

In early January 1990 and at other times that year, we informed Federal Reserve representatives—both orally and in writing—of reports we had received regarding large loans by BCCI to the First American shareholders secured by CCAH stock. We did not have documents or concrete information regarding these matters, but nonetheless provided the Federal Reserve with the unconfirmed reports and rumors we had heard. We note that we did not believe any such loans to be improper or to constitute nominee arrangements between BCCI and the shareholders.

In view of continuing allegations of BCCI ownership of First American in 1991, we attempted to contact all CCAH shareholders to advise them of the allegations and to request an opportunity to discuss the charges directly with each. This led to additional meetings and discussions with various shareholders. Those with whom we have talked—representing a majority of the stock—denied the charge that BCCI owned or controlled their shares.

Recent reports from England now allege that BCCI was in reality two banks: the seemingly respectable public institution with which we and others dealt; and a secret bank-within-a-bank that only a handful of BCCI officials had any idea existed. Indeed, the former Chief Financial Officer of BCCI has testified that at the time he was unaware of the fraudulent banking practices now said to have been engaged in by BCCI.³⁶ It is this secret internal bank that is said to be central to BCCI's hidden

³⁴ *United States v. Awan, et. al*, No. 88-330-Cr-T-13(B) (M.D. Fla.), Exh. 508-B, p. 13 (Transcript of tape recording made Sept. 9, 1988).

³⁵ We note that senior staff of the Federal Reserve recently has testified before the House Banking Committee that their investigators also interviewed Mr. Awan who had no first hand knowledge in support of this allegation. See *Sept. 13, 1991 House Banking Committee Hearing* (Statement of J. Virgil Mattingly, General Counsel, Federal Reserve) (Legislate Transcript pp. 22-23).

³⁶ *Hearings on Narcotics and Foreign Policy Implications of the BCCI Affair Before the Subcommittee on Terrorism, Narcotics and International Operations, Committee on Foreign Relations, U.S. Senate* (Aug. 8, 1991) (Statement of Masihur Rahman) (Transcript pp. 20, 96-97).

ownership of stock in First American. If the allegations about BCCI's secret ownership interest of stock in First American prove to be true, then we shall be counted among the many persons whom BCCI deceived.

It is, however, important to note that the allegations relating to secret ownership of CCAH stock by BCCI are, at this point, unresolved. Certain of the CCAH shareholders, including for example, Sheikh Zaid of Abu Dhabi, President of the United Arab Emirates, apparently are not challenged by the Federal Reserve as being bona fide owners. Others—alleged to be BCCI nominees—have denied the charges (See Attachment A hereto).

It must be recalled that the allegations concerning CCAH stock apparently are based almost exclusively on BCCI's internal books and records—documents which are said by Price Waterhouse, BCCI's auditors, to be incomplete, ambiguous, and of questionable authenticity. It is therefore appropriate that caution be exercised before all the allegations are equated with factual determinations.

Like others outside of BCCI's management group, we simply do not know the true facts about BCCI. We are among many people who dealt with BCCI in good faith for years and are mystified and embarrassed by the reports we read about widespread fraudulent activity. President Carter, who engaged in charitable endeavors supported by Mr. Abedi and BCCI, has stated:

I have obviously been shocked and disturbed at what has been revealed in the last few months. * * * [A]ll of these revelations have certainly been an amazing thing to us, and we're very shocked and grieved and disturbed by it.

* * * * *

We didn't know the facts. I don't know how much of the fact was known by anybody in this country. All the time I was dealing with the bank, we were one of the recipients of their interest in improving the lot of people in the third world. That's all I know about them.³⁷

Similarly, former British Prime Minister Lord Callaghan, who had been on retainer with BCCI, recently was quoted as saying of Mr. Abedi:

I don't believe he [Abedi] was an evil man. * * * I felt he was genuinely concerned, that he had ideals. I found him a man I would honor. A year ago I would have had no hesitation of saying that Mr. Abedi acted out of altruism. Maybe I was a sucker.³⁸

Other prominent figures, including the Secretary General of the United Nations and our former Ambassador to the U.N., Andrew Young, appear similarly surprised and distressed.

Some question how—as persons who dealt regularly with BCCI for years—we could be unaware of the alleged fraud. We have, of course, carefully searched our memories for any missed indication that a fraud was being perpetrated, but no signs of misconduct are readily apparent to us. And one must recognize the practical impossibility of a corporation's management knowing what any shareholder does with his stock once purchased—particularly when the shareholders are located in the Middle East. As the General Counsel of the Federal Reserve Board has recently observed, "[f]raud is hard for anyone to detect, especially when the transactions are deliberately structured to conceal true relationships, and when the relevant information is outside the [United States]."³⁹

Many persons and entities who, unlike us, had powerful investigative resources, direct access to BCCI's books and records, and a duty to oversee BCCI's operations, apparently now say they were deceived, including the Bank of England, the Directorate of the Luxembourg Monetary Institute and the Grand Cayman Inspector of Banks and Trust Companies. BCCI allegedly misled its best customers and strongest supporters in the Middle East, including Sheikh Zaid bin Sultan al Nahyan.

We look forward to the completion of the current investigations and the ultimate resolution of these disturbing allegations.

CONCLUSION

In 1981, representations were made to regulators during the application process that we, together with a distinguished Board of Directors, would assume responsibility for First American and ensure it was operated properly. We have faithfully hon-

³⁷ *Nightline: Jimmy Carter's Relationship with BCCI* (ABC television broadcast, Aug. 8, 1991) (Show #2664) at 2-3.

³⁸ *BCCI Adept at Courting the Powerful and Rich*, Washington Post, Aug. 7, 1991, at A-1.

³⁹ *May 23, 1991 Senate Hearing* (Statement of Virgil Mattingly, General Counsel, Federal Reserve System) (Legislate Transcript p. 102).

ored that obligation. We know that First American was honestly and capably run throughout the tenure of our management, that it prospered under our leadership, and that our own conduct was entirely proper. No depositor at First American has ever lost any money. No investor or bond holder has been cheated. No customer has been defrauded. Management has not lived royally using federally insured deposits. There have been no "sweetheart" loan abuses by insiders at First American. First American banks were not engaged in money laundering. BCCI never secured any improper financial favors or advantages from First American. U.S. taxpayers have not had to bail out the Company.

We are proud of our accomplishments at First American, and secure in the knowledge that whatever concealed interest BCCI may have held in the Company's stock, any such interest never translated into actual control over First American's operations.

We will continue to cooperate fully with all official inquiries into this matter, and appreciate the opportunity the Committee has afforded us to set forth on the public record the facts about First American.

Senator KERRY. Thank you very much, Mr. Altman.

Senator Jeffords has joined us. I do not know, Senator, if you have any opening comments.

Senator JEFFORDS. I have just a brief opening statement, Mr. Chairman, that I'd like to make it part of the record.

I do have one question that I would like to ask if I could do that at this time? I have to leave to go to the markup of the higher education bill.

Senator KERRY. That is fine, sure.

Senator JEFFORDS. Mr. Clifford, you have given us a very excellent statement of your position on what happened. And you are a very impressive gentleman. I note that you indicated that a number of people, as well as yourself, seem to have been deceived here, including the Bank of England. Mr. Altman mentioned the Bank of America, Price Waterhouse—all apparently were deceived by the activities that went on. In my mind, the task before this committee is to try to see what we can do to prevent such activities from occurring in the future, so that individuals or banks will not be deceived.

It would certainly be very helpful to me if you and Mr. Altman could let us know based on your experience, what kind of national or international structure, organization or regulation needs to be set up to prevent the occurrence of such events in the future?

Mr. CLIFFORD. I have read the pending legislation, Senator, Senate bill 1019. And I think it is excellent.

I have also read a written memorandum by Virgil Mattingly, the General Counsel of the Fed, in which he comments in the legislation, and indicates the portions of it that he considers to be so favorable from their standpoint.

I was especially struck by a comment by Mr. Mattingly that he says that the Fed is considering the possibility of setting up what he called a special investigative unit, to investigate situations brought about by the experience with BCCI, so that people would not be misled, as you have suggested; so that there would be a forum of international cooperation between the nations of the world; so that there must be certain basic information that we must receive in this country before we permitted a foreign bank to do business.

I commend the legislation. I particularly recommend the approach of Mr. Mattingly. And I venture to say I deeply regret, Sen-

ator, that that wasn't the law when we became involved here. It would have saved us the most painful period of our lives.

Senator JEFFORDS. Mr. Altman, do you have a comment?

Mr. ALTMAN. I would supplement what Mr. Clifford says by observing that there are now reports—and we don't know the accuracy of them—that indicate that some of the branches of the Federal Government had information about BCCI that—for whatever reason—was not disseminated to other branches of the Government, such as the Federal Reserve.

I think it might be a profitable exercise if there could be some attention given for mechanisms being set up so that when this kind of information comes to the attention of the authorities, it would be shared in a meaningful way with regulators, and others who need to have it in order to perform their jobs, and discharge their responsibilities.

Again, it would have been very important to us. It would have saved us a great deal, if this kind of information could have been brought to our attention years ago.

Senator JEFFORDS. Thank you, Mr. Chairman. I want to again commend you and the Senator from Colorado, Mr. Brown, for your work in this area. There's been a tremendous contribution to our Nation.

Senator KERRY. Thank you very much, Senator Jeffords, appreciate it. Thank you.

Gentlemen, let me try now to begin a process of inquiry that I hope will put in front of you some of the doubts, and sort of questions that people have, as they look at the panoply of documents and assertions that have come forward.

I do so understanding that the record may obviously not be complete. We do not have all the documents. So you may have a document that suddenly appears, and it says, aha, this is indicative of this. And there are 20 documents that indicate something else. And that is the question. Are there documents that indicate something else, and where are we here?

There are a number of areas that I want to try to compartmentalize, if I can. And we will try to divide it up, as we go along here.

But one of the benefits will be we are not squeezed into sort of a 5-minute craziness here. And I think we can have a dialog, hopefully.

One of the things that troubles a lot of people, as they look at this case—and there are many things that trouble us, and I think you know that—is this question of what you should have known, or what you knew in the early stage?

Now, Mr. Clifford, in your testimony, you essentially spoke as the chairman of the bank. And you spoke from the bank perspective. But you also wore other hats. And that is part of the complication here, the hat you wore as an attorney for BCCI; the hat you wore as the attorney for the bank that you were president of.

And I am not sure that you really spoke to us today from either of those vantage points, in a sense, though they are always confused, and there is a mutuality.

The question initially arises about the due diligence of the effort to learn about Mr. Abedi and the bank itself. And I believe that you have said, previously, that you talked to Government person-

nel, and made some kind of inquiry—or some—you read an article in the *Economist* or something.

Is that the extent of the inquiry into who these people were, and what the nature of BCCI was back in—during the initial takeover of Financial General bank shares? Either gentleman who wants to answer it—

Mr. CLIFFORD. I'll start, and we'll see if Mr. Altman has anything to add.

You do refer to an article in the *Economist* a highly reputable British publication, which had an extremely commendatory article about Mr. Abedi and BCCI. We also had the advantage of being able to talk to Bank of America. Bank of America was in with BCCI from the very beginning. It was organized in 1972. Bank of America was anxious to have a presence in the Middle East. It's very difficult to break in alone. And here was operation which already had established contacts in the Middle East. So Bank of America came in from the very beginning, and took a 30-percent interest in BCCI.

They had, by the time they got to us, in—let's see 1978—why they'd been in the picture for 6 years. Their opinion of BCCI was a commendatory one. They had felt that their operation was a success. And I believe the reason that—over a period of time—they withdrew from the relationship was, they did not need BCCI anymore. They established their own contacts by that time, over the 6 years in the Middle East.

Senator KERRY. Well, did they not have some problems with BCCI? Did Bank of America not come to have some problems which actually came out in the course of the depositions regarding the takeover?

Mr. CLIFFORD. It is my understanding of that, Senator, that some questions were raised by Financial General at the time, about First American's attitude—excuse me—about Bank of America's attitude. And Bank of America answered those questions publicly, with two public releases in which they stated that they had not had any difficulty with their experience with BCCI.

Mr. ALTMAN. I might just supplement that point, Mr. Chairman. I have here a press release from Bank of America. It's dated January 30, 1978. This is around the time that our representation commenced. And Bank of America was responding—oh, I'll just give you a couple of quotes.

Senator KERRY. What was the date, again, on that?

Mr. ALTMAN. January 30, 1978. And I'd be glad to make it a part of the record.

Newspaper articles have appeared, recently, suggesting that Bank of America is contemplating divesting its shareholding in BCCI. These reports have appeared following a recent reduction in Bank of America's holding in BCCI, following a rights issue in which Bank of America did not participate.

Bank of America is currently increasing its direct presence in the Middle East, and to have increased its capital commitment in a bank in which Bank of America had less than a majority holding, or management control, would be inconsistent with current Bank of America strategy.

They go on to say, Bank of America intends to retain a shareholding in BCCI for the foreseeable future, and the close cooperation that has developed between the two banks will be maintained. And they acknowledge that over the next several years they will be selling their stake.

They also issued a press release in September 1978 in response to that matter that you have referenced relating to the litigation, in which they felt it necessary to correct misunderstandings, or inaccurate reports that had appeared in the newspaper about their attitude concerning BCCI.

Senator KERRY. What is the gist of that piece?

Mr. ALTMAN. I will quote you, again, a couple of relevant sentences.

Bank of America feels that in order to dispel any misunderstanding, it is necessary to address the Financial Times report which appeared in yesterday's edition of the newspaper. The specific points referred to in that article, attributed to Mr. Douglas Krause, a lawyer acting for financial bank share, appear to be taken from Bank of America credit review files. They describe the files and say that these are analytical, conservative, and closely controlled. It is Bank of America's present opinion that BCCI's loan reserve has been established in accordance with prudent, risk management practices. Bank of America has maintained representation on the board of BCCI since the inception of its relationship.

Then it goes on—it refers back to the earlier press release:

Thursday's report suggests that the matters contained in Mr. Kraus' statements contributed to the Bank of America's decision to reduce and eventually sell its BCCI shareholdings. As Bank of America has heretofore publicly announced, its reasons for that action are related solely to changes in market conditions, particularly in the Middle East, which make it appropriate for both institutions—the bank and BCCI—to discontinue the relationship.

And I would also note—although I am reluctant to cite news articles, in terms of accuracy—but I would also note that Time Magazine ran an article on October 7, 1991, in which they indicated that Bank of America, throughout the 1980's continued to have a very close relationship with BCCI, handling—according to this article—\$1.3 billion a day of BCCI money.

Senator KERRY. I think that one of the things that has intrigued people, is the degree to which Bank of America may, in fact, have uncovered some problems, and then pulled back, and then kind of sloshed it over. And then, indeed, had competed as intensely as every other bank in the country did for the cash transactions. And there is obviously a significant flow of money from BCCI through Bank of America.

So, what I am getting at, is that there are many who said, well, they kind of washed their hands of some of their problems at the time, but were not willing to wash their hands of the profits at the time. And so they continued to flow.

Now, that is outside of your scope. But that is the picture that I think many have drawn from that. I am not referencing the news articles, themselves. But in the documents that were filed in the course of that takeover, Bank of America documents, themselves, asserted that BCCI or its subsidiaries or affiliates, had made substantial loans to three or four of the Middle Eastern defendants in that suit—these are the people you were representing—among them, was Mr. Fulajj. And there was an assertion that he had re-

ceived a \$5 million loan from a BCCI subsidiary, in order to purchase his shares of Financial General bank shares.

Now, that assertion was made in 1978 and was part of the suit in which you were involved as attorneys. Evidence now documents that not only did he receive \$5 million in loans, but Price Waterhouse shows that by 1986 he had \$61 million; and by 1989 he had \$113 million.

So, in fact, the very assertion that was made in your suit, in which you were involved in 1978, is now proven to be the very case not only with him, but with others. And as the flag is sort of waved saying, you know, should that have not set off some kind of inquiry, since you were involved in that suit, and there are other evidences of the Bank of England refusing to grant a full banking license. The bank had been the longest delayed bank in England to receive a full license. And it did not receive the full license because there were concerns about the rate of growth, the manner in which it was growing, its sources, and the nature of its investors. None of that came to your attention, I take it?

Mr. ALTMAN. No, Senator—some of this did come to our attention, but I'd like to see if I couldn't clarify it for the record.

First, you referenced the loan to Mr. Fulaij. There was a loan to Mr. Fulaij. The loan was made by an affiliate, or subsidiary of BCCI in Kuwait—I think it's called KIFCO—and that loan, we knew about at the time. It was disclosed to the Federal Reserve at the time. He testified about that loan, at some length, in deposition testimony. So this was no secret.

And generally, it was well-known that these shareholders had extensive banking relationships with BCCI. That was also known. In fact, most of them, I suppose, own stock in BCCI, or at least certain of them owned stock in BCCI. So the relationship with BCCI, and in particular, the loan to Mr. Fulaij was a fact that we knew at the time.

I would only suggest that there be—there be some caution exercised in reaching conclusions about the extent of Mr. Fulaij's loans today. Because we have seen reports—again, I don't know if they are accurate—that one of our other original shareholders, the ruler of Dubai, was reported to have \$121 million in loans. It was on the front page of the Wall Street Journal and reported widely. And subsequently, he issued a statement. And it may even have been retracted by Price Waterhouse—he issued a statement that he had not borrowed any of that money from BCCI.

So there's a great deal of question about the records at BCCI. Perhaps Mr. Fulaij does have those large borrowings. I don't know what the answer is. And I don't know if he does, what they would relate to.

But the original borrowings from BCCI by Mr. Fulaij, were disclosed to the regulatory authorities, and didn't seem to be a particularly controversial item.

Senator KERRY. Well, that raises another set of questions, which I was going to get into later. But I mean, throughout this process, it appears as though Price Waterhouse gets failing grades. I mean you are just asserting that—or you have to be cautious, because you do not know if Price Waterhouse's certified figures are, in fact, accurate. Is that correct?

Mr. ALTMAN. That is correct. And I believe it is Price Waterhouse, itself, which has said that they have based those on records, and now they question the validity or authenticity of the records. So—

Senator KERRY. And indeed, there is a pattern, it seems to me, through this of Price Waterhouse's various entities having provided information as Mr. Sakhia said, that was either negligent to the nth degree, or conceivably, purposely altered. And we do not know the answer to that.

But that a lot of what has happened here, was based on certifications made by Price Waterhouse that are clearly, now, way off base. And you would accept that?

Mr. ALTMAN. I do not know whether Price Waterhouse was negligent, because I'm not familiar what happened in their audits; what they were told; and what their requirements are that they're supposed to follow in certifying statements. But it would certainly raise serious questions that they have certified financial statements, year after year, and now there is a report that all of those statements are, in fact, woefully erroneous.

Senator KERRY. Were you aware of the relationship with Price Waterhouse, Cayman Islands, and BCCI?

Mr. ALTMAN. Are you talking about the recently reported loan?

Senator KERRY. The loan of \$600,000.

Mr. ALTMAN. The first I heard about it was a result of this committee's efforts.

Senator KERRY. Is that an appropriate banking practice, for a bank to be lending significant sums to its auditing entity?

Mr. ALTMAN. I would say, when I read it, it struck me as unusual. I don't know if it is done. I don't know what the practice is. But I think that it seemed to be curious.

Mr. CLIFFORD. The reason I thought it was unusual, Senator, is that I never heard it happening before, ever.

Senator KERRY. Thank you.

Let me ask you now, in the early inquiry you made, there was a very fine article on you, Mr. Altman, that appeared in the business section of the Washington Post. And in it, you were quoted as saying, with respect to your early inquiry, that you checked with some of the most—this is a quote, and again, I cannot attest to the accuracy—but it checked with some of the most senior Government officials to find out whether this would be in conflict with U.S. policy, or whether it would be contrary to the economic interests of the United States—which was a sensitive subject in 1978, with oil supplies in the Middle East.

But, quote "Altman's and Clifford's contacts gave them a green light. We were not only advised that it would not be inconsistent with U.S. interests, but we were encouraged to take this on, as being quite valuable to the United States, were we able to do it."

Can you share with the committee who gave you that advice, and who you checked with as senior Government officials?

Mr. CLIFFORD. Perhaps I did it, to some extent. It's 13 years ago. I knew people in the State Department, because they were there, and I had worked with them. And I checked in the State Department. I have a recollection of checking in the Commerce Department. And from one source that I checked—I did not go to the Cab-

inet members, these would be staff people—but at one source that I checked, they indicated that the United States was sending, at the time, \$70 to \$80 billion a year for the purchase of crude from the Middle East. And as far as our Government was concerned, it would be their preference that as much of that money flow back to the United States as possible. It did us no good if it went to West Germany or Switzerland or Great Britain.

So that there was no objection leveled at the time, to effort by this group of Middle Easterners to acquire an American bank.

Senator KERRY. Well, was the—excuse me, Mr. Altman, did you want to add?

Mr. ALTMAN. I do recall a conversation we had with Arthur Burns, also of the Federal Reserve. He was not, then, the Chairman of the Federal Reserve, who expressed a similar opinion. And I also recall that Senator Symington, at the time, had had some conversation with Government officials, and he was very much taken with this notion of recycling petrodollars, as a result of his discussions.

Senator KERRY. You do not consider staff to be senior Government officials, with all apologies to staff behind me.

Senator BROWN. I do, Mr. Chairman. I do not know about them. [Laughter.]

Senator KERRY. I should not have my back turned to them, now.

Senator BROWN. I feel comfortable.

Senator KERRY. Do you recall beyond that, did you check with the CIA at all?

Mr. ALTMAN. I did not.

Senator KERRY. Was there any run through Justice Department?

Mr. CLIFFORD. No, and I think the reason that I didn't was because information had come, as we were dealing—my recollection is—with the Fed, that the Fed, in its investigation was checking the CIA, and checking the Justice Department, and checking other departments of Government.

Mr. ALTMAN. Yeah, we did hear that in connection with the acquisition proceedings, that the Fed had talked to some of these Government agencies. But we didn't—we weren't privy to that information.

Senator KERRY. The reason I ask that, is that in the House, Mr. Clifford, I believe you said that I learned from others, that our intelligence operations had a very high opinion of him—referring to Kamal Adham. They felt he had cooperated exceedingly well with the United States. And I wondered where this feedback from intelligence on Kamal Adham had come from?

Mr. CLIFFORD. I do not have a specific memory of that.

Senator KERRY. Do you remember, though, that they signed off on Kamal Adham?

Mr. CLIFFORD. I know that the Fed signed off on Kamal Adham, and accepted him as a legitimate, and well-regarded purchaser of First American. I know that.

Mr. ALTMAN. There has been a recent newspaper report that I have seen, that a man by the name of—I believe it's Raymond Close, a former CIA man, stationed in Saudi Arabia, had spoken to the press in a very commendatory way about Kamal Adham. That was the general sense that we had of him when we were dealing

with him. I don't know Mr. Close, and I never talked to him. But I've seen the reports.

Senator KERRY. You never met Mr. Close?

Mr. ALTMAN. No, sir.

Senator KERRY. Did either of you ever know him?

Mr. CLIFFORD. I did not.

Senator KERRY. Did you know of him back in 1978?

Mr. ALTMAN. No, sir.

Mr. CLIFFORD. I did not.

Senator KERRY. But your comments then, to the House, seemed to indicate some contact with the Intelligence Committee. Are you saying that—with the intelligence community. Are you saying that the information did not come from the intelligence community regarding Kamal Adham?

Mr. CLIFFORD. I cannot recall where it came from. I had many conversations with individuals. And I'd had some background in the intelligence field. And it may have come from those contacts that they had regard for him.

Senator KERRY. Well, maybe I will come back to that later.

Let me turn now to an issue, that is another one of those issues—I mean I do not think this question of how much you might have known then or not is a turning point, or a critical component of this. I think it is one of the things that obviously has flagged a lot of people. Because there were entities, regulatory entities, as well as others, who were saying we are concerned that this bank seems to have appension to find nominees. And that it kind of grew, very rapidly, and shakily.

But let us assume that you—that you went through that process, that you had a green light, that everything seemed like go. This seemed like a good opportunity, and a challenge, as you have described it.

So we go to another level, here, which is the question of what was the standard, the expectation by which this relationship was supposed to be carried out?

That standard, it appears, was set out by the Fed and others in discussions with you. And I would refer you to the documents, now. I believe it is—I do not have the numbering the same way. It is the document—the Muckenfuss letter, the Controller of the Currency. Document No. 10, in your document book.

Document No. 10 is a letter to the Board of Governors of the Federal Reserve, from the Controller of the Currency, Senior Deputy Controller of the Currency, Mr. Muckenfuss. And in this letter, in page 2, paragraph—second paragraph in No. 2, highlighted here, it says the following: "Members of the proposed investors group for Credit and Commerce American holdings, N.V., Credit and Commerce, American Investment B.V., also hold an interest in BCCI. It has now been represented to us"—and this is the operative, and I think critical language:

It has now been represented to us that BCCI will have no involvement with the management, and other affairs of Financial General, nor will BCCI be involved in the financing arrangements, if any are required, regarding this proposal. This commitment is critical, both now, and in the future, since such a relationship with another financial institution would be a significant factor in appraising this application. This is especially important in light of the overlapping ownership, which will exist between Credit and Commerce American holdings, Credit and Commerce

American Investment, and BCCI. Moreover, any enhanced, direct or indirect affiliation or relationship between BCCI and Financial General, would take on even greater significance in light of the fact that BCCI is not subject to regulation and supervision on a consolidated basis, by a single bank supervisory authority.

Now, that—it is your understanding, I gather, from testimony, previously, represented the state of the takeover. Is that accurate?

Mr. CLIFFORD. I think the correct answer would be first, Senator, we are very familiar with that language. We have been over it on a number of occasions. And the background of the whole affair is, that if you look at that language in the light of what was known to the Government at the time, both to the Controller General's Office, and to the Fed, it was known that there'd been a definite agreement upon our part, in three areas: one, BCCI would not acquire any stock in First American at the time of the tender offer; two, that they would not, in any way, finance the purchase of the stock of First American; and three, that they would have no control over the operation of First American.

We presented that. We emphasized it. At the same time, at each stage, we informed the regulatory authorities that they were two areas in which we would continue to have a relationship with BCCI. One is they would be the communications link with the investors; and second, they would continue to be investment advisors. And that was known from the beginning, by the Government regulatory authorities.

Mr. ALTMAN. A couple of additional comments, if I might, Mr. Chairman—one, I want to go back to your introductory comments, before you got into the specifics of the letter, in which you indicated whether there were flags there.

It is certainly true that we were aware of regulatory issues that arose about BCCI's status. But I think it is very important to put on the record, that at no time did we get any information, or get any sense that the regulatory issues related to the lawful operation of BCCI, the ethical practices of BCCI—these were regulatory issues, not issues relating to whether BCCI was—I think you used the word a shady operation. That was not at all the sense that we got from any regulatory authority during this period.

Senator KERRY. The terms may be arguable. But when regulators say, as they did in this letter, conventional financial data has not been available on certain investors. And what they basically certify to is the financial strength based on their disclosures. But they say, their financial disclosures are less the conventional. It seemed to me—I mean, I have read through some of the background—and I do not think this is a point worth arguing a great deal about—but it seemed to me that what the regulators are really saying is, you know, we are not sure we trust these guys. We do not know enough about them.

So we want to know that we are protecting interests here. And we are expecting you to do it. And you are going to make certain representations which guarantee to us that they are going to be protected. And the representations that I believe you made, as set down by Mr. Muckenfuss is that now and in the future—I mean, it says "and in the future there won't be a financial relationship." And also, it says there won't be any financial or management dealings.

I am just asking, do these words not mean what they say? BCCI will have no involvement with the management and other affairs? What does that mean?

Mr. CLIFFORD. That's what it says, and that's what it meant. And that's the situation that existed then, and that's the situation that existed for 9 years. If you talk about involvement in the management, of having anything to do with making decisions and all, they had none. And they have not had all during the 9 years.

Senator KERRY. That is what I thought was the standard, and we agree on the standard. The question is, now, is that, in fact, what happened over the course of those 9 years?

Mr. ALTMAN. Well, Mr. Chairman, if I might—

Senator KERRY. Absolutely.

Mr. ALTMAN. I think that you have to put this language in context. And my original comments—you were reading from a document that I'm not familiar with.

Senator KERRY. Well, the document I was reading from is this letter.

Mr. ALTMAN. Well, sir, I thought you were reading from another one about financial information about people.

Senator KERRY. No, that's the same document. That's paragraphs 4 and 5, same document.

Mr. ALTMAN. It wasn't the highlighted part.

The issue about the letter from the controller, I think has to be looked at this way. It is true that the controller understood that BCCI was not going to control this operation. But the controller also had available to it, information which placed this in context. The controller had the application, which indicated that BCCI was going to have a continuing role; that BCCI was going to continue to provide advisory and other services to the shareholders, with respect to this company, First American. The controller had available to it information that there were ties between the shareholders and BCCI. They owned stock in BCCI. They had banking relationships with BCCI. The controller attended the hearing at the Federal Reserve in 1981, when 4 of the investors appeared and testified. And at that hearing, there was testimony about the fact that BCCI was going to continue to have this investment advisory role, this role as a communications link—this kind of information was known to the controller.

So it's a question of what the language should be interpreted to mean.

Senator KERRY. I agree with that. And I thought Mr. Clifford had defined it, and I thought that the language meant what it said.

I mean, you see, the difficulty here, Mr. Altman, is obviously that I agree with you. All of that information was in front of the regulator.

Mr. ALTMAN. Right.

Senator KERRY. And it was in reaction to that information that there were difficulties in proceeding forward. There was resistance. Which is why that extraordinary hearing took place—I mean, it was unusual to have that.

Mr. ALTMAN. Yes.

Senator KERRY. And it was so unusual that in fact, Mr. Clifford appeared, and you brought Mr. Adham, I believe, correct?

Mr. **ALTMAN**. That's correct, Mr. Adham and three others.

Senator **KERRY**. In order to persuade these people that this was bona fide.

And part of the process of persuasion required you to say to them, there will not be any financial dealings. There will not be any crossover. There will not be any interrelationship in the affairs. And it was based on that representation, I believe, that this letter says very clearly, this is especially important, in light of the overlapping ownership.

Any enhanced—direct or indirect—affiliation or relationship would take on greater significance. And they were very specific, I think, in saying we are going to give you a green light. But it has to be on the terms that are set forward here. Am I wrong?

Mr. **ALTMAN**. Sir, that is not entirely accurate.

Senator **KERRY**. Well, help me, then.

Mr. **ALTMAN**. Because this is what keeps leaping out. I mean, they still—I believe—interpret it that way.

A couple of points—the controller understood that we were going to have continuing dealings with BCCI, about this particular investment, for the shareholders. We have documents that indicate that the controller was advised that we would continue to consult Mr. Abedi for ideas. Some of his ideas we might accept, some of them we might reject. But the point was the decisionmaking authority would repose not in BCCI, but in the American board.

Now, you have said that there were to be no financial arrangements between BCCI and these shareholders. But the Federal Reserve recently testified before the House Banking Committee. And they were commenting on the existence of loans to these shareholders from BCCI, that had been discovered. And both Mr. Taylor, the Director of—former Director of Supervision and Regulation at the Federal Reserve, and Mr. Corrigan, who was President—is President of the Federal Reserve Bank of New York, said there is no prohibition of borrowing from BCCI; there was no prohibition of borrowing from BCCI even when the stock of First American is placed as collateral.

There were specific understandings as to the transaction. But I think the point that you are getting to, is who is going to end up controlling the operation? And it was clearly understood that control would vest in Mr. Clifford and the American board.

Senator **KERRY**. The question of control is obviously a really difficult one. We are not going to resolve it here. It is a legal term. And the fact pattern is complicated as to that issue.

But I guess, to the average person, looking at this, the issue of control in terms of a communication or a directive, is very difficult to distinguish. If Mr. Abedi says to you—as Mr. Abedi, and you don't know which hat he is wearing, whether he is president of BCCI, or speaking to you as the investment counsellor—he says to you, you have to do this, or we want you to do this. He can be relaying to you information from investors, or he could never have talked to the investors, and simply be directing you, as the head of BCCI. I mean that is certainly possible, is it not?

Mr. **CLIFFORD**. Let me try that, Senator.

The use of the word control has caused a great deal of confusion. When the Fed first came out with statements at the beginning of

this year, they talked about having found information and evidence that indicated that BCCI controlled First American.

There are two kinds of control. At one time, Mr. William Taylor, fortunately, described them. One kind of control is whether someone owns or has in its possession sufficient amount of stock, so that under the Federal Rules, that constitutes control.

But he says there is another kind of control, and that is actual, management control. Now, what we said to the authorities, what we have continued to follow meticulously, is that there would be no management control of any kind, as far as American—as far as First American is concerned, except the board and its chairman of First American.

Senator KERRY. Well, let me come back to that after a little bit here. I want to let my colleague, Senator Brown, have a round. And then I will come back.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Secretary Clifford, let me ask—I am not sure I got it correctly.

I thought you had mentioned that BCCI made three assurances to the Federal Reserve, one of which was that BCCI would not finance the purchase of First American stock.

Mr. CLIFFORD. That was the first one.

Mr. ALTMAN. Excuse me, just for the record—that was not a representation by BCCI. That was a representation by the investors who were making the application for approval.

Mr. CLIFFORD. And it was confined, I might say, to that particular transaction of the tender offer. It said that the applicants shall not, in any way, acquire stock in First American as a part of the tender offer proceeding. That was No. 1.

Senator BROWN. So that the financing by BCCI later on, of your own stock, you feel was not a violation of this representation?

Mr. CLIFFORD. I feel that very strongly.

Mr. ALTMAN. And that was confirmed, Senator, by recent testimony by Mr. Taylor and Mr. Corrigan. I'll read you a couple of sentences from their testimony before House Banking. Quote, "There was no commitment not to borrow from BCCI; there was no commitment not to borrow from BCCI secured by the stock of CCAH." He says, the commitments required that in order to determine a violation, that the investors borrowed money from BCCI to affect the original transaction. Mr. Corrigan went on to say, the mere presence of loans secured by CCH stock, in and of itself, was not a violation of law, and was not a violation of the board's 1981 agreement.

Senator BROWN. Well, the letter that the chairman talked about, says it has now been represented to us that BCCI will have no involvement with the management, and other affairs, of Financial General, nor will BCCI be involved in the financing arrangements, if any are required regarding this proposal.

Regarding that assurance, your interpretation of that is that only applies to the initial acquisition of the stock?

Mr. ALTMAN. And that is also the interpretation of the Federal Reserve, as I've just indicated.

Senator KERRY. Did the Fed change its position on that? I mean, I must say that I do not understand what it means—this commit-

ment is critical both now and in the future. I mean what does in the future mean?

Mr. CLIFFORD. Can we turn to the footnote on page 16?

Mr. ALTMAN. Yes, sir, we have it—I think I can answer that fairly simply, Senator.

Senator KERRY. Page 16 of your testimony?

Mr. ALTMAN. No, he is talking about, I think, the Federal Reserve application.

Mr. CLIFFORD. The Federal Reserve application.

Senator KERRY. Why do you not just say that?

Mr. ALTMAN. That footnote also contains the language to the effect that BCCI is not a lender, nor will it be, with regard to the acquisition of the stock—or some language to that effect.

The reason you have language relating to the future is because this letter from the controller in 1980, and the application which was filed in proceedings in 1980, it went into 1981, it related to a transaction that did not take place until the spring of 1982. So what they were saying is that BCCI has not made the financing, and is not financing the acquisition of the company, but it relates strictly to that specific proposal. That is our understanding.

I might say, the other law firms that were involved in it have so stated. The attorney who drafted the language said that was his understanding of the language. And the Federal Reserve has now testified that that was how they interpreted the language.

Senator KERRY. Thank you, Mr. Brown. I thought we would turn now to the stock arrangements and the compensation discussion.

As background for us, would you tell us what it was you paid for the stock when you purchased the stock?

Mr. ALTMAN. When we purchased the stock, Senator, we purchased it at book price—the same price that was paid by all the shareholders. And it was roughly \$2,200 a share—a little more than that, I believe.

Mr. CLIFFORD. \$2,216.00.

Mr. ALTMAN. \$2,216.00.

Senator BROWN. Did you borrow to finance that acquisition?

Mr. CLIFFORD. Let me start it, and if Mr. Altman has anything to add—this was in the end of 1985. As the fortunes of First American were improving so dramatically, that we considered that that was an appropriate time to acquire some of the stock.

Let me emphasize, Senator, this was stock in our own company. Apparently, oftentimes, others have gotten that confused. But here we were, I was chairman of the board of First American, and I wanted to own some stock in my own company.

We started toward the end of 1985 thinking about it, because we already knew there was going to be a rights offering sometime in the spring of 1986. Our first thought was that we would borrow the money from a French bank, BAI are the initials—Banque Arabe et Internationale d'Investissement. And Mr. Altman had worked with a Mr. Bradshaw there, back at the time of the acquisition of the old Financial General. So he knew them. He started the conversation. Then we turned it over to our New York lawyers, who were experts in commercial transactions of this kind.

They negotiated at some period with the French bank, and they said, after a while, we're never going to agree with those people.

They have such a queer way of going at it, so different from our way of doing it.

After having said that, I am the one who then spoke to Mr. Abedi, and said we would like to make the purchase of this stock, it's left over from the rights offering. And we would like you to consider lending the money.

He said, I will lend you the money, if you put up all of the stock as collateral for the loan. And the reason he had that in mind was there were occasional sales and purchases of the stock. And if he took the stock in as collateral, at book value, I think he felt very comfortable because of trading that went on in the stock, that he had ample security for the loan. Because so oftentimes, possibly, trading in the stock would be above-book. It was not guaranteed, but that was what was happening.

So he said, in effect, put up all your stock, and that is sufficient collateral.

Senator BROWN. Does that mean that when you acquired the stock for book value, that you acquired it for less than its true value?

Mr. CLIFFORD. No, there is no way that one can determine that. I can only say that the bylaws provided that it shall be offered to the shareholders at book, and there might be trading, I don't remember now. There could be trading at book or less than book or more than book. We didn't know what the price was, because the trading was very sporadic, and did not, at any time, set a price.

Senator BROWN. What were the terms of the financing that you received?

Mr. CLIFFORD. The basic terms—and I'll see if Mr. Altman has something to add to this—I think that the term of the loan was possibly 18 months. We were to pay LIBOR rate, which is to some extent, comparable to our prime rate. And we said that we wanted the loan to be a nonrecourse loan.

Now, that developed in conversations with our New York lawyers. They strongly recommended that. And the reason they recommended is was because in 1986, when we were engaging in this desire to own some stock, I was 80 then. And the recommendation was that we—see, if we couldn't get a nonrecourse loan, it would be awfully important. Because my expectancy was limited, and if I should die, and I left a note of that kind in my estate, it could be enormously upsetting from the standpoint of working out arrangements with IRS and so forth.

So they said that in the light of the fact that if you are getting a stock at book, I think you ought to insist on getting a nonrecourse loan. It was to prevent difficulty, really—to a great extent because of my age.

Senator BROWN. When you say nonrecourse, that means that you do not have to pay it back if you choose not to?

Mr. CLIFFORD. That means that the lender is looking to the collateral for his protection.

Senator BROWN. Well, let me try it again. That means that you have no personal liability on the loan.

Mr. CLIFFORD. I would have no personal liability on the loan, because they felt that the collateral was sufficient to protect them.

Mr. ALTMAN. Other, of course, than interest that is paid.

What it means is, if you default on the loan, the lender must look to the collateral, and cannot go to your other personal assets. It must look to the assets which you and the lender have agreed upon will be the assets to secure the loan.

Senator BROWN. So if the value of the stock went up, you could enjoy the value of that stock. If the value of that stock went down, you would have no liability?

Mr. ALTMAN. Assuming we did not repay the loan—it would be a situation that banks are facing today, when a bank makes a real estate loan on a building to a developer, and the developer can't repay the loan and the value of the building has declined substantially and the bank forecloses on the building, and originally the bank had gotten an appraisal that said the building was worth \$20 million and today it's worth \$10 million, the bank takes a \$10 million loss, that is the risk.

Senator BROWN. I understand. I think we have come to learn a lot about that. The interest rate here, you mentioned, was similar to the U.S. prime, but does it not normally run something somewhat less than prime—than the U.S. prime?

Mr. CLIFFORD. I don't know. Ordinarily, I know, from time to time LIBOR will run less than prime.

Senator BROWN. Is it not usually 1 to 2 percent below prime—below U.S. prime?

Mr. CLIFFORD. I think I would not be able to accept that as a rule. It could from time to time. I have seen instances in which LIBOR and prime were the same.

Senator BROWN. How much of the price of the stock was financed—what percent was covered?

Mr. CLIFFORD. The total cost of the stock. That first purchase of stock of mine was at \$9 million and some-odd, and the loan was in the exact amount of the purchase of the stock.

Senator BROWN. So it was a 100-percent loan?

Mr. CLIFFORD. 100-percent loan.

Senator BROWN. Nonrecourse?

Mr. CLIFFORD. Nonrecourse.

Senator BROWN. At a rate that appears to be below prime for the United States?

Mr. CLIFFORD. It might have been at the time, but see, LIBOR varies. It's not a fixed rate. It fluctuates, and so I don't know how it compared at the time.

Senator BROWN. At this time the United States, of course, restricts loans on stock. My recollection is, at this time it may have been in the neighborhood of 50 percent was the most you could borrow on the value of the stock, but that is for publicly traded stocks. I take it the reason that this did not apply was because it was privately held and because it was a foreign loan?

The reason you were able to borrow more than 50 percent of the value of the stock was because it was from an overseas source?

Mr. ALTMAN. I don't believe those margin requirements were applicable to this transaction.

Senator BROWN. And the reason they are not applicable is because it was a foreign source or because it wasn't traded—publicly traded?

Mr. ALTMAN. I don't recall. I think both of those reasons are applicable.

Senator BROWN. Did First American make loans to individuals secured by stocks of 100 percent during this period of time? Did you all loan money to anyone under terms this attractive?

Mr. CLIFFORD. I'm not aware of the terms of any specific loan. First American made thousands of loans, much of it secured by stock. Some of it secured, of course, by real estate, with which we're all so familiar. The terms of the loan were based upon the relationship that existed between the parties at the time. We waited for 4 years before we had proved what we could do with the property. The shareholders were exceedingly pleased. Kamal Ahdam was enthusiastic about the results. Abedi was pleased because he had recommended the stock to the investors, so that the negotiations for the loan were conducted under very friendly circumstances.

They wanted us to own some stock. They wanted that additional bond. They wanted us to continue on as managers of the property, hopefully being as successful in the future as we had been in the past, and that's the climate within which the agreements were reached.

Senator BROWN. Did First American loan money to any one of their thousands of loans on this favorable terms?

Mr. CLIFFORD. I do not know.

Senator BROWN. Were these better terms than anybody who borrowed from your bank got?

Mr. CLIFFORD. I don't know that I can give a total answer to that. I'm sure it was better terms than the majority of the loans would be.

Senator BROWN. Do you know of any loans that were this favorable that your bank made?

Mr. ALTMAN. I think the reason that we have some hesitation, Senator, is that neither Mr. Clifford or I were in the practice of reviewing loans. We had professional banker's and credit committees, and they handle loans and there are thousands and thousands of loans that were made over the 10 years. I would not be aware of any loan that would be on these terms, but we are reluctant to make categorical statements when we're unsure of the complete accuracy of them. But we're not aware of it.

Senator BROWN. The amount of money involved here was what, in the neighborhood of \$15 million?

Mr. ALTMAN. Yes, sir.

Mr. CLIFFORD. The total was. Yes.

Senator BROWN. The total was for—

Mr. ALTMAN. For two loans.

Senator BROWN. My understanding was that in most banks, the board of directors and management has to sign off on significant—on large loans. Did that not happen with First American?

Mr. ALTMAN. It depends on the size of the loan. Different banks have different lending procedures, and different lending authorities, but certainly you'll recall in Mr. Clifford's case, he did not sit on any of the bank boards. Mr. Clifford sat on the holding company boards and credit decisions do not come to the holding company. I sat on some of the subsidiary bank boards, but I was not a partici-

pant in the credit committees. Some loans such as, for example, in New York of a certain magnitude where I was a director did come to the board. So I'm familiar with some loans, but not the general practice at all these banks.

Senator BROWN. Mr. Altman, were your loans at the same terms and conditions that Secretary Clifford's loans were at?

Mr. ALTMAN. They're identical, but 50 percent of the size, same terms.

Senator BROWN. Secretary Clifford indicated that the reason or one of the reasons for the terms of his loan was because of estate planning. Would that have applied to you as well?

Mr. ALTMAN. Well, obviously Mr. Clifford hopefully has a lesser expectancy than I, being 40 years older.

Senator BROWN. I serve with Strom Thurmond on the Judiciary Committee—

Mr. ALTMAN. But to clarify it, if I might, there is a factor here which is equally applicable to both of us. It is just a more pressing problem in the event of estate issues. The problem that you have here is the liquidity of the investment.

You asked about what was the value at the time we bought the stock. We bought the stock at book value. We don't know what the value was if you went to sell it. It depends on whether or not you had a buyer available at the time, and there were clearly a very limited number of potential buyers. Recall that he and I were just purchasing very small percentages of the stock and so, our ability to resell that stock was something that we could not be assured of, and our counsel was very insistent that we not borrow large sums of money secured by collateral, when we were not assured of the liquidity of that collateral. And, therefore, they felt that if we could not get a nonrecourse loan, it was preferable not to make the investment. They felt very strongly that this was to be a nonrecourse loan, and when we were originally in negotiations with BAI, they took the same position that it had to nonrecourse financing.

Senator BROWN. The lender did?

Senator KERRY. Mr. Secretary, I just noticed that your wife departed for a moment, but I know that chair is somewhat uncomfortable. I would be happy to make one of these other chairs available, if that is better.

Mr. CLIFFORD. Oh, how thoughtful of you, that would be great. Thank you very much.

Senator KERRY. If we could have somebody just bring one of those down or something.

Mr. CLIFFORD. I'm much obliged to you.

Senator BROWN. The loan negotiations with BAI appears to be a loan negotiation with a bank that was, in effect, an affiliate of BCCI and had similar shareholders. Were you aware of this at this time?

Mr. ALTMAN. I don't believe that's accurate, Senator. At least that's not my understanding.

Senator BROWN. You are not aware of a relationship between BAI and BCCI?

Mr. ALTMAN. I'm aware of a relationship. I know that—I believe he's the former president, perhaps he's still the president of BAI—

served on the board of BCCI, but they were unaffiliated institutions. Other than this director interlock, they were unaffiliated institutions. BAII was a consortium bank, owned by a group of 30 banks or something around the world, I think. I'm not completely familiar with that and so I don't want to suggest to you that I am, but I don't believe that they were considered corporate affiliates.

Mr. CLIFFORD. When, Senator—when the original deal was made, in round numbers the investors put up \$200 million and of that, \$50 million was borrowed on our part from this BAII bank, and that's why we thought of them first, because they'd been in it originally. That loan now is down to about \$10 million. Through the years we've been paying off on it.

Senator BROWN. Were the payments called for in your promissory notes made on time?

Mr. ALTMAN. Actually, made early.

Senator BROWN. So you paid the loans off before they were due?

Mr. ALTMAN. Well, I don't want to generalize. I should be specific. The original loan was made in the summer of 1986 and interest and principal was due, I believe, 18 months later. I could look at the documents for it to be specific. In the summer of 1987, there was a rights offering and there was a desire on our part to participate in that rights offering, and we again sought financing from BCCI—Mr. Clifford in the amount of approximately \$2 million; and I sought approximately \$1 million of additional financing.

At that time, as a condition to getting the second loan, even though the interest on our first loan was not yet due, Mr. Clifford and I sent interest checks to BCCI for something over \$1 million. So that was before the documents would require us to make payment, but it was a condition if we wanted to secure additional financing.

Senator BROWN. But on these original loans, they were due on January 1, 1988, were they not?

Mr. ALTMAN. In January.

Mr. CLIFFORD. Yeah.

Mr. ALTMAN. I don't remember what date.

Senator BROWN. And were they paid off at that point?

Mr. ALTMAN. No. They were—at that time, the loans provided that if they came due and we had not paid them off or sold any portion of our stock, then we could seek refinancing, or ask BCCI to roll them over, and we asked BCCI to consider rolling them over. This was in December, but before we completed that arrangement, Mr. Clifford and I decided that it would be preferable to try to dispose of some portion of our holdings, and so, in February, Mr. Clifford started the process to sell a portion of the stock and the principal and all the accrued interest was then paid in March.

Senator BROWN. And that was February 1988?

Mr. ALTMAN. Yes, sir. That was the—approximately 30 days later, whatever the exact due date was.

Senator BROWN. So at least for a period of time, these loans were in default?

Mr. ALTMAN. Well, they were not actually in default because we had gone to the lender, we had asked the lender if they would refinance the loan or roll it over. The lender indicated a willingness to do that, but before the documents were prepared for a second loan,

we started the process of disposition of the shares which made papering that unnecessary, and when we paid the loan, even though the second loan had not been documented, we paid all interest accrued to date.

Senator BROWN. So while they might have been technically on paper in default, you had had a verbal agreement to handle it.

Mr. CLIFFORD. Which was consistent, Senator, with the original understanding that they would extend it at our request.

Mr. ALTMAN. As set forth in the documents.

Senator BROWN. The Internal Revenue Code provides for interest that is charged in a below market rate fashion to be reported as income. I think the Treasury publishes the rate at which they make that comparison monthly. It appears that the interest rate you were charged was below that rate. Did you report as income in 1987 and 1988 the below market rate interest that you were charged?

Mr. CLIFFORD. I do not know that it was below the rate, Senator. There was no reporting on our part. As I said, the LIBOR rate is a flexible rate. The loan was made under LIBOR and the bank set the rate. We did not set the rate. The bank set the rate. We accepted the rate that the bank set at LIBOR and paid it.

Mr. ALTMAN. I'm not sure that I would agree with your assumption, Senator, or your interpretation of the code, if I might say so.

Senator BROWN. Your feeling is that the code does not require recognition as income for below market rate loans?

Mr. ALTMAN. What I am suggesting here is, this loan transaction was one in which we negotiated with BCCI and they advised us of the rate that would be applicable to the borrowing. I have never heard of a case where the IRS has taken the position that a loan obtained from a financial institution at a rate set by the financial institution is the kind of imputed interest that you're suggesting would apply. I think that generally is the kind of situation where a father gives a son a loan for nothing, with no interest rate and it's in effect a gift to the child of the additional amount that is the interest that is not required. But I've never heard of a case such as you're suggesting, where when a bank sets an interest rate, that's regarded as imputed interest—some differential to the borrower.

Senator BROWN. Could you supply, for the record—obviously, if you knew it off the top of your head that would be fine, but if you would be willing to supply for the record, the interest rate that you paid on this amount?

Mr. ALTMAN. Sure.

Mr. CLIFFORD. Sure.

Senator BROWN. Would you recap for us the sale of this stock? What price was it sold for?

Mr. CLIFFORD. \$6,800 per share.

Senator BROWN. And was that the book value at the time?

Mr. CLIFFORD. Oh, no. No. See, there were two areas of pricing of the stock. One was book and that is based, as you know, upon the excess of assets over liabilities of that particular company, as of a particular time. That's called the book value. So that the stock that would be taken up by the shareholders, when it was offered, was always offered at book. We did that not only with this circumstances, but whenever any of the member banks gave rights offer-

ings, it was always at book. That was the custom within First American. Now—so the book, you could check on at any particular time and find out exactly what the book value was. And just to also let you know the progress of the bank, when we bought our stock in 1986, book value was \$2,216. By the end of 1988 or 1989, it had gotten up very close to \$3,000. That's how much progress the bank was making, but that book was steadily going up. But during that period, there was other trading at a different level that was not concerned with book. If an individual felt that First American was a very attractive buy, he might choose to pay whatever a willing seller and a willing buyer agreed upon.

Senator BROWN. So you were able to buy it book, but when you sold, you sold on the—it wasn't an over-the-counter market, but in such market as did exist, I would guess.

Mr. CLIFFORD. That's right and that happened in a number of instances. We had heard at some time that there were sales at \$4,000. On other occasions, we'd heard there were sales of the stock at \$5,000, and more interesting to you, there had been a substantial transaction, Senator. Prior to our sale there had been a substantial transaction at \$6,100 a share. That's when the Bin-Mahfuz family of Saudi Arabia decided that they wished to start taking a substantial position in First American. First American was considered to be a very attractive, dynamic, coming stock and that particularly led to those prices.

Senator BROWN. I take it, book value continued to increase in 1988 and 1989?

Mr. CLIFFORD. Yeah. It increased each year during the 1980's.

Senator BROWN. Do you recall how much—what your gain was on this particular sale? You did not sell all your stock, but a portion of your stock—the stock you did sell?

Mr. CLIFFORD. Only about 60 percent of it.

Mr. ALTMAN. We have attached to our written submission, Senator, attachment (I), all of the numbers for the record as to amounts received and disbursed and taxes and the rest, so you would have that available to you.

Senator BROWN. Let me just say for the record that the full text of your statement will be placed in the record, with your opening comments that you made, at the appropriate place in the record and the exhibits will be included here.

[The information referred to follows:]

**ATTACHMENTS TO STATEMENT OF CLARK M. CLIFFORD AND
ROBERT A. ALTMAN BEFORE THE
SUBCOMMITTEE ON
TERRORISM, NARCOTICS, AND INTERNATIONAL OPERATIONS,
COMMITTEE ON FOREIGN RELATIONS,
UNITED STATES SENATE**

October 24, 1991

INDEX OF ATTACHMENTS

- A. Sharon Walsh, First American Trust Mired In Questions Over Ownership, Washington Post, Oct. 15, 1991, at D1.

Nicholas Bray & Peter Truell, Judge Halts a Liquidation of BCCI's U.K. Operations, Wall St. J., July 23, 1991, at A17.

James R. Kraus, Regulators at Odds over BCCI Stake in D.C. Bank, Amer. Banker, July 12, 1991, at 1.

- B. Letter from Alan R. Cohen, Acting Superintendent, State of New York, Banking Department, to Benjamin S. Rosenthal, Chairman, Commerce, Consumer & Monetary Affairs Subcommittee, House of Representatives (Oct. 12, 1982).
- C. Foreign Government and Foreign Investor Control of U.S. Banks: Hearing Before a Subcommittee of the Committee on Government Operations, House of Representatives, 97th Cong., 2nd Sess. (Sept. 30, 1982) (Statement of Henry C. Wallich, Member, Federal Reserve Board).
- D. Letter from Gerald Lewis, Comptroller of Florida, Department of Banking and Finance, to Agha Hasan Abedi, Director and President, Bank of Credit and Commerce International (Dec. 18, 1985).
- E. Letter from J.P.G. Wathen, Vice-Chairman, Barclays Bank Limited, to Robert A. Altman (April 22, 1981); letter from R. Misery, Deputy Manager, and P. Hagen, Manager of Banque De L'Indochine et de Suez, to Robert A. Altman (April 21, 1981); letter from United Overseas Bank to Robert A. Altman (April 21, 1981); letter from S.M. Shukri, Managing Director & Chief Executive, Allied Arab Bank Limited, to Robert A. Altman (April 22, 1981); letter from Stephen P. Munn, President, Carrier, to Robert A. Altman (Aug. 24, 1981); letter from Guy Ogee, Deputy Manager for the Middle East, Thomson-CSF, to Robert A. Altman

(Aug. 25, 1981); letter from G. Bechaalany, Vice President, Seven-Up S.A., to Robert A. Altman (Aug. 26, 1981); letter from Jean Bonnard and Dr. U. Sigg, Schindler Management Ltd., to Robert A. Altman (Sept. 3, 1981); letter from Abdul Kader AlSeesi, General Manager, Alahli Bank of Kuwait, to whom it may concern (April 16, 1981); and letter from Ahmed Al-Mishari, Chairman, Managing Director, Kuwait Airways, to whom it may concern (Oct. 19, 1981).

- F. Proxy signed by Ghanim Al-Mazrui, acting on behalf of H.H. Sheikh Zayed Bin Sultan Al Nahyan (Dec. 26, 1990); proxy signed by Ghanim Al-Mazrui, acting on behalf of H.H. Sheikh Khalifa Bin Zayed Al Nahyan (Dec. 26, 1990); proxy signed by Mohammed Habroush, Managing Director of Abu Dhabi Investment Authority (Dec. 27, 1990); proxy signed by H.E. Sheikh Kamal I. Adham (Dec. 20, 1990); proxy for Adham Corporation (Dec. 20, 1990); proxy signed by Sayed Jawhary (Dec. 20, 1990); proxy signed by H.E. Ali Mohammad Shorafa (Dec. 16, 1990); proxy signed by Faisal Saud al Fulaij (Dec. 20, 1990); proxy signed by Eugene Muller and Bob Bernard on behalf of Mashriq Holding Company (Dec. 21, 1990); proxy signed by Clark M. Clifford (Dec. 21, 1990); proxy signed by Robert A. Altman (Dec. 21, 1990); proxy signed by Sheikh Humaid Bin Rashid Al Naomi (July 10, 1984); proxy signed by Abdul Raouf Khalil (July 10, 1984); proxy signed by Mohammed Habroush, Managing Director of Abu Dhabi Investment Authority (July 12, 1984); proxy signed by Ali Mohammad Shorafa (July 12, 1984); proxy signed by El Sayed El Gohari (July 10, 1984); and proxy signed by Sheikh Khalifa Bin Zaid Al Nayhan (July 12, 1984).
- G. Credit and Commerce American Holdings, N.V., Offering Memorandum (June 9, 1989).
- H. Letter from Swaleh Naqvi, President, Bank of Credit and Commerce International, to Robert A. Altman (Aug. 23, 1983).
- I. Chart entitled, "Clifford and Altman Stock Transaction."

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First American Trust Mired In Questions Over Ownership

Impasse Is Delaying Attempts to Sell Bank

By Sharon Walsh
Washington Post Staff Writer

Kamal Adham says that he, and he alone, is the owner of about 13 percent of the shares of First American Bankshares Inc.'s parent company. But the Federal Reserve Board says that Adham, a Middle Eastern businessman with ties to the Saudi royal family, is one of six sham stockholders who acted as fronts for the Bank of Credit and Commerce International.

Other alleged BCCI stand-ins have taken the same position as Adham. Together, they hold more than 50 percent of the stock in First American, leaving the Fed and First American officials in a legal and practical quandary over how to establish a clear separation between the bank and BCCI.

Without some agreement from the majority of the shareholders, the officials say, they cannot follow through on their announced intention to set up an independent trust to hold the disputed shares of the bank.

The impasse has put on hold moves to sell the bank and left its management unable to say unequivocally that BCCI is not a powerful shareholder.

"The trust is important to the bank because it would provide a public assurance that there isn't any improper influence," said Nicholas deB. Katzenbach, chairman of the bank. "I wish to God it had happened before now . . . but I don't control the process."

Since March, when the Fed ordered BCCI to sell any shares that it had acquired illegally in First American, federal regulators and others have worked to establish such a trust.

The government of Abu Dhabi, one of the United Arab Emirates, has agreed to put its 28 percent stake into the trust, but no other shareholder has made a commitment.

In August, after Clark M. Clifford and Robert A. Altman resigned their positions as chairman and president of the bank, the negotiations to establish a trust became more fevered as pressure increased from the Fed and from the Abu Dhabi government.

The parties involved in the trust negotiations agreed to be interviewed on condition that they not be identified.

The Abu Dhabi shareholders, at first reluctant to be part of a trust, now realize that they would have to wait five years or more for the turnaround of the real estate market to earn a significant return on their investment in the bank and are eager for a trust so that their stock can be sold.

The Fed, worried about the condition of the bank, wants the bank sold and out of the shadow of BCCI as quickly as possible.

The trust in some ways has become a political football among the various parties, which now include representatives of First American and the court-appointed liquidators assigned to handle BCCI's assets after regulators seized the giant bank in July.

What some thought could be accomplished quickly has dragged on for months. The parties agree that a trust is in everyone's interest—except perhaps the nominees, who, the Fed says, bought the shares on behalf of BCCI—but no one can agree on a methodology.

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"It's become a spitting contest that has got to come to a head soon," said one participant.

The proposed trust agreement
See TRUST, D4, Col. 1
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has been revised so many times and so often that even the lawyers involved can't keep track. One attorney headed for a meeting with other participants and found that by the time he arrived for the meeting, his copy of the agreement was already out of date.

Among the main provisions of a previous draft of the trust agreement, a copy of which was reviewed by The Washington Post:

■ First, the board of First American's parent company, Credit and Commerce American Holdings N.V., a Netherlands Antilles corporation, would transfer ownership of its wholly owned subsidiary—Credit and Commerce American Investments, a Netherlands corporation—to the trust. The trust then would have clear title to CCAI, even if the ownership of CCAH might still be in question.

Some participants are debating whether the board of CCAH—which is composed of several of First American's top executives—can transfer the title without the agreement of the individual shareholders of CCAH.

The recently elected board of CCAH—since the resignation of Clifford and Altman—consists of Katzenbach; the bank's chief executive officer, Jack W. Beddow; its chief operating officer, Paul Adams; and First American Bankshares board member Charles McC. Mathias, a former senator.

■ A trustee would be named to help hire an investment banker to sell the CCAH shares.

■ The trustee would direct the board of First American to take the necessary steps to sell the bank within one year of the signing of a trust agreement.

This is another point of contention: Who would be in charge of selling the bank—Katzenbach or the trustee?

And, will the nominee shareholders have any say in when and for what price the shares are sold?

■ The trustee would deposit the proceeds of any sale into a trust account.

That's when an even bigger battle may begin as "real" and "nominee" shareholders begin suing each other over who gets the money. Under Netherlands Antilles laws, where the stock is registered, the shareholders of record have certain legal rights.

The process of establishing a trust, sources said, cannot wait several years to see whether the criminal justice system is able to prove who the true owners are.

Meanwhile, can the Fed, or anyone else, force the so-called nominees to put their shares in a trust?

Plato Cacheris, an attorney for Adham, isn't saying whether Adham will put his shares in the trust.

"We haven't done anything," Cacheris said. "My position is that they are his shares. He purchased them for himself and would like some comfort on how the stock is to be sold. If it's sold at a distress sale, he'll take a beating."

There also is the question of who would serve as trustee.

The various parties at first wanted an individual trustee, but decided that it would be better to appoint an institutional trustee. The investment bank J.P. Morgan & Co. of New York was approached about the post but declined, sources said.

The job may not be that attractive. For a moderate fee, it will mean a lot of headaches.

Once the trust agrees to sell the stock, there are bound to be numerous lawsuits over who gets the money, and the trustee—who will hold the money until the fights are over—is likely to be named in the suits.

But to name a trustee, there first must be a trust.

And for that, said one source: "The Kamal Adhams of the world and the BCCIs are going to have to agree."

Judge Halts a Liquidation Of BCCI's U.K. Operations

Sham Accounts, Secret Role Of First American Bank Are Alleged at Hearing

By NICHOLAS BRAY
And PETER TRUILL

Staff Reporters of The Wall Street Journal
LONDON—A British judge temporarily froze the government's plan to liquidate local operations of Bank of Credit & Commerce International S.A., in a move to give the bank's Abu Dhabi shareholders time to consider a rescue plan.

Addressing a courtroom packed with lawyers, journalists and BCCI employees and depositors, Sir Nicolas Browne-Wilkinson adjourned for eight days the Bank of England's request for authority to wind up the British and related operations of the scandal-stricken bank, which was seized by a global band of regulators July 5.

The government, seeking approval for immediate liquidation, depicted BCCI as a textbook case of financial fraud and mismanagement. In this connection the government presented evidence suggesting that BCCI used First American Bank shares Inc.—the biggest bank holding company in Washington, which BCCI secretly owned for several years—as a source of secret funds for perpetuating a world-wide banking scam.

But during the hearing, lawyers for BCCI's controlling shareholder, Sheikh Zayed al-Nahyan, the ruler of Abu Dhabi, said his client was still willing to consider a plan to bail out the bank with another capital infusion. "The possibility of a viable alternative to liquidation is a real one," said David Johnson, attorney for Sheikh Zayed.

The court action in England comes as the scope of the apparent fraud becomes even wider at BCCI, whose principal operating company is BCCI Holdings (Luxembourg) S.A.

In a letter to the European edition of this newspaper, lawyers for Sheikh Mohamed bin Rashid al-Maktoum of Dubai said he "never borrowed" \$121 million from BCCI, as the auditing firm of Price Waterhouse found in a 1990 review and as this newspaper reported earlier this month. Another big borrower identified by Price Waterhouse in the 1990 audit, the al-Ibrahim family of Saudi Arabia, also denied receiving funds from BCCI, according to the Independent, a London newspaper. "Neither of these loans ever existed, but were simply credited against the names to disguise BCCI's losses," the newspaper said.

If true, these assertions mean that loans to nonexistent borrowers were fabricated in BCCI's records. Doing so could help mask the huge, undocumented movements of deposits out of the bank that auditors have also discovered.

Prime Minister John Major wouldn't comment on allegations in the media that BCCI had been used by terrorist organizations, including the Abu Nidal group, to fund arms purchases and other operations. Instead, he said, an inquiry into the BCCI affair will be headed up by Lord Justice Bingham, a prominent appeals court judge, who will have access to all relevant papers, officials and government ministers.

Some U.S. officials involved in counter-terrorism expressed irritation that British officials hadn't informed the U.S. officials of suspicions that alleged terrorists banked at BCCI.

The Bank of England said it was disappointed by the court action. The immediate winding-up order, as requested by the government, would have unleashed partial compensation for U.K. depositors who have lost money with the bank, equivalent to 75% of deposits to as much as a maximum reimbursement of £15,000 (\$25,389).

BCCI's total liabilities in Britain amount to the equivalent of \$3.25 billion, according to Touche Ross & Co., the provisional liquidators of BCCI. The bank has about 40,000 depositors in the U.K., of which 36,800 have less than £1,000 on deposit. Sir Nicolas made it clear that any delay in the liquidation beyond eight days would be considered only in conjunction with measures to assist small depositors.

The call for a delay—supported by a number of major depositors and by representatives of BCCI employees—was given extra force by Touche Ross itself, whose officials have discussed possible alternatives to liquidation with regulators in Luxembourg.

Speaking for the British central bank, lawyer Gabriel Moss advanced numerous reasons why it was "just and equitable in the public interest to wind up BCCI."

He traced the fraud at BCCI to the bank's mountain of bad and doubtful debts and to trading losses that totaled about \$849 million from 1977 to 1985. To cover bad debts, he said, BCCI channeled funds into a separate, unnamed unit that then repaid third-party bank borrowings, concealing the extent of BCCI's exposure.

Mr. Moss outlined the alleged artifice using code names that auditors have attached to various BCCI operations. BCCI used funds from a company he called

"Fork," which others identified as a Cayman Islands-based company with a purportedly charitable status. BCCI, he also said, took in unrecorded deposits totaling about \$800 million, \$300 million from a depositor he identified as "Tumbleweed."

The fraud only spiraled, the government lawyer said. "The solutions to the initial problems had to be solved using the same deception, but on an ever-increasing scale," he told the court.

"Unrecorded deposits and fictitious loans had to be repaid and funds under Fork's management had to be replaced," he added. "To do that, further unrecorded deposits, fictitious loans and funds under Fork's management had to be used."

Mr. Moss discussed the role of one BCCI unit, which he identified as "WXYZ," in particularly strong terms. Individuals familiar with the case identified WXYZ as First American, in which BCCI acquired a controlling stake through covert share purchases in the early 1980s.

In addition to its previously reported role in financing First American's share capital, BCCI used First American shares as security for loans to individuals acting in BCCI's behalf for releasing funds to adjust nonperforming loan accounts, to cover up unauthorized loans and to generate fictitious income, Mr. Moss said.

All told, the Bank of England submission asserted "the BCCI group made significant losses over the last decade and may never have been profitable in its entire history."

Responding to these allegations, Mr. Johnson affirmed on behalf of BCCI's Abu Dhabi shareholders that measures had already been taken, in the context of a restructuring plan, to contain and isolate the fraud. Abu Dhabi is one of the United Arab Emirates.

The Bank of England had made no definite assertion that fraud was continuing within BCCI, and it had made clear that it considered the Abu Dhabi authorities to be innocent of any participation in the fraud, he added.

Regulators At Odds over BCCI Stake In D.C. Bank

By JAMES R. KRAUS

NEW YORK — Regulators in the United States and Luxembourg are at odds over who controls the Bank of Credit and Commerce International's stake in First American Bankshares.

The question has put in limbo the Federal Reserve's plan to sell BCCI's illegal holdings in First American, an \$11 billion-asset company based in Washington and run by Clark Clifford, a former presidential adviser.

Citing evidence of widespread fraud, regulators last Friday closed BCCI offices in eight nations, including Luxembourg, where the \$20 billion-asset company has its headquarters.

Regulators Queried

Fed officials are maintaining that regulators in Luxembourg now control BCCI's stake in First American. "We have asked the Luxembourg authorities for instructions," a senior Fed official said Thursday.

But the ranking regulator in

Regulators at Odds over BCCI Stake

Continued from page 1

Luxembourg said Thursday that his country does not have a say in the disposal of the shares. "It's a U.S. [legal] problem," Pierre Jaans, director of the Luxembourg Monetary Institute, said in a telephone interview. "I am not even theoretically sure who holds that stake."

BCCI evidently owned First American shares through a secret relationship with Credit and Commerce American Holdings, a holding company based in the Netherlands Antilles, a Dutch dependency in the Caribbean. According to the Fed, BCCI illicitly acquired a stake of more than 25% — the exact amount is not clear — in First American.

Off the Books

From a purely legal standpoint, Mr. Jaans said, the stake was never entered on the books of BCCI or its parent, BCC Holdings, and therefore does not automatically come under the control of Luxembourg's regulators.

However, Mr. Jaans did not rule out the possibility that the stake might end up under his control once the investigation into BCCI's activities is completed.

Both the Fed official and a member of the law firm hired to sell the BCCI stake appeared flabbergasted by the Luxem-

bourg regulator's position on First American.

"Of course BCCI never listed shares of First American on their balance sheet," the senior Fed official said. "The whole thing was concealed from the start."

Receiver's Role

BCCI agreed in March to sell its stake in First American. "From a U.S. legal standpoint, it's quite clear to me that a Luxembourg receiver would be compelled to live up to lawfully authorized contractual obligations" entered into by BCCI, said Sandy Martin, a partner with the Washington law firm of Patton, Bogg & Blow, which is representing BCCI.

On Friday — the day the assets were seized — Fed officials and lawyers from Patton, Bogg & Blow were finalizing plans under which the BCCI stake would have been turned over to a Fed-appointed trustee.

The trustee was to have taken control of the shares with authority to sell them off to a Fed-approved purchaser. He would also have had the authority to replace First American's current management.

"The plan has gone into abeyance," the Fed official said.

Also at issue is BCCI's majority stake in Independence Bank, a \$640 million-asset institution based in Encino, Calif. □



STATE OF NEW YORK
BANKING DEPARTMENT
TWO WORLD TRADE CENTER
NEW YORK, N.Y. 10047

ALAN R. GELMAN
ACTING SUPERINTENDENT

October 12, 1982

Honorable Benjamin S. Rosenthal
Chairman
Commerce, Consumer & Monetary
Affairs Subcommittee
House of Representatives
Rayburn House Office Building
Room B-377
Washington, D. C. 20515

CONGRESSMAN BEN ROSENTHAL RECEIVED	
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Dear Congressman Rosenthal:

At the public hearing held by your committee on September 30, you requested that the New York State Banking Department supply you with information concerning the investigation of the investors who applied for permission to acquire control of First American Bankshares, Inc. (First American), formerly known as Financial General Bankshares, Inc.

A review of our records indicates that we made a thorough investigation and that we obtained sufficient information to determine that the investors' character and financial responsibility warranted approval of the application.

The investors had to comply with the stringent information requirements of the Banking Department's Supervisory Procedure CB 117 (copy attached) which provides for an extensive probe into the financial and personal affairs of individual applicants. Among the data required under CB 117 are curricula vitae, employment histories, disclosures of previous or pending civil or criminal proceedings, banking relationships, descriptions of the sources of funds for the proposed investment, details of applicants' businesses, three-year financial statements, explanations of the accounting principles used in their preparation and a description of the qualifications of the accountants who prepared them.

The material submitted under CB 117 was further supplemented by a long list of additional information which we subsequently requested and obtained from applicants. This included interim financial statements, additional bank and non-bank references, further details on their business connections, elaboration of significant items on their financial statements, and background data on the home countries of the applicants.

We also worked closely with the staff of the Federal Reserve Board, who were investigating the same investors, and exchanged information with them continually. They, of course, had at their disposal the vast investigative resources of the federal government. Through them we established contacts at the U. S. State Department and the U. S. Department of Commerce from whom we obtained valuable information about the investors and about their home countries.

Finally, we utilized the resources of multinational banks in New York City, in particular Morgan Guaranty Trust Company, Manufacturers Hanover Trust Company, Irving Trust Company and Citibank. Middle East specialists at these banks knew the major investors, were able to confirm the accuracy of much of the information we have received, and were able to supply us with additional information as well.

From none of the foregoing sources of information did we ever receive any derogatory information about any of the investors. On the contrary, all the information we received indicated that the investors were prestigious and reputable people.

Finally, it should be noted that this application received more scrutiny from more regulatory agencies than any other in recent memory. Over a period of four years, the application was scrutinized by the Federal Reserve Board, the Comptroller of the Currency, the Securities and Exchange Commission, and the banking authorities of the states of Maryland, Virginia and Tennessee as well as New York. None of the regulatory agencies involved found anything derogatory about any of the investors, nor did the former top management of Financial General, who fought the takeover for almost three years.

To reiterate, our investigation was thorough and explored all available sources of information. Our conclusions were consistent with all the standards and criteria set forth in the New York Banking Law.

I want to thank you for this opportunity to set the record straight on this matter.

Yours truly,



Encl.

**FOREIGN GOVERNMENT AND FOREIGN INVESTOR
CONTROL OF U.S. BANKS**

HEARING
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
NINETY-SEVENTH CONGRESS
SECOND SESSION

SEPTEMBER 30, 1982

Printed for the use of the Committee on Government Operations



Mr. ROSENTHAL. All right, Mr. Daub.

Mr. Wallich, we are very anxious to hear from you.

**STATEMENT OF HENRY C. WALLICH. MEMBER. FEDERAL
RESERVE BOARD**

Mr. WALLICH. Mr. Chairman, I understand that you would like me to summarize some parts of my statement.

Mr. ROSENTHAL. Yes. Without objection, a copy of your entire prepared statement will be inserted in the record.

Mr. WALLICH. I will begin by saying that this is the third time I have been privileged to appear before your subcommittee. There were large acquisitions at the time when I appeared previously. The interest of foreign countries in U.S. banks has continued, although on a lesser scale recently. At the present time we have a situation where 134 banks are controlled by foreign banking organizations and foreign investors.

The performance of these foreign banking organizations has been studied very carefully on a quantitative scale. The principal findings are easy to summarize because, just as Mr. Kohn said, the differences between domestically run and foreign run institutions after they become foreign owned are small.

What we have found is that banks that became foreign owned typically before their acquisition had lower earnings and lower equity ratios than their peer group. In other words that was the type of bank that was being bought. Following acquisitions, earnings generally improved, although not up to peer levels. Equity levels were raised to peer levels as a result of infusions of capital. The business orientation of the acquired banks did not change materially. There was somewhat less emphasis on retail lending as a proportion of total, reflecting a greater diversification of the lending portfolio.

Within the whole group of foreign-controlled banks, the greatest improvements in earnings and the largest increases in capital took place at banks that were acquired by foreign individuals. However, their earnings were low at the time they were being acquired.

I want to say a few words about supervisory experience. One can judge that from the point of view of the performance of a bank. I have cited equity ratios and earnings. There is some further evidence available from ratings that are assigned by supervisory agencies. Of the 52 banks that appeared in a given sample that was reviewed, there were 40 that had strong composite ratings for financial soundness. There was a very small proportion that was unsatisfactory. In other words, the picture is not at all bad there.

The record of compliance is more difficult to measure. Every bank in the United States has some occasional incident of a violation of law. This is easily corrected as a result of the examination process. Foreign-owned banks are no different in this regard. On the whole I think one can say that compliance in foreign banks is as good as it is in domestic banks.

I will skip the section on supervision, which describes our techniques, Mr. Chairman, with which I think you are familiar. I will go on to page 7.

Most foreign bank holding companies are foreign banking organizations, that is banks abroad. They are usually the major banks in their home countries. They are supervised by foreign banking authorities. They have recognized reputations. For these reasons, the Board has not been confronted with serious problems in supervising U.S. activities of these bank holding companies.

Mr. ROSENTHAL. Let me ask you one question. When you say they are supervised by foreign banking authorities, is that supervision of the same character and stringency as the type of supervision I would like to think we have here?

Mr. WALLICH. We are proud to think that ours is more intensive, and there is a specific difference in that ours rests on examination, typically annual, of a bank, going through their books, going through their portfolio. Few other countries do that.

It also must be recognized that we have a very large number of banks, and among those you might always find some that need this kind of attention. Foreign banking systems are much more concentrated as a rule than ours. Nevertheless, I think you can say a lot on behalf of American bank supervision.

When we are dealing with foreign individuals, certain supervisory problems do arise. One supervisory problem relates to the initial entry of foreign investors trying to acquire or establish a bank. The other relates to the continuing operations of their banks.

On the question of entry, I might just note that the principal problem is to ascertain the financial strengths and reputation of the would-be foreign owners. This is not a unique problem internationally. It is a problem that faces the Office of the Comptroller of the Currency when foreign investors seek to charter a national bank. It is a problem encountered by all three Federal banking agencies under the Change in Bank Control Act when there is an effort of a foreign investor to acquire more than 10 percent of an existing bank and become a large, distinguished shareholder.

The relevant banking agency has to determine the investor's condition, and status and the ability to make such a determination is necessarily complicated by distance and differences in foreign conditions and standards.

On the second question of continuing supervision of foreign individuals, there is the problem of assuring that the bank is managed well and that it is not used for the benefit of the foreign owners to the detriment of the condition of the bank. Individual investors, by comparison with banking organizations, may not have the same interest in preserving the banking reputation.

The first line of defense on this point is to limit entry to persons of undoubted integrity and banking experience. On the whole, as described earlier, the banks owned by foreign individuals have been managed well and have posed few supervisory problems. However, there have been exceptions.

If I may turn to Federal Reserve procedures on applications made by foreigners seeking to acquire U.S. banking organizations, we have the Bank Holding Company Act which provides several criteria that the Board is required to consider in judging all bank holding company applications. These are, first, the financial and managerial resources of the acquiring company and the bank to be acquired; second, the future prospects of each; third, the conven-

ience and needs of the community to be served; and fourth, the effects of the proposal on competition.

Similar criteria are to be considered by the banking agencies under the Change in Bank Control Act. These criteria apply both to foreign and domestic acquisitions.

When an application is received by the Federal Reserve from foreign banking organizations or foreign individuals or foreign bank holding companies, the same general procedures are followed, and the same general information is required as if domestic organizations or domestic individuals were involved. Also, a concerted effort is made to obtain additional information that will enable an evaluation of the applying foreign banking organization to be viewed against the environment in which it operates in its home country. In the case of foreign individuals, they are required to submit financial statements and other information sufficient to assess their ability to manage a banking organization and to stand behind the acquired bank.

Contact is usually made with the appropriate foreign supervisory authority about the condition and reputation of the foreign applicant. When a foreign banking organization is involved, this procedure is in keeping with a broad agreement reached among the central banks and bank supervisory authorities of the G-10 countries and Switzerland that the foreign banks operating within their territories should be adequately supervised institutions in their home countries and that the home country supervisors should supervise the activities of their banks on a consolidated basis.

Now I come to the main acquisitions that are listed in your statement, Mr. Chairman. The three cases are, first, the Crocker National Corp. acquired by Midland Bank Ltd.; second, Financial General Bankshares acquired by a group of Middle Eastern investors; third, the acquisition of Long Island Trust Co. Bancorporation by Banca Commerciale Italiana. My remarks will be confined to the highlights of each case. More details are contained in the Board's orders approving these acquisitions, which is included in my testimony.

In early 1981, Midland Bank, one of the major London clearing banks, applied to acquire a majority interest in Crocker National Corp., whose principal subsidiary bank and principal asset is Crocker National Bank. At the time Midland had total deposits of \$55 billion and was the third largest bank in the United Kingdom. Crocker National Bank had total assets of \$19 billion and was the fourth largest bank in California and the twelfth largest in the United States.

Under the proposal, Midland Bank would immediately acquire 51 percent of the stock of Crocker National Corp. with the intention of ultimately acquiring 57 percent. The end result of the acquisition would be an infusion of \$495 million in new capital into the Crocker National Corp.

At the time of the application Midland Bank had no operating banking presence in the United States. Its only representation was as a part owner of European American Bank and Trust Co., a consortium bank in New York owned by six banks from different European countries.

Although the acquisition of a large U.S. bank was involved, there were virtually no issues presented by the application under the criteria specified in the Bank Holding Company Act. There were no adverse competitive factors in the application since Midland Bank had no direct banking operations in California or elsewhere in the United States. Midland Bank was in strong financial condition, and its reputation as an international bank was undoubted. The proposed capital infusion was regarded as a factor weighing in favor of the approval.

In approving the bank acquisition the Board had also to consider the other activities of the Midland Bank organization in the United States and their consistency with the requirements of the Bank Holding Company Act. As a result the Board order approving the bank holding company formation required that Midland divest its 20 percent interest in European American Bank on the grounds that retention would be inconsistent with the policy underlying section 3(d) of the act. Under that section bank holding companies are effectively barred from acquiring more than 5 percent of the shares of a bank in another State. The Board also denied an exemption from the prohibitions of section 4 of the act for the activities of the U.S. subsidiary of Thomas Cook Ltd. That company provides retail and wholesale travel services in the United States, an activity which the Board has found as not closely related to banking.

I next will turn to Financial General Bankshares. Financial General Bankshares is a multi-State bank holding company with 12 banks located in the District of Columbia and the States of Maryland, New York, Tennessee, and Virginia. In November 1978 the first applications to acquire this holding company were made by Credit and Commerce American Holdings of the Netherlands Antilles and Credit and Commerce American Investment of the Netherlands. The two applicant companies were formed by a group of individual investors from several Middle Eastern countries for the purpose of the acquisition. A protracted process ensued.

The proposed acquisition was at first opposed by existing management of Financial General and its subsidiary banks. Moreover, two of the State banking supervisors involved, Virginia and Tennessee, recommended denial on the grounds that the acquisition would be detrimental to the convenience and needs of the communities served. In addition the attorney general of the State of Maryland issued an opinion that Maryland State law precluded a Maryland banking institution from being subject to an unfriendly affiliation. In these circumstances, the Board dismissed the first applications on the grounds that it was prohibited from approving a proposal that would violate State law.

These complications were subsequently resolved, and a new application was filed in November 1980. While a number of technical issues remained, the principal issue for the Board then became the identity of the purchasers, their reputation and their financial strength, and what those attributes meant for the future operations of the bank holding company.

The Middle Eastern investor group consisted of 14 individuals and companies from Saudi Arabia, the United Arab Emirates, and Kuwait. The group included eight individuals, three personal holding companies, two government-owned companies, and one private

company. In the course of processing the application, a meeting was held at the Board's offices which was attended by representatives of the investor group, counsel for the applicants, and representatives of the State banking departments involved, and the Comptroller of the Currency.

The information developed at this meeting became part of the record on which the Board based its decision. In making that decision the Board took special care to review the financial resources of all the investors. The information submitted demonstrated that all the investors possessed sufficient financial resources to make the acquisition and to provide future support if needed.

The financial factors relating to the acquisition of Financial General were considered to be consistent with approval. As far as management was concerned the investors did not propose to take an active role themselves. Rather, they proposed to have all the director and top management positions filled by qualified Americans. The Board carefully reviewed the composition of the proposed board of directors of Financial General and the proposed senior management and satisfied itself about their qualifications.

The Board approved the acquisition on August 25, 1981. The transaction was consummated in April 1982, and the name of the organization was subsequently changed to First American Bankshares.

Mr. ROSENTHAL. Mr. Wallich, can you tell us just a little bit how you checked to verify the backgrounds, the character, the integrity, the financial resources of the individuals?

Mr. WALLICH. The Board worked very hard at this because, as my testimony says, this is a crucial matter. We used all the resources of the U.S. Government, not only those of the Federal Reserve Board, and we developed information from a very broad informational source.

We also, of course, obtained bank statements. We obtained the financial statements of the individuals, and these were certified by local accountants who in turn were certified by familiar named accountants of the Big Eight.

So we did what I think is humanly possible to develop detailed information on these individuals. In human affairs nothing is ever completely sure, but a credit check of this kind is of course not an unfamiliar thing. It happens all the time in business. The people involved here are businessmen. They are looked at often by the business community. So it by no means is impossible to get a full dossier on them.

Mr. ROSENTHAL. It interests me that they formed two groups, one in the Netherlands Antilles and one in the Netherlands. Did you look into that at all? Were you able to get any information from the Netherlands Antilles?

Mr. WALLICH. This is a familiar device relating to, as I understand it—and I am not a tax expert—two separate tax treaties that the United States has with the Netherlands Antilles on one side and Holland on the other.

Mr. ROSENTHAL. That is what I was coming to. These individuals, would they be able to avoid U.S. taxes that U.S. citizens would have to pay?

Mr. WALLICH. They would not be able to do anything that somebody in the situation would not be able to do.

Mr. ROSENTHAL. That is, if they use the Netherlands Antilles.

Mr. WALLICH. A U.S. citizen may not be able to do that because he is subject to a different home tax law. However, if one starts out as a foreigner, these opportunities are open. I cannot speak with authority to this, Mr. Chairman. I am not a tax lawyer. All I can tell you is that it is a familiar, frequently used technique.

Mr. ROSENTHAL. I am just curious as to whether there is a loss to the U.S. Treasury in tax payments as a result of these individuals becoming shareholders.

Mr. WALLICH. The U.S. Treasury negotiated these tax treaties, so there are probably some losses and some gains.

Mr. ROSENTHAL. The Treasury is trying to renegotiate all those treaties. You still have not told us the extent of your investigation of the character and integrity of the individuals. You told us you used all the resources that are at your command, both foreign and domestic, and many U.S. agencies. However, why is that kind of an investigation less fulfilling than if you had to make an investigation of a U.S. citizen?

Mr. WALLICH. I would think it certainly involved a greater effort and more input of resources than one would on a U.S. citizen. Admittedly, abroad it is less easy to get a clear picture.

Mr. ROSENTHAL. Did you send any people overseas to the home countries of these folks?

Mr. WALLICH. I do not recall.

Mr. ROSENTHAL. I still do not understand exactly what you did do.

Mr. WALLICH. Some sources of information close up if one refers to them publicly. So just allow me to say that we used all sources that were at our disposal. I think a very unusual effort was put into this because of the importance of getting a clear picture. After putting it all together and getting the cross-checks, we arrived at the conclusion that these were satisfactory.

Mr. ROSENTHAL. In other words you did not send any investigators out to interview these people or to look into their backgrounds or anything like that.

Mr. WALLICH. We saw some of them in Washington. We had a meeting which the law did not call for, but we thought it was desirable. They were represented by counsel and in part appeared in person.

Mr. ROSENTHAL. Did you ask them any personal questions at the meeting?

Mr. WALLICH. There is a detailed record of the whole thing which became part of the record of the proceedings.

Mr. ROSENTHAL. Please continue with your statement.

Mr. WALLICH. I now turn to Litco, which in a sense I think presents the most important issues for the Congress to think about.

In December 1981 Banca Commerciale Italiana [BCI] applied to the Board to acquire Litco, the Long Island Trust Co. Bancorporation of New York, a bank holding company owning all of the shares of Long Island Trust Co. Long Island Trust Co. had about \$1.1 billion in assets, and its business orientation was primarily directed to domestic business in the Metropolitan New York area.

BCI was the second largest bank in Italy. It had consolidated assets of about \$34.5 billion. BCI conducted a wholesale banking business in the United States through branches in New York and Chicago and through an agency in Los Angeles. BCI is indirectly owned by the Italian Government through a Government holding company, the Istituto per la Ricostruzione [IRI].

In this case as with the Midland/Crocker acquisition, there were few issues under the statutory factors that are prescribed in the Bank Holding Company Act. The Board found that the acquisition would have no significantly adverse effect on the concentration of banking resources or on existing potential competition. BCI had committed to inject \$20 million of foreign capital into Litco and to maintain Litco among the more strongly capitalized institutions in the United States.

As for BCI itself the Board made its evaluation on the basis of its policy statement on supervision of foreign bank holding companies that takes a number of factors into account in judging the financial and managerial resources of a foreign banking organization. In addition to its financial condition, these included the record and integrity of management, the bank's standing and role in its home country, and the opinion of the home country regulators. Having considered these factors the Board concluded that the financial and managerial resources of BCI were satisfactory.

During the Board's consideration of this case, several issues emerged that stemmed from the fact that BCI is indirectly owned by the Government of Italy. The four largest banks in Italy are nationalized institutions. All conduct banking operations in several States in the United States. The Italian Government also operates a number of nationalized industries and commercial enterprises, many of which have subsidiaries in the United States.

The specific question that arose in these circumstances was how foreign governments or governmental entities should be treated under the Bank Holding Company Act. Should they be subject to the same provisions as a private company, or is a different treatment warranted?

The principle of national treatment is the basic Government policy toward foreign banks and is embodied in the International Banking Act of 1978. The essence of that principle is that foreign banking organizations and their owners be treated the same as their domestic counterparts. The Bank Holding Company Act which governs the activities of domestic banking organizations has among its purposes the prevention of conflicts of interest and undue concentration of resources. These objectives are intended to help insure that banks of the United States serve as effective and impartial credit intermediaries.

To this end the act provides that a private company cannot own a U.S. bank and also own companies in the United States that engage in industrial and commercial activities. Also a private company cannot, as a general rule, own and operate banks in more than one State. These rules apply to all private companies, domestic or foreign, although for foreign private companies exceptions are allowed for indirect interests in the U.S. operations of foreign commercial and industrial companies.

Application of these rules to a foreign government would mean that it could not indirectly own banks in more than one State. Similarly, the foreign government that indirectly owned a bank in the United States would have to conform its nonbanking activities in the United States to those permissible to a privately owned foreign banking organization.

Failure to apply these rules to foreign government-owned banks, it can be argued, would give those organizations advantages over their privately owned counterparts and thus would be inconsistent with the principle of national treatment.

Distinctions can be drawn between private and government ownership and they may form a basis for differences in treatment. The Bank Holding Company Act presumes that all banks and nonbank companies under common ownership and control are operated as an integrated whole. That presumption stems from the act's objectives of avoiding conflicts of interest and undue concentration of resources when banking and nonbanking activities are combined under common control and management. This presumption also reflects experience, especially in the United States, that private companies do operate in this way.

Foreign countries that have nationalized banks and other enterprises have done so for a variety of historical and policy reasons. Some foreign governments do operate, and in fact have good policy reasons for so operating, the nationalized banks and nationalized businesses as separate entities. However, conditions vary from country to country and may change over time within a country with changes in political philosophy or in other circumstances. This diversity highlights the difficulty of establishing a policy suitable to all situations that avoids making arbitrary distinctions among countries.

Little guidance on these questions is provided in the act. It expressly exempts from its application organizations owned by the Federal Government or State governments. However, it is silent on the status of foreign governments.

The question of applying the act to foreign governments is not concerned with the activities they conduct within their own territories or outside the United States. It is solely concerned with those activities that extend into the United States. Applying the act to foreign governments even in the more limited sense has broad implications that extend beyond the purely regulatory issues. For example, strict application of the limitation on nonbanking activities could preclude foreign government-owned banks from engaging in banking activities in the United States. This could raise important questions in the fields of U.S. foreign relations and U.S. foreign investment and economic policy.

Prior to the BCI case the Board had approved a number of applications to form bank holding companies by foreign banks that were government-owned and where the foreign government indirectly had commercial and industrial activities in the United States. In those cases the Board did not apply the act to the applicant's government owners. After careful consideration and pending further examination of the issues outlined here, the Board decided to continue the previous practice in the BCI case.

In approving the application the Board recognized that the act is concerned not only with problems of actual conflicts of interest or concentration of resources but also with the potential for those problems. For this reason the Board in its order highlighted its belief that the issues associated with foreign government ownership should be brought to the attention of the public for further discussion and debate. Because of the complexity and far-reaching implications of these issues, some of which I have tried to convey, the Board stated in its order that they should be resolved in a congressional framework where all of the relevant considerations could be examined and weighed.

In recognition of the potential conflicts in the BCI case, the Board decided that Italian Government-owned banking and non-banking organizations were affiliates of LITCO. As a consequence, the amount limitations and collateral requirements of section 23A of the Federal Reserve Act would apply to extensions of credit by LITCO to these affiliates. The Board believes that the application of section 23A to this situation would help limit the potential for practices conflicting with the purposes of the Bank Holding Company Act.

Mr. Chairman, I believe I will conclude here. Thank you very much.

Mr. ROSENTHAL. Thank you, Mr. Wallich.

[Mr. Wallich's prepared statement follows.]



GERALD LEWIS
COMPTROLLER OF FLORIDA

OFFICE OF COMPTROLLER
DEPARTMENT OF BANKING AND FINANCE
STATE OF FLORIDA

TALLAHASSEE
32301

December 18, 1985

Mr. Agha Hasan Abedi
Director and President
Bank of Credit & Commerce International
100 Leadenhall Street
London
United Kingdom

Dear Mr. Abedi:

I am happy to have this opportunity to share with you my firm conviction that Florida is the most commercially attractive and viable state to locate and expand your bank's US activities.

The sizeable employment gains and income growth experienced by Florida in 1985 have maintained the state's expansion at a rate surpassing the nation's. Moreover, expected improvements in Latin American economic growth promise to reinforce Florida's economic growth by stimulating the state's international trade and tourism.

Florida enjoys a differential cost advantage over many other states. The costs of office and residential housing rentals, of parking and weekly wages are relatively low. The state's commercial banks' interest expense as a percentage of interest earning assets has been lower than that of the nation's commercial banks. This may in part be attributed to Florida's large and impressively growing deposit base associated with the state's expanding economy and population.

Between January and June 1985, more applications for national bank charters were approved and more charters issued in Florida than in California and New York combined. In addition, more de novo branches of national banks were opened and acquired through merger or conversion in Florida than in any other state in the U.S.

Florida's business environment is strengthened by a positive governmental attitude towards direct foreign investment in the state. Florida has no personal income tax and its corporate income tax rate is lower than that of many states, including California and New York.

Mr. Agha Hameed Abedi
 Director and President
 Bank of Credit & Commerce International
 Page 2
 December 18, 1983

The differential cost advantage, associated with Florida's comparatively low rental, wages and other costs, interest expense, large deposit base and low tax environment, has contributed to the high profitability of the state's insured commercial banks. In the 1980s, these banks have outperformed the nation's commercial banks as demonstrated by such profitability measures as their adjusted net interest margin, return on assets and return on equity.

So far, I have highlighted the general economic and commercial factors for locating your bank in Florida. There are also life style factors which may influence your decision to establish a commercial bank in Florida over other states in the U.S. In this respect, I want to refer to the state's educational, cultural, recreational and climatic factors which together will contribute to the quality of life of your bank's management and staff.

Florida ranks ninth in the nation in expenditures for public elementary and secondary education. There are 28 community colleges in the state offering degree programs and a broad selection of occupational programs as well. The state is rich in cultural resources. It is the home of 19 regional and municipal symphonies and its several statewide museums feature major collections. Finally, Florida's year round semi-tropical climate, moderate rainfall, abundant sunshine, fresh and sea waters, a relatively pollution-free environment - all combine to make the state an attractive and appealing place in which to live and do business.

I hope you will read the information included in this package. It includes details relating to the location decision in Florida, the state's economy, the number of national bank charter applications approved and branches of national banks opened or acquired, Florida's commercial banks' profitability and interstate banking act. Also included is my office's 1984 Annual Report on Banking in Florida.

I cannot stress too strongly my personal feeling that you should consider Florida in your future plans. I offer my assistance and that of my staff in answering your questions. Please feel free to call on us if we can assist you in any way.

Sincerely,


 GERALD LEWIS

VICE-CHAIRMAN

BARCLAYS BANK LIMITED
54 LOMBARD STREET
LONDON. EC3P 3AH

22nd April 1981

Mr. Robert Altman,
Clifford & Warnke,
815 Connecticut Avenue,
WASHINGTON D.C. 20006,
U.S.A.

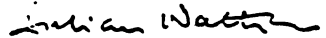
Dear Sir,

We understand that you require a bank reference for His Excellency Sheikh Kamal Adham.

We are pleased to advise you that H.E. Sheikh Kamal Adham is one of the most prominent citizens in Saudi Arabia. He is highly regarded and enjoys a first class reputation in business and financial circles.

Sheikh Kamal has important financial resources at his disposal and possesses very substantial investments in Saudi Arabia and abroad, in real estate, banking, and in trading and industrial companies. There is no doubt that he has the capacity to make substantial financial commitments.

Yours faithfully,



J.P.G. WATHEN



BANQUE DE L'INDOCHINE ET DE SUEZ

SIÈGE SOCIAL, 10, RUE DE COURMAYEUR, 75000 PARIS
 ADRESSES PARTICULIÈRES 10, RUE LEONIE MURAT, 75000 PARIS
 TÉL. 20 700-00-00, TÉL. 20 700-00-00 P., C.S.A. PARIS 000-00

Paris, le 21 avril 1981

42300 - RU/BN

MR Robert ALTMAN,
 CLIFFORD and WARNKE,
 815 Connecticut Avenue
 WASHINGTON D.C. 20006
 U.S.A

Dear Sir,

We are pleased to confirm the telex worded as follows
 we sent you today :

- " At the request of his excellency Sheikh KAPAL ADHAM for a
- " Bank reference, we have the pleasure to inform you that
- " we have had dealings with him for last several years.
- " We have found this relationship entirely satisfactory.
- " H.E. Sheikh KAPAL ADHAM is a citizen of Saudi Arabia of
- " high standing and reputation. He has substantial financial
- " investments in real estate, shares and stocks and in trading
- " and industrial activities, both in and outside Saudi Arabia.
- " He is known to have the capacity to make substantial financial
- " commitments, and he enjoys the reputation of meeting such
- " commitments. "

Yours faithfully.

BANQUE DE L'INDOCHINE ET DE SUEZ



R. NISSERY,
 Deputy Manager



P. NAGEN,
 Manager

UNITED OVERSEAS BANK
BANQUE UNIE POUR LES PAYS D'OUTRE-MER

Siège social : 11, Quai des Banques, 1211 Genève 1

Téléphone : (022) 31 92 00
 Télex : 23 046
 Adm. télégr. : UTRAFBANK
 Case postale 900

Geneva, April 21st, 1981

N° réf. :
 V° réf. :

T-SB/fz
 BY SPECIAL DELIVERY

Mr. Robert ALTMAN,
 CLIFFORD & WARNKE,
 815 Connecticut Avenue,
Washington D.C. 20006,

U.S.A.

Dear Sir,

We understand that you require a bank reference for His Excellency Sheikh Kamal ADHAM.

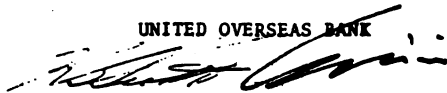
We are pleased to advise you that H.E. Sheikh Kamal ADHAM is one of the prominent citizens of Saudi Arabia.

He is highly regarded and enjoys high a reputation for his business and financial commitments.

He has very substantial investments in Saudi Arabia and abroad, and possesses large financial means and has the capacity to make substantial financial commitments.

Yours faithfully,

UNITED OVERSEAS BANK



Enclosures :- list of authorized signatures of
 our bank
 - our 1979 annual report, from which
 you will note that we are an
 affiliate of the financial corporation for overseas
 countries, a wholly-owned subsidiary of : Bank of
 America, Banque Bruxelles Lambert, Banque Nationale
 de Paris and Dresdner Bank AG.



Allied Arab Bank Limited

Grange House
 57-59 Cannon Street
 London EC4N 5AD
 Telephone 01-253 9111
 Telex 6813401 6813402
 Telegraph Arabic London 5C4

22nd April, 1981

Mr. Robert Altman
 Clifford & Warnke
 819 Connecticut Avenue
 Washington D.C. 20008
 U.S.A.

Dear Sir,

We understand that you require a bank reference for His Excellency Sheikh Kamal Adhan and it gives us great pleasure to advise you that we have had dealings with this gentleman for several years and have found this relationship to be entirely satisfactory.

His Excellency Sheikh Kamal Adhan is one of the most prominent citizens of Saudi Arabia and he is highly regarded in business and financial circles. He has substantial financial resources at his disposal including investments in real estate, banking and trading and industrial activities in Saudi Arabia and abroad.

He is known to have the capacity to make substantial financial commitments and enjoys the reputation of meeting such commitments.

Yours faithfully,

S.M. SHVERI
Managing Director
& Chief Executive

Stephen P. Munn
President

August 24, 1981

Robert A. Altman, Esq.
Clifford & Warnke
815 Connecticut Avenue
Washington, D.C. 20006

Dear Mr. Altman:

I am writing this reference letter on behalf of his Excellency Kamal Adham. I have known Kamal Adham since 1979 as he is a business partner with Carrier International Corporation.

In every respect I have found Kamal Adham to be a man of integrity with excellent moral and personal values. He has been instrumental in building our business, and I have found Kamal Adham to be an understanding, encouraging and pleasurable gentleman.

Without reservations, I highly recommend his Excellency Kamal Adham as an investor or business partner.

Sincerely,



Stephen P. Munn

SPH/vcc

TIC:IS:13004

CONFIDENTIAL

25/81 GO/SL

Mr R. ALTMAN
Clifford and Warnke
815 Connecticut Avenue
WASHINGTON D.C. 20006
(USA)

25th August 1981

Dear Mr Altman,

We have had, for several years, a very satisfactory and mutually beneficial business relationship with His Excellency Sheikh Kamal Adham who is our Consultant in Saudi Arabia.

His Excellency Sheikh Kamal Adham is a leading businessman of Saudi Arabia. He enjoys an excellent reputation in business and financial circles of the world and is a man of unimpeachable integrity and character.

His Excellency's financial resources are considered to be extremely large.

Yours sincerely



Guy OGEE

Deputy Manager for the Middle East

SEVEN-UP INTERNATIONAL, INC.

100 PARK AVENUE
NEW YORK, N.Y. 10017
TEL. (212) 688-4100

CABLE ADDRESS
FOLD NEW YORK
TELEX: 7102010120

Mr R Altman
Clifford & Warnke
815 Connecticut Avenue
Washington D.C. 20006
U.S.A.

26th August, 1981


Dear Sir,

This letter serves to highly recommend His Excellency Sheikh Kamal Adham as an outstanding businessman with an excellent reputation for ability and integrity.

Our Company's long association with His Excellency as our Franchisee in the Kingdom of Saudi Arabia and Egypt, has been a pleasure for all those who had the opportunity to have direct business contacts with him, because of his high spirit of cooperation.

He has always displayed in addition to good business judgement, a thorough understanding of world affairs, specially the Middle East.

Yours faithfully,


G Bechaalany
Vice President
Seven-Up S.A.
Europe/Middle East/Africa

Konzernleitung

Mister E. Altman
 Clifford and Warnke
 Connecticut Avenue 815
 Washington D.C. 20.006

USA

 Ebikon, September 3rd, 1981.


Dear Mr. Altman,

For more than 25 years we now co-operate in a most agreeable way with H.E. Sheikh Kamal Adhan who is our business-partner in Saudi Arabia. We have been honoured to work with him. He is very well established in Saudi Arabia, enjoying an impeccable reputation as a business-leader in this country.

Our relationship has so far been a very successful one. H.E. Sheikh Kamal Adhan has always adhered to all his obligations to our company. His financial resources to our knowledge, are very large.

Yours sincerely,
 SCHINDLER MANAGEMENT LTD.


 Jean Bonnard


 Dr. U. Sigg

**ALAHLI BANK
OF
KUWAIT
K.S.C.**

KUWAIT. April 16th, 1981

THE GENERAL MANAGER

**TO WHOM IT MAY CONCERN

This is to certify that Mr. Faisal Saud Al Fulaij, son of Mr. Saud Al Fulaij is very well known to us. He is one of the most important personalities in Kuwait and comes from a highly respected and wealthy family. His business dealings with us have been extremely satisfactory.

He is reported to have large investments both in Kuwait and abroad and possesses large means. In our opinion he is quite capable of engaging himself in any business venture or investments both in Kuwait and abroad.



Abdul Kader AlSeesi



To Whom It May Concern

This is to certify that Mr. Faisal Saud Al-Fulaij was the Chairman of Kuwait Airways Corporation from 1965 to 1977 when he resigned of his own free will apparently to look after his various business interests and investments both locally and abroad.

Mr. Faisal Saud Al-Fulaij is a highly respected person and belongs to one of the few most prominent families of Kuwait .

أحمد

Ahmed Al-Mishari
CHAIRMAN / MANAGING DIRECTOR

Kuwait,
19th. October. 1981

PROXY

The undersigned, Ghani Al-Masrui, acting on behalf of H.E. SHEIKH ZAYED BIN SULYAN AL NAHYAN (the "Shareholder") pursuant to a duly executed power of attorney authorizing such action, hereby authorize J. Kirk Wade , of Washington , D.C. ,U.S.A., to act as proxy at the 1990 Annual General Meeting of the Shareholders of Credit and Commerce American Holdings N.V. ("CCAH"), and at any adjournment or follow-up meeting thereof, and at any other meeting of shareholders of CCAH the agenda of which includes the amendment of any provision of the Articles of Incorporation of CCAH, with power to exercise, in his absolute discretion, the Shareholder's voting rights with respect to the 33,994 shares owned by the Shareholder. This proxy shall be revocable by written notice to any of the Managing Directors of CCAH and shall expire on March 1, 1991.

Given and executed in Abu Dhabi, United Arab Emirates, as of this 26th day of December, 1990.



Ghani Al-Masrui

**Attorney in Fact
for H.E. Sheikh Zayed bin Sultan Al-Nahyan**

P R O X Y

The undersigned, Ghania Al-Masrui, acting on behalf of H.E. SHEIKH KHALIFA BIN SAYED AL NAHYAN (the "Shareholder") pursuant to a duly executed power of attorney authorizing such action, hereby authorize J. Kirk Wade, of Washington, D.C., U.S.A., to act as proxy at the 1990 Annual General Meeting of the Shareholders of Credit and Commerce American Holdings N.V. ("CCAH"), and at any adjournment or follow-up meeting thereof, and at any other meeting of shareholders of CCAH the agenda of which includes the amendment of any provision of the Articles of Incorporation of CCAH, with power to exercise, in his absolute discretion, the Shareholder's voting rights with respect to the 38,741 shares owned by the Shareholder. This proxy shall be revocable by written notice to any of the Managing Directors of CCAH and shall expire on March 1, 1991.

Given and executed in Abu Dhabi, United Arab Emirates, on of this 26th day of December, 1990.



 Ghania Al-Masrui

Attorney in Fact
 for H.E. Sheikh Khalifa bin Sayed Al-Nahyan

ABU DHABI INVESTMENT AUTHORITY
Managing Director's Office

جهاز أبوظبي للاستثمار
مكتب المدير التنفيذي

Date Dec. 27, 1990 **التاريخ**

No. **الرقم**

PROXY

The undersigned, Mohammed Mabrouh, the Managing Director of the ABU DHABI INVESTMENT AUTHORITY, (the "shareholder"), pursuant to authority granted to me for such action, hereby authorize Mr. J. Kirk Wade of Washington, D.C., U.S.A., to act as proxy at the 1990 Annual General Meeting of the Shareholders of Credit & Commerce American Holdings N.V. ("CCAH"), and at any adjournment or follow-up meeting thereof, and at any other meeting of shareholders of CCAH the agenda of which includes the amendment of any provision of the Articles of Incorporation of CCAH, with power to exercise, in his absolute discretion, the Shareholder's voting rights with respect to the 19,141 shares owned by the Shareholder. This proxy shall be revocable by written notice to any of the Managing Directors of CCAH and shall expire on March 1 1991.

Given and executed in Abu Dhabi, United Arab Emirates as of this 27 day of December, 1990.

Mohammed Mabrouh
Managing Director
Abu Dhabi Investment Authority


Kamel Adham

PROXY

The undersigned, H.E. Sheikh Kamal I. Adham hereby authorizes Etrusco International, N.V. and/or Equilan N.V. , of Curacao, Netherlands Antilles , to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.V. (CCAH) to be held in Curacao on or about December 21, 1990 , and/or any follow-up meeting with the same agenda, with power to exercise, as directed herein, the undersigned's voting rights with respect to the 36,493 Shares owned by the undersigned and to vote such shares only in favor of the following motions to be made at that meeting and for no other purpose:

- 1 - To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
- 2 - To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989 .
- 3 - To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Clark M. Clifford (Chairman)
 - Robert A. Altman (Secretary)
 - Jack W. Beddow
 - A. Vincent Scoffone
 - Etrusco International N.V.

K.A.


Kamel Adham

4 - To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles. In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven(7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

5 - To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.

6 - To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in Jeddah, Saudi Arabia , as of the
20th day of December, 1990


H.E. SHEIKH KAMAL I. ADHAM

Attachment

ADHAM CORPORATION
(Limited)

P R O X Y

The undersigned, ADHAM CORPORATION hereby authorizes Etrusco International, N.V. and/or Equilan N.V. , of Curacao, Netherlands Antilles , to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.V. (CCAH) to be held in Curacao on or about December 21, 1990 , and/or any follow-up meeting with the same agenda, with power to exercise, as directed herein, the undersigned's voting rights with respect to the 7,410 Shares owned by the undersigned and to vote such shares only in favor of the following motions to be made at that meeting and for no other purpose:

1 - To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.

2 - To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989 .

3 - To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:

- Clark M. Clifford (Chairman)
- Robert A. Altman (Secretary)
- Jack W. Beddow
- A. Vincent Scoffone
- Etrusco International N.V.

N.A.

ADHAM CORPORATION
(Limited)

4 - To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles. In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven(7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

5 - To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.

6 - To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in Jeddah, Saudi Arabia . as of the
20th day of December, 1990



ADHAM CORPORATION

Attachment

SAYED JAWHARY

PROXY

The undersigned, **SAYED JAWHARY** hereby authorizes **Etrusco International, N.V.** and/or **Equilan N.V.**, of Curacao, Netherlands Antilles, to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.V. (CCAH) to be held in Curacao on or about December 21, 1990, and/or any follow-up meeting with the same agenda, with power to exercise, as directed herein, the undersigned's voting rights with respect to the 1,485 Shares owned by the undersigned and to vote such shares only in favor of the following motions to be made at that meeting and for no other purpose:

- 1 - To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
- 2 - To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989.
- 3 - To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:

- Clark M. Clifford (Chairman)
- Robert A. Altman (Secretary)
- Jack W. Beddow
- A. Vincent Scoffone
- Etrusco International N.V.



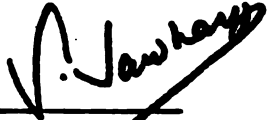
SAYED JAWHARY

4 - To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles. In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven(7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

5 - To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.

6 - To appoint a person as contemplated by Article 9, paragraph 6. of the Articles of Incorporation.

Given and executed in Jeddah, Saudi Arabia as of the
20th day of December, 1990


 SAYED JAWHARY

Attachment

P R O X Y

The undersigned, E.H. Ali Mohammad Shorafa


hereby authorizes Strusco International, N.V. and/or Equilan N.V., of Curacao, Netherlands Antilles, to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.V. (CCAH) to be held in Curacao on or about December 31, 1988, and/or any follow-up meeting with the same agenda, with power to exercise, as directed herein, the undersigned's voting rights with respect to the 28,742 shares owned by the undersigned and to vote such shares only in favor of the following motions to be made at that meeting and for no other purpose:

1. To confirm and accept the financial statements of CCAH for the year 1988 and discharge the Board of Managing Directors for their administration during that year.
2. To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1988.
3. To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of Shareholders:
 - Clark M. Clifford (Chairman)
 - Robert A. Altman (Secretary)
 - Jack W. Boddy
 - A. Vincent Stoffer
 - Strusco International N.V.
4. To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles.

In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven (7) days and submit these amendments to a vote in conformity with Article 10.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

5. To authorise Equilun N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
6. To appoint a person as contemplated by Article 9, paragraph e, of the Articles of Incorporation.

Given and executed in Abu Dhabi, U.A.E., as of the 15th day of December, 1990.


H.E. Ali Mohammad Shorafa

Attachment

P E T I T

The undersigned, Faisal Saud al Fulaij,
 heraby authorizes Strusco International, N.V. and/or Equilian
 N.V., of Curacao, Netherlands Antilles, to act as proxy at the
 Annual General Meeting of Shareholders of Credit and Commerce
 American Holdings, N.V. (CCAH) to be held in Curacao on or
 about December 21, 1990, and/or any follow-up meeting with the
 same agenda, with power to exercise, as directed herein, the
 undersigned's voting rights with respect to the 26,439
 shares owned by the undersigned and to vote such shares only
 in favor of the following motions to be made at that meeting
 and for no other purpose:

1. To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
2. To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989.
3. To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Clark M. Clifford (Chairman)
 - Robert A. Altman (Secretary)
 - Jack W. Biddow
 - A. Vincent Scoffone
 - Strusco International N.V.
4. To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles.

- 2 -

In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven (7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

5. To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
6. To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in _____, as of the 20th
day of December, 1990.



Faisal Saud al Fulaif

Attachment

P R O X Y

The undersigned, Mashrig Holding Company, S.A.

hereby authorizes **Strusco International, N.V. and/or Equilan N.V., of Curacao, Netherlands Antilles**, to act as proxy at the Annual General Meeting of Shareholders of Credit and Commerce American Holdings, N.V. (CCAH) to be held in Curacao on or about December 21, 1990, and/or any follow-up meeting with the same agenda, with power to exercise, as directed herein, the undersigned's voting rights with respect to the 27,986 shares owned by the undersigned and to vote such shares only in favor of the following motions to be made at that meeting and for no other purpose:

1. To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
2. To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989.
3. To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Clark M. Clifford (Chairman)
 - Robert A. Altman (Secretary)
 - Jack W. Beddow
 - A. Vincent Scoffone
 - Strusco International N.V.
4. To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles.

- 2 -

In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven (7) days and submit these amendments to a vote in conformity with Article 12, which allows valid resolutions to be passed at such a follow-up meeting by a majority or three-fourths of the votes cast, regardless of the capital represented at such meeting.

5. We authorize Equilux N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
6. To appoint a person as contemplated by Article 9, paragraph 8, of the Articles of Incorporation.

Given and executed in Luxembourg, as of the 21th day of December, 1960.

Nachrig Molding Company, D.A.

Attachment



Eugene MULLEN



Bob EDWARDS

P R O X Y

The undersigned, Clark M. Clifford,
 hereby authorizes Strusco International, N.V. and/or Equilan
 N.V., of Curacao, Netherlands Antilles, to act as proxy at the
 Annual General Meeting of Shareholders of Credit and Commerce
 American Holdings, N.V. (CCAH) to be held in Curacao on or
 about December 21, 1990, and/or any follow-up meeting with the
 same agenda, with power to exercise, as directed herein, the
 undersigned's voting rights with respect to the 2,395
 shares owned by the undersigned and to vote such shares only
 in favor of the following motions to be made at that meeting
 and for no other purpose:

1. To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
2. To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989.
3. To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Clark M. Clifford (Chairman)
 - Robert A. Altman (Secretary)
 - Jack W. Seddow
 - A. Vincent Scoffone
 - Strusco International N.V.
4. To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles.

- 2 -

In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven (7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

5. To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
6. To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in Washington, D.C., as of the 21st day of December, 1990.

Clark M. Clifford
Clark M. Clifford

Attachment

P E T I T

The undersigned, Robert A. Altman,
 hereby authorizes Strusco International, N.V. and/or Equilan
 N.V., of Curacao, Netherlands Antilles, to act as proxy at the
 Annual General Meeting of Shareholders of Credit and Commerce
 American Holdings, N.V. (CCAH) to be held in Curacao on or
 about December 21, 1990, and/or any follow-up meeting with the
 same agenda, with power to exercise, as directed herein, the
 undersigned's voting rights with respect to the 1,197
 shares owned by the undersigned and to vote such shares only
 in favor of the following motions to be made at that meeting
 and for no other purpose:

1. To confirm and adopt the financial statements of CCAH for the year 1989 and discharge the Board of Managing Directors for their administration during that year.
2. To approve and ratify resolutions regarding the non-distribution of profits and retention of earnings for 1989.
3. To elect the following Managing Directors of CCAH, to serve the Company until the next annual general meeting of shareholders:
 - Clark M. Clifford (Chairman)
 - Robert A. Altman (Secretary)
 - Jack W. Beddow
 - A. Vincent Scoffone
 - Strusco International N.V.
4. To authorize the creation (and subsequent issuance) of nine percent (9%) cumulative preferred shares and such other changes as indicated by amending the provisions of the Articles of Incorporation of CCAH as per the attached underlined form of said Articles.

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In case the required three-fourths quorum is not represented at the meeting, it is understood that the managing directors intend to convene a second shareholders' meeting within seven (7) days and submit these amendments to a vote in conformity with Article 18.2, which allows valid resolutions to be passed at such a follow-up meeting by a majority of three-fourths of the votes cast, regardless of the capital represented at such meeting.

5. To authorize Equilan N.V. to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and furthermore to perform anything required or appropriate to the foregoing.
6. To appoint a person as contemplated by Article 9, paragraph 6, of the Articles of Incorporation.

Given and executed in Wah. de, as of the 21st
day of December, 1990.

Robert A. Altman
Robert A. Altman

Attachment

P R O X Y

The undersigned Shaikh Humaid Bin Rashid Al Naomi, hereby authorizes J. Berkvens and/or A. Grul, Attorneys at Law in Curacao, Netherlands Antilles, to act as his/its proxy at the Annual General Meeting of shareholders of Credit and Commerce American Holdings, N.V. ("CCAH") to be held in Caracao on or about July 16, 1984 with power to exercise, as directed herein, the undersigned's voting rights with respect to 9,082 CCAH shares owned by the undersigned and to vote such shares only in favour of the following motions to be made at that meting and for no other purpose :

1. To confirm and adopt the financial statements of CCAH for the years from incorporation through 1983 and discharge the Board of Managing Directors for their administration during that period.

2. To eliminate the provisions for a board of supervisory directors by amending the Articles of Incorporation of CCAH in the following respects :

(a) To delete paragraph 3 of Article 4 and replace it by (translated) :
 "3. The shares shall be issued by the board of managing directors".

(b) To delete paragraphs 1, 2 and 6 of Article 2 and replace them by (translated) :

"1. The corporation shall be managed by a board of managing directors consisting of one or more managing directors. Legal entities may also be appointed managing directors".

(b)

"2. The managing directors shall be appointed by the general meeting of shareholders and may at any time be suspended or removed from office by the meeting".

"6. When one or more managing directors are absent or otherwise precluded from acting, the remaining managing director(s) shall be responsible for the entire management of the corporation; when all the managing directors are absent or otherwise precluded from acting, the corporation shall be managed temporarily by a person appointed for that purpose by general meeting of shareholders. The person so appointed shall call a general meeting of shareholders as soon as possible in order to provide for a definitive management.

As long as this has not been accomplished, the acts of management of the person so appointed shall be limited to those which cannot be postponed".

(c) To delete Article 10 in its entirety.

(d) To delete paragraphs 1 and 7 of Article 12 and replace it by (translated) :

"1. Each of the managing directors and any number of shareholders representing jointly not less than ten per cent of the subscribed capital have equal authority to call a general meeting of shareholders".

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(d)

"7. Shareholders may be represented at the meetings by a proxy appointed in writing, telegraphically or by telex. Managing directors and, in general, persons in the employment of the corporation may not act as proxies of shareholders at the meetings".

(e) To delete paragraphs 1 and 3 of Article 16 and replace it by (translated) :

"1. Within eight months after the close of the fiscal year, the board of managing directors shall submit to the general meeting of shareholders the balance sheet and the profit and loss account for the past fiscal year, along with the explanatory statement referred to in Article 11.

The balance sheet, profit and loss account and explanatory statement shall be signed by all the managing directors. If the signature on one of them is lacking, the reason shall be stated on the documents".

"3. The annual general meeting of shareholders has the power to confirm the balance sheet and the profit and loss account.

- 4 -

(d) "3.

Confirmation of the balance sheet and the profit and loss account shall discharge the board of managing directors from all liability with regard to their management for the past fiscal year, in so far as their administration is evidenced by the documents submitted and provided the meeting does not decide otherwise when the balance sheet and profit and loss account are to be confirmed and adopted".

3. To authorize J. Berkvens and/or A. Grul, Attorneys at Law of Curacao, Netherlands Antilles, to implement the afore-said amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and, furthermore, to perform anything required or appropriate to the foregoing.

Given and executed in U.A.E. as of the 10th
day of July, 1984.



Shaikh Humaid Bin Rashid AL Naomi
(Shareholder)

P R O X Y

The undersigned Abdul Raouf Khalil, hereby authorizes J. Berkvens and/or A. Grul, Attorneys at Law in Curacao, Netherlands Antilles, to act as his/its proxy at the Annual General Meeting of shareholders of Credit and Commerce American Holdings, N.V. ("CCAH") to be held in Caracao on or about July 16, 1984 with power to exercise, as directed herein, the undersigned's voting rights with respect to 13,250 CCAH shares owned by the undersigned and to vote such shares only in favour of the following motions to be made at that meeting and for no other purpose :

1. To confirm and adopt the financial statements of CCAH for the years from incorporation through 1983 and discharge the Board of Managing Directors for their administration during that period.

2. To eliminate the provisions for a board of supervisory directors by amending the Articles of Incorporation of CCAH in the following respects :

(a) To delete paragraph 3 of Article 4 and replace it by (translated) :

"3. The shares shall be issued by the board of managing directors".

(b) To delete paragraphs 1, 2 and 6 of Article 2 and replace them by (translated) :

"1. The corporation shall be managed by a board of managing directors consisting of one or more managing directors. Legal entities may also be appointed managing directors".

(b)

"2. The managing directors shall be appointed by the general meeting of shareholders and may at any time be suspended or removed from office by the meeting".

"6. When one or more managing directors are absent or otherwise precluded from acting, the remaining managing director(s) shall be responsible for the entire management of the corporation; when all the managing directors are absent or otherwise precluded from acting, the corporation shall be managed temporarily by a person appointed for that purpose by general meeting of shareholders. The person so appointed shall call a general meeting of shareholders as soon as possible in order to provide for a definitive management.

As long as this has not been accomplished, the acts of management of the person so appointed shall be limited to those which cannot be postponed".

(c) To delete Article 10 in its entirety.

(d) To delete paragraphs 1 and 7 of Article 12 and replace it by (translated) :

"1. Each of the managing directors and any number of shareholders representing jointly not less than ten per cent of the subscribed capital have equal authority to call a general meeting of shareholders".

(d)

"7. Shareholders may be represented at the meetings by a proxy appointed in writing, telegraphically or by telex. Managing directors and, in general, persons in the employment of the corporation may not act as proxies of shareholders at the meetings".

(e) To delete paragraphs 1 and 3 of Article 16 and replace it by (translated) :

"1. Within eight months after the close of the fiscal year, the board of managing directors shall submit to the general meeting of shareholders the balance sheet and the profit and loss account for the past fiscal year, along with the explanatory statement referred to in Article 11.

The balance sheet, profit and loss account and explanatory statement shall be signed by all the managing directors. If the signature on one of them is lacking, the reason shall be stated on the documents".

"3. The annual general meeting of shareholders has the power to confirm the balance sheet and the profit and loss account.

(d) "3.

Confirmation of the balance sheet and the profit and loss account shall discharge the board of managing directors from all liability with regard to their management for the past fiscal year, in so far as their administration is evidenced by the documents submitted and provided the meeting does not decide otherwise when the balance sheet and profit and loss account are to be confirmed and adopted".

- 3- To authorize J. Berkvens and/or A. Grul, Attorneys at Law of Curacao, Netherlands Antilles, to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and, furthermore, to perform anything required or appropriate to the foregoing.

Given and executed in Saudi Arabia as of the 10th day of July, 1984.

A.R. Khalil

Abdul Raouf Khalil

(Shareholder)

P R O X Y

The undersigned Abu Dhabi Investment Authority, hereby authorizes J. Berkvens and/or A. Grul, Attorneys at Law in Curacao, Netherlands Antilles, to act as his/its proxy at the Annual General Meeting of shareholders of Credit and Commerce American Holdings, N.V. ("CCAH") to be held in Curacao on or about July 16, 1984 with power to exercise, as directed herein, the undersigned's voting rights with respect to 11,020 CCAH shares owned by the undersigned and to vote such shares only in favour of the following motions to be made at that meeting and for no other purpose :

1. To confirm and adopt the financial statements of CCAH for the years from incorporation through 1983 and discharge the Board of Managing Directors for their administration during that period.

2. To eliminate the provisions for a board of supervisory directors by amending the Articles of Incorporation of CCAH in the following respects :

(a) To delete paragraph 3 of Article 4 and replace it by (translated) :

"3. The shares shall be issued by the board of managing directors".

(b) To delete paragraphs 1, 2 and 6 of Article 2 and replace them by (translated) :

"1. The corporation shall be managed by a board of managing directors consisting of one or more managing directors. Legal entities may also be appointed managing directors".

(b)

"2. The managing directors shall be appointed by the general meeting of shareholders and may at any time be suspended or removed from office by the meeting".

"6. When one or more managing directors are absent or otherwise precluded from acting, the remaining managing director(s) shall be responsible for the entire management of the corporation; when all the managing directors are absent or otherwise precluded from acting, the corporation shall be managed temporarily by a person appointed for that purpose by general meeting of shareholders. The person so appointed shall call a general meeting of shareholders as soon as possible in order to provide for a definitive management.

As long as this has not been accomplished, the acts of management of the person so appointed shall be limited to those which cannot be postponed".

(c) To delete Article 10 in its entirety.

(d) To delete paragraphs 1 and 7 of Article 12 and replace it by (translated) :

"1. Each of the managing directors and any number of shareholders representing jointly not less than ten per cent of the subscribed capital have equal authority to call a general meeting of shareholders".

(d)

"7. Shareholders may be represented at the meetings by a proxy appointed in writing, telegraphically or by telex. Managing directors and, in general, persons in the employment of the corporation may not act as proxies of shareholders at the meetings".

(e) To delete paragraphs 1 and 3 of Article 16 and replace it by (translated) :

"1. Within eight months after the close of the fiscal year, the board of managing directors shall submit to the general meeting of shareholders the balance sheet and the profit and loss account for the past fiscal year, along with the explanatory statement referred to in Article 11.

The balance sheet, profit and loss account and explanatory statement shall be signed by all the managing directors. If the signature on one of them is lacking, the reason shall be stated on the documents".

"3. The annual general meeting of shareholders has the power to confirm the balance sheet and the profit and loss account.

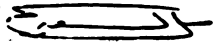
- 4 -

(d) "3.

Confirmation of the balance sheet and the profit and loss account shall discharge the board of managing directors from all liability with regard to their management for the past fiscal year, in so far as their administration is evidenced by the documents submitted and provided the meeting does not decide otherwise when the balance sheet and profit and loss account are to be confirmed and adopted".

3. To authorize J. Berkvens and/or A. Grul, Attorneys at Law of Curacao, Netherlands Antilles, to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and, furthermore, to perform anything required or appropriate to the foregoing.

Given and executed in Abu Dhabi as of the 12th day of July, 1984.


Mohammed Habroush
Managing Director

Abu Dhabi Investment Authority
(Shareholder)

P R O X Y

The undersigned Ali Mohammad Shorafa, hereby authorizes J. Berkvens and/or A. Grul, Attorneys at Law in Curacao, Netherlands Antilles, to act as his/its proxy at the Annual General Meeting of shareholders of Credit and Commerce American Holdings, N.V. ("CCAH") to be held in Caracao on or about July 16, 1984 with power to exercise, as directed herein, the undersigned's voting rights with respect to 10,154 CCAH shares owned by the undersigned and to vote such shares only in favour of the following motions to be made at that meeting and for no other purpose :

1. To confirm and adopt the financial statements of CCAH for the years from incorporation through 1983 and discharge the Board of Managing Directors for their administration during that period.

2. To eliminate the provisions for a board of supervisory directors by amending the Articles of Incorporation of CCAH in the following respects :

(a) To delete paragraph 3 of Article 4 and replace it by (translated) :
 "3. The shares shall be issued by the board of managing directors".

(b) To delete paragraphs 1, 2 and 6 of Article 9 and replace them by (translated) :

"1. The corporation shall be managed by a board of managing directors consisting of one or more managing directors. Legal entities may also be appointed managing directors".

(b)

"2. The managing directors shall be appointed by the general meeting of shareholders and may at any time be suspended or removed from office by the meeting".

"6. When one or more managing directors are absent or otherwise precluded from acting, the remaining managing director(s) shall be responsible for the entire management of the corporation; when all the managing directors are absent or otherwise precluded from acting, the corporation shall be managed temporarily by a person appointed for that purpose by general meeting of shareholders. The person so appointed shall call a general meeting of shareholders as soon as possible in order to provide for a definitive management.

As long as this has not been accomplished, the acts of management of the person so appointed shall be limited to those which cannot be postponed".

(c) To delete Article 10 in its entirety.

(d) To delete paragraphs 1 and 7 of Article 12 and replace it by (translated) :

"1. Each of the managing directors and any number of shareholders representing jointly not less than ten per cent of the subscribed capital have equal authority to call a general meeting of shareholders".

(d)

"7. Shareholders may be represented at the meetings by a proxy appointed in writing, telegraphically or by telex. Managing directors and, in general, persons in the employment of the corporation may not act as proxies of shareholders at the meetings".

(e) To delete paragraphs 1 and 3 of Article 16 and replace it by (translated):

"1. Within eight months after the close of the fiscal year, the board of managing directors shall submit to the general meeting of shareholders the balance sheet and the profit and loss account for the past fiscal year, along with the explanatory statement referred to in Article 11.

The balance sheet, profit and loss account and explanatory statement shall be signed by all the managing directors. If the signature on one of them is lacking, the reason shall be stated on the documents".

"3. The annual general meeting of shareholders has the power to confirm the balance sheet and the profit and loss account.


- 4 -

(d) "3.

Confirmation of the balance sheet and the profit and loss account shall discharge the board of managing directors from all liability with regard to their management for the past fiscal year, in so far as their administration is evidenced by the documents submitted and provided the meeting does not decide otherwise when the balance sheet and profit and loss account are to be confirmed and adopted".

3. To authorize J. Berkvens and/or A. Grul, Attorneys at Law of Curacao, Netherlands Antilles, to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and, furthermore, to perform anything required or appropriate to the foregoing.

Given and executed in Abu Dhabi as of the 12th day of July, 1984.


 Ali Mohammad Shorafa
 (Shareholder)

P R O X Y

The undersigned Kl Sayed Kl Gohari, hereby authorizes J. Berkhvens and/or A. Grul, Attorneys at Law in Curacao, Netherlands Antilles, to act as his/its proxy at the Annual General Meeting of shareholders of Credit and Commerce American Holdings, N.V. ("CCAH") to be held in Curacao on or about July 16, 1984 with power to exercise, as directed herein, the undersigned's voting rights with respect to 791 CCAH shares owned by the undersigned and to vote such shares only in favour of the following motions to be made at that meeting and for no other purpose :


1. To confirm and adopt the financial statements of CCAH for the years from incorporation through 1983 and discharge the Board of Managing Directors for their administration during that period.
2. To eliminate the provisions for a board of supervisory directors by amending the Articles of Incorporation of CCAH in the following respects :

(a) To delete paragraph 3 of Article 4 and replace it by (translated) :

"3. The shares shall be issued by the board of managing directors".

(b) To delete paragraphs 1, 2 and 6 of Article 9 and replace them by (translated) :

"1. The corporation shall be managed by a board of managing directors consisting of one or more managing directors. Legal entities may also be appointed managing directors".



(b)

"2. The managing directors shall be appointed by the general meeting of shareholders and may at any time be suspended or removed from office by the meeting".


"6. When one or more managing directors are absent or otherwise precluded from acting, the remaining managing director(s) shall be responsible for the entire management of the corporation; when all the managing directors are absent or otherwise precluded from acting, the corporation shall be managed temporarily by a person appointed for that purpose by general meeting of shareholders. The person so appointed shall call a general meeting of shareholders as soon as possible in order to provide for a definitive management.

As long as this has not been accomplished, the acts of management of the person so appointed shall be limited to those which cannot be postponed".

(c) To delete Article 10 in its entirety.

(d) To delete paragraphs 1 and 7 of Article 12 and replace it by (translated) :

"1. Each of the managing directors and any number of shareholders representing jointly not less than ten per cent of the subscribed capital have equal authority to call a general meeting of shareholders".



(d)


"7. Shareholders may be represented at the meetings by a proxy appointed in writing, telegraphically or by telex. Managing directors and, in general, persons in the employment of the corporation may not act as proxies of shareholders at the meetings".

(e) To delete paragraphs 1 and 3 of Article 16 and replace it by (translated) :

"1. Within eight months after the close of the fiscal year, the board of managing directors shall submit to the general meeting of shareholders the balance sheet and the profit and loss account for the past fiscal year, along with the explanatory statement referred to in Article 11.

The balance sheet, profit and loss account and explanatory statement shall be signed by all the managing directors. If the signature on one of them is lacking, the reason shall be stated on the documents".

"3. The annual general meeting of shareholders has the power to confirm the balance sheet and the profit and loss account.



- 4 -

(d) "3.

Confirmation of the balance sheet and the profit and loss account shall discharge the board of managing directors from all liability with regard to their management for the past fiscal year, in so far as their administration is evidenced by the documents submitted and provided the meeting does not decide otherwise when the balance sheet and profit and loss account are to be confirmed and adopted".

3. To authorize J. Berkvens and/or A. Grul, Attorneys at Law of Curacao, Netherlands Antilles, to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and, furthermore, to perform anything required or appropriate to the foregoing.

Given and executed in Saudi Arabia as of the 10th day of July, 1984.



El Sayed El Gohari
(Shareholder)

P R O X Y

The undersigned Sheikh Khalifa Bin Zaid Al Nahyan, hereby authorizes J. Berkvens and/or A. Grul, Attorneys at Law in Curacao, Netherlands Antilles, to act as his/its proxy at the Annual General Meeting of shareholders of Credit and Commerce American Holdings, N.V. ("CCAH") to be held in Curacao on or about July 16, 1984 with power to exercise, as directed herein, the undersigned's voting rights with respect to 14,828 CCAH shares owned by the undersigned and to vote such shares only in favour of the following motions to be made at that meeting and for no other purpose :

1. To confirm and adopt the financial statements of CCAH for the years from incorporation through 1983 and discharge the Board of Managing Directors for their administration during that period.

2. To eliminate the provisions for a board of supervisory directors by amending the Articles of Incorporation of CCAH in the following respects :

(a) To delete paragraph 3 of Article 4 and replace it by (translated) :

"3. The shares shall be issued by the board of managing directors".

(b) To delete paragraphs 1, 2 and 6 of Article 9 and replace them by (translated) :

"1. The corporation shall be managed by a board of managing directors consisting of one or more managing directors. Legal entities may also be appointed managing directors".

- 2 -

(b)

"2. The managing directors shall be appointed by the general meeting of shareholders and may at any time be suspended or removed from office by the meeting".

"6. When one or more managing directors are absent or otherwise precluded from acting, the remaining managing director(s) shall be responsible for the entire management of the corporation; when all the managing directors are absent or otherwise precluded from acting, the corporation shall be managed temporarily by a person appointed for that purpose by general meeting of shareholders. The person so appointed shall call a general meeting of shareholders as soon as possible in order to provide for a definitive management.

As long as this has not been accomplished, the acts of management of the person so appointed shall be limited to those which cannot be postponed".

(c) To delete Article 10 in its entirety.

(d) To delete paragraphs 1 and 1 of Article 12 and replace it by (translated) :

"1. Each of the managing directors and any number of shareholders representing jointly not less than ten per cent of the subscribed capital have equal authority to call a general meeting of shareholders".

(d)

"7. Shareholders may be represented at the meetings by a proxy appointed in writing, telegraphically or by telex. Managing directors and, in general, persons in the employment of the corporation may not act as proxies of shareholders at the meetings".

(e) To delete paragraphs 1 and 2 of Article 16 and replace it by (translated) :

"1. Within eight months after the close of the fiscal year, the board of managing directors shall submit to the general meeting of shareholders the balance sheet and the profit and loss account for the past fiscal year, along with the explanatory statement referred to in Article 11.

The balance sheet, profit and loss account and explanatory statement shall be signed by all the managing directors. If the signature on one of them is lacking, the reason shall be stated on the documents".

"3. The annual general meeting of shareholders has the power to confirm the balance sheet and the profit and loss account.

(d) "3.

Confirmation of the balance sheet and the profit and loss account shall discharge the board of managing directors from all liability with regard to their management for the past fiscal year, in so far as their administration is evidenced by the documents submitted and provided the meeting does not decide otherwise when the balance sheet and profit and loss account are to be confirmed and adopted".

3. To authorize J. Berkvens and/or A. Grul, Attorneys at Law of Curacao, Netherlands Antilles, to implement the aforesaid amendments to the Articles of Incorporation, with authority to draw up a draft deed of amendment, apply for the required approval of the Department of Justice of the Netherlands Antilles, amend the draft as may be necessary and execute the deed before a civil notary, and, furthermore, to perform anything required or appropriate to the foregoing.

Given and executed in Abu Dhabi as of the 12th
day of July, 1984.



Sheikh Khalifa Bin Zaid Al Nahyan
(Shareholder)

*Credit and Commerce American Holdings, N.V.
 Postbus 6, Willemstad
 Curaçao, Netherlands Antilles*

CONFIDENTIAL

June 9, 1989

OFFERING MEMORANDUM

Credit and Commerce American Holdings, N.V. (CCAH) is a Netherlands Antilles holding company whose principal operation is First American Bankshares, a major U.S. bank holding company. During 1988, First American Bankshares' total assets exceeded \$10 billion, which represents an approximate fivefold increase in assets since CCAH's acquisition of the Company in 1982. During this seven-year period earnings have reached record levels each year. Our shareholders' ownership of CCAH stock is thus believed to have continued to appreciate substantially in value.

A two-stage right shares offering in the amount of \$100 million is being presented during 1989 to raise additional capital to support the Company's expansion and to provide the capital base required by U.S. bank regulatory requirements. The first offer for \$50 million is open until June 30, 1989. The second offer for \$50 million is to take place during the second half of 1989. We believe these offerings represent a unique investment opportunity to continue to participate in the future growth of this successful company and to enjoy the

anticipated continuing capital appreciation of share ownership in CCAM. Upon completion of this capital infusion, we do not contemplate, for reasons set forth below, the need for substantial rights offerings again for a number of years, and therefore the 1989 offerings constitute an important opportunity to purchase additional shares at 1988 year-end book value.

First American Bankshares -- Updated Profile

First American Bankshares is a multi-state bank holding company operating eight commercial banks in New York, Maryland, Virginia, Georgia, Florida, Tennessee, and Washington, D.C. Ranked by assets, it remains the largest bank holding company headquartered in Washington, D.C. The First American system now includes over 5,700 employees, 280 branch offices, and 219 automated teller machines (ATMs), with access to more than 20,000 more ATMs nationwide. Accompanying this Offering Memorandum is the First American Annual Report for 1988 providing audited financial and other details regarding the Company.

First American is the only banking corporation with full service banking facilities in all of the following key markets: the Nation's money center of New York and its capital city, Washington, D.C.; the entire metropolitan area of Washington, D.C., including adjoining markets in Virginia and

Maryland; the Southeast region, including the Atlanta and Florida markets; and four of the Eastern Seaboard's largest port cities -- New York, Norfolk, Baltimore, and Miami. It is a franchise that would be virtually impossible to duplicate today by a new banking organization.

First American achieved record levels in assets and earnings in 1988, extending a positive growth trend first established seven years ago when new management assumed control. Total assets increased to \$10.6 billion in 1988 and net income (after taxes and reserves) rose 59.2% to \$80 million. Net income growth has thus been accelerating, the year 1988 representing an approximate doubling of net income since 1986. As explained below, the growth in net income is expected to continue.

The Company's financial achievements have been derived from strong growth together with gains from a program of consolidating the operations of First American's affiliates. The results have, in our view, produced a handsome increase in stock value for CCAH shareholders, sound prospects for growth in 1989 and beyond, and the anticipated increase in income to help support further expansion.

Our financial results have been achieved through aggressive but prudent management. First American's earnings have been continuously reinvested in order to strengthen the member banks and permit them to exploit market opportunities

for long-term financial benefit. For example, after its initial start-up period, the First American Bank in New York registered a breakthrough year of profitability in 1988 and evidences prospects for future growth. The First American Banks serving Maryland, Virginia, and the greater Washington, D.C. metropolitan area have cut operating expenses through consolidated operations and now are headquartered in a new \$30 million building complex near the Nation's capital. A consolidated marketing thrust by these banks has produced sharply increased earnings.

The acquisition of the National Bank of Georgia consummated in mid-1987 proved to be a sound investment. After experiencing years of deteriorating performance and declining earnings including losses of over \$8 million in 1987 when it was owned independently, the bank renamed First American Bank of Georgia, N.A. recorded its best year ever in 1988 with net earnings of over \$17.5 million. A strong management team has reinvigorated the Georgia banking operations, and with its presence in Florida offers First American the opportunity to expand its reach in that growing state as well. Entry into the vibrant markets of Georgia and Florida was well-conceived and positions us for further expansion in the Southeast region, a core element of First American's strategic plan for the 1990's.

Committed to becoming one of the leading banks in the United States, First American is dedicating resources to

developing expanded management skills at all levels to guide the institution into the next decade. In 1988, the Company established the First American Management Institute in cooperation with the prestigious Wharton School of Business at the University of Pennsylvania in Philadelphia. This program to send mid-level and senior officers to Wharton for sophisticated course work will provide our managers with the additional knowledge and skills they will need to assure our continuing financial progress. In addition, an internal management program called "First Advantage" is recruiting highly qualified students from top colleges and universities to serve as junior officers and offering them training in the complexities of today's commercial banking and financial services industry. This commitment to infrastructure -- both human and technical -- is essential to growth and expansion in the future.

Further, we established a centralized data processing subsidiary, First American Data Services (FADS), which now operates a facility containing state-of-the-art data processing equipment. This department can support in one center the data processing needs of the entire banking group. And, given the key role data processing now plays in banking operations, FADS is expected to provide important operating advantages while controlling costs in the future.

First American also sought to move into new areas in 1988 when important financial opportunities were identified.

We established First Advantage Mortgage Corporation to originate and service residential mortgage loans for all our member banks. We are located in strong housing markets and can thus produce valuable loans and fees through this operation. Offices will be in or adjacent to existing First American branches, and 24 such facilities are expected to be operational by mid-1989. Also in 1988, First American established a Customer Investment Department to offer a range of brokerage services and investment advice to customers in the Washington metropolitan area.

Despite dramatic balance sheet growth over the past seven years, First American has maintained exceptionally high asset quality. In the loan portfolio, it enjoyed in 1988 an outstanding charge-off rate of only .39 percent of total loans. While we cannot expect this unusually favorable result to continue at this level, our experience to date compares extremely favorably with our competitors where we find a recent U.S. banking peer group average of .93 percent. Indeed, among the major bank holding companies in First American's region the Federal Reserve Board found in an internal study that First American ranked first in this important measure of asset quality. First American's loan portfolio benefits from a lack of sovereign debt or political debt which has been problematic for many other banks.

This past year First American established a Credit Administration Division for the express purpose of developing

standard lending policies for all First American Banks, ensuring that the institution will maintain the excellent quality of its loan portfolio as it grows.

The trend toward increased shareholder value is detailed in the accompanying First American Annual Report for 1988. The Company's net worth position is presented according to generally accepted accounting principles (GAAP) used in the U.S. It is noted, however, that assets and liabilities must be recorded under GAAP on an historical cost basis rather than current market values.

Meeting Expansion Goals And Regulatory Capital Requirements

First American's strategic plan remains forward-looking:

- to continue to achieve a substantial expansion of our balance sheet each year;
- to consider attractive acquisition candidates in markets that show unusual potential;
- to increase the efficiency of our banks and achieve cost efficiencies; and
- to continue to produce significant appreciation in the value of CCAH shares for our investors.

Consistent with its fundamental corporate mission to become one of the major financial institutions in the United States, First American in 1989 intends to expand in two significant respects.

First, preliminary budget projections based on internally generated growth call for net income (after taxes and reserves) of approximately \$90-95 million in 1989. Each member bank in the First American system is contributing to net income and cost saving measures are leading to greater profitability.

Second, senior management will pursue new financial markets and opportunities, including additional bank acquisitions. Acquisition candidates may include financially troubled savings and loan institutions in markets in, or contiguous to, markets presently served by the First American network. Given the serious financial problems of these savings banks, unique opportunities may exist to expand our markets with assistance from the Federal Government which may assume the financial risk of loss in return for our supplying management expertise to the acquired company. First American is currently reviewing potential targets that could present unique opportunities to enter attractive markets with financial protection from the Federal Government.

First American is also considering expansion of its banking presence in Florida, the fourth largest state in population in the United States. Currently, as a result of our acquisition of the First American Bank of Georgia, N.A. and its affiliates, First American has a toehold presence in Pensacola, Florida and Miami, Florida. Florida represents a

dynamic arena for commercial banking and financial services, and complements the expansion southward by the Company. A number of promising candidates are under consideration.

1989 Right Shares

To support the expansion of our asset base, new capital is required. Reflecting today's public concern over the sufficiency of capital among large U.S. banks, bank regulatory authorities during 1988 tightened capital adequacy requirements. The Federal Reserve Board has also announced that as part of its capital adequacy requirements, it is moving toward a more risk-based approach which imposes higher capital levels on those banks engaged in financial transactions with greater risk of loss. For First American, this regulatory shift should be favorable because of our conservative, risk aversion approach. Thus, meeting the capital/asset requirements in the future may not require the levels of capital infusion that have been required in the past. First American's accelerated earnings should further contribute to capital adequacy and lessen the need to seek additional equity from our shareholders to sustain growth in 1990 and beyond. The two-stage right share offering during 1989 may thus represent a unique opportunity to purchase equity in the Company in this manner in the near term.

Accordingly, to provide the capital for the continued growth and development of this Company in 1989, CCAH as the

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parent holding company of First American Bankshares seeks to raise \$100 million with \$50 million to be raised by June 30, and the balance of \$50 million during the second half of 1989. The new equity capital will be directed toward supporting First American's expansion program of new acquisitions and internal growth.

Through conservative management, prudent investment strategies, and shareholder support, First American is advancing steadily toward meeting its corporate mission of becoming a leader among the major financial institutions in the United States. As such, it provides our shareholders with the unique opportunity to benefit from the further anticipated capital appreciation of their investment.

THE MANAGING DIRECTORS

SEP 9 1

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME LICENSED DEPOSIT TAKER
 100 LEADENHALL STREET LONDON EC3A 3AD

23rd August, 1983

Mr. Robert A. Altman,
 Messrs Clifford & Warnke,
 815 Connecticut Avenue,
 Washington DC 20006,
 U S A.

Dear Mr. Altman,

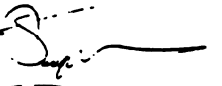
I acknowledge, with thanks, your letter of 18 August, 1983.

We have conveyed the information contained in your letter to the investors who are very pleased indeed on the ruling of the Federal Reserve Board regarding the application of CCAH and its subsidiaries to acquire Valley Fidelity Bank Tennessee.

They look forward for the satisfactory completion of the acquisition.

With warm regards.

Yours sincerely,



S. M. A. Q. V. I.

PHONES 01-283 8566
 Incorporated in Luxembourg

TELEX 8813851 CABLES BANCRECOM
 A Subsidiary of BCCI Holdings (Luxembourg) S.A.

CLIFFORD AND ALTMAN STOCK TRANSACTIONClark M. Clifford

Gross Amount Received	\$21,760,000.00
Less:	
<u>Costs and expenses paid</u>	
Repaid Note of July 25, 1986	(9,960,920.00)
Repaid Note of August 14, 1987	(2,310,930.00)
Interest paid on loans	(1,411,831.00)
Commission on sale	<u>(1,500,000.00)</u>
Subtotal	\$ 6,576,319.00
State and Federal Taxes (approx.)	<u>(3,825,000.00)</u>
Net cash to Clark M. Clifford	\$ 2,752,319.00

Shares Remaining After Sale: 2,246*

Robert A. Altman

Gross Amount Received	\$10,880,000.00
Less:	
<u>Costs and expenses paid</u>	
Repaid Note of July 25, 1986	(4,979,352.00)
Repaid Note of August 14, 1987	(1,154,250.00)
Interest paid on loans	(725,289.00)
Commission on sale	<u>(750,000.00)</u>
Subtotal	\$ 3,271,109.00
State and Federal Taxes (approx.)	<u>(1,918,000.00)</u>
Net cash to Robert A. Altman	\$ 1,353,109.00

Shares Remaining After Sale: 1,122*

* It is incorrect to assume that the shares retained by Clifford and Altman could be assigned the same value per share as those sold to one interested purchaser in 1988. Today, the value of bank stocks has sharply declined and there is no present market for their current holdings.

Mr. CLIFFORD. Thank you, Senator.

Mr. ALTMAN. Thank you, Mr. Chairman.

Senator BROWN. As I read that transaction, the combined gross profit or capital gain was roughly \$9.5 million?

Mr. CLIFFORD. Yes. What the Senator—we looked at the transaction in its entirety. We had made an investment of a certain number of dollars and then, when we sold a part of our stock, that was a certain total. And that gave us what the profit was compared with the amount that we'd spent and the amount that we received. And you put Mr. Altman's and my profit together, it came to over \$9 million before taxes, and after taxes, I think my profit was about \$2.7 million and his was about \$1.3, something like that.

Mr. ALTMAN. Senator, I think it's also relevant to note for the record, when you're examining this transaction and your questions focus on the distinction between a sale at book value and then a subsequent sale of the shares, that this was not a practice that was unique to Mr. Clifford and me and this transaction. This was a practice that First American followed generally. When First American was acquired, the minority—excuse me—the subsidiary banks that it owned had minority shareholders, and from time to time an effort would be made to raise capital for those subsidiary banks, and a rights offering would go out for the shareholders of the subsidiary bank, just as they did here for the holding company.

Now, whenever we issued stock and this would be stock that would be issued to the public, the public would also buy the stock in First American at book. Now, if a member of the public is a minority shareholder of, say, First American Bank of Maryland and that bank is raising additional money, that shareholder buys the stock at book. When the shareholder goes to sell the stock, that price may be higher or lower than book. Today, most stock will trade at a substantial discount from book. Back in 1988, when we sold ours, the stock generally traded at a substantial premium to book, but there are two different pricings and that's—what I'm describing is that the transaction that we followed here for the holding company was the same practice that we followed with the public in the sale of stock in our subsidiary banks.

Senator BROWN. Well, I noticed your sale in 1988 being at a little over \$6,800 or in that neighborhood. The report I have is that in 1989, after another profitable year, the stock you were able to purchase at less than \$3,000 a share, some additional stock—

Mr. ALTMAN. That was another rights offering and, as I've just described, rights offerings were done at book. That was done by the top holding company and that was done by our subsidiary banks with the public or the company taking its portion of it.

Mr. CLIFFORD. If I might add, it's there—see, we had become shareholders in 1986, so whenever there was a rights offering after that, we were entitled to whatever our share was of the rights offering at the book price, which was what all the other shareholders paid. So when we bought that stock for some little less than \$3,000, every other shareholder bought it at the same price.

Senator BROWN. So it was rights based upon your holding of the stock?

Mr. CLIFFORD. Exactly, Senator.

Senator BROWN. And that was made available proportionately to all stockholders at the time.

Mr. CLIFFORD. Exactly.

Senator KERRY. Could I just talk a minute?

Senator BROWN. Sure.

Senator KERRY. When you talk about this sort of offering of rights and transfers, in effect First American was taken private, correct?

Mr. ALTMAN. It was, over a period of time.

Senator KERRY. So that when you became shareholders, am I correct—I am not sure of this—in about 1986—

Mr. CLIFFORD. Yes.

Senator KERRY [continuing]. It was private?

Mr. CLIFFORD. Oh, completely.

Mr. ALTMAN. The holding company was private, not the subsidiary banks.

Senator KERRY. No. I understand, not the subsidiary banks, but when you talk about the share offerings that you and I are referring to, we are not really talking about a share offering to the public. We are talking about a share offering to this small family, this sort of network family?

Mr. CLIFFORD. Only to shareholders.

Senator KERRY. And the shareholders, at that point, were what—about 30 people, correct?

Mr. ALTMAN. About half that.

Senator KERRY. Half of that, 15 people. So when you say this was offered to people, it was offered to other people, all of whom were part of this little family—the shareholders? This was Mr. Kamal Andam; this was Sheik Zayed, et cetera. Correct?

Mr. CLIFFORD. There were 14 shareholders and when there was a rights offering, it was confined to those 14 shareholders.

Senator KERRY. What confuses me a little bit is, as my colleague pursues this, I was looking at a spreadsheet here for 1986, this is just for Mr. Hammoud's purchases. Now, in 1986, Mr. Hammoud purchased shares; he purchased 5,747 shares for \$2,216 per share, and it was financed by a loan from BCC. In 1987, he purchased 1,216. The price was \$2,430 per share. He again—a loan from BCC. In 1987, he purchased 2,803 shares for \$2,430, a loan from BCC financing it, and then, suddenly in 1988, about what—5 months later, he purchased 1,600 shares for \$6,800, a loan from BCC; and then, on the same day, another 3,200 shares for \$6,800, financed by a loan from BCC. And then, 1 year later, he buys 968 shares, but suddenly for \$2,774 a share—a loan from BCC.

A little later—excuse me—on the same day, he purchases another 881 shares, price per share of \$2,774—a loan from BCC, and then again, subsequent transactions. You have this range of Mr. Hammoud, exclusively from loans from BCC, buying shares and this extraordinary, sort of ballooning of the price of your shares and then the balloon deflates and suddenly, boom, he is buying them back at \$2,700.

To the person on the outside looking in at this network of sort of 14 shareholders borrowing money from BCC, all to purchase shares in CCAH, it looks like there is something going on and it is hard to

explain it. Were there different voting powers in these different shares?

Mr. CLIFFORD. Well, I think there are two explanations, Senator. See, you are looking at two separate types of transactions. One, when he pays something in the neighborhood of \$2,300 up to \$2,700 for stock, you are looking at very likely a book transaction. Sometimes when offerings were made and some of the other shareholders did not subscribe, they might let another shareholder get theirs, so he'd get theirs at book also. That would account for some of it. Another answer to it is—

Senator KERRY. Why would he want to pay \$6,800 and incur a financial liability, since he is borrowing money to do it, when, you know, a little bit later he got it at so much less. Why would he want to incur that liability?

Mr. CLIFFORD. Well, I will give you my answer. In 1988, when he acquired our stock, there was no rights offering that year. And you notice he had been acquiring stock every year, so apparently he had made a policy decision that he wished to be an important holder of our stock. Now, although he paid a substantially higher price that year, and the very next year, you see, there was a rights offering, and that would average down his cost.

If you look at what Mr. Hammoud was doing, he made purchases over 4 years and you then average out what his cost is, and it comes to something like \$3,400 a share. So if he decided that he wanted to acquire a position, my own view is that he went at it rather astutely. Over 4 years he acquired a substantial amount of the stock, and his average was \$3,400.

Senator KERRY. You could look at it another way, which is to say that it was not so astute. He made a conscious decision to go into big debt—unless he did not have to pay the debt—but that he paid more for your stock than he paid for all the other stock that he purchased in total.

Mr. ALTMAN. But by purchasing our stock, he gained the right in subsequent rights offerings to buy more shares at book value.

Senator KERRY. He did not have that right from the prior purchases?

Mr. ALTMAN. No, sir.

Senator KERRY. Why is that?

Mr. ALTMAN. He—the previous—

Senator KERRY. I am sorry to be obtuse about it. I just do not understand it. So tell me why.

Mr. ALTMAN. That is OK.

Mr. CLIFFORD. I think Mr. Altman did not understand. From every purchase that Hammoud made, he could always participate with reference to those purchases in the rights offering.

Mr. ALTMAN. I was making a somewhat different point, and it is if Mr. Hammoud makes the decision that he wishes to become an important shareholder in First American, he likes the prospects of the company and wants to become an important investor, he—the only way he can do it is, he can pick up stock that is waived at rights offerings. But other than that, he has to buy stock from existing shareholders, and, Mr. Chairman, you've acknowledged that there are very few of those.

Now when he buys stock at a premium, that gives him the opportunity in all subsequent rights offerings to get a larger pro rata allotment of stock at book, and that is, I think, the investment approach that Mr. Clifford was describing, that is, that Mr. Hammoud was averaging down his costs, but——

Senator KERRY. How often did they make those kinds of at-premium purchases?

Mr. ALTMAN. Well, there are any number of those trades over the year. Those are in the stock register of the company. We do not know what the prices are. Mr. Clifford has indicated some of the information we have heard, although we can't state it with certainty, but there were trades over the years.

Senator KERRY. When were you granted the power of attorney to effect that sale?

Mr. ALTMAN. To effect which sale?

Senator KERRY. The stock transaction for Mr. Hammoud.

Mr. ALTMAN. Senator, last night I received from the committee a power of attorney signed by Mr. Hammoud, and to the best of my recollection I'd never seen that document before. I don't know what that relates to.

Let me make one other observation if I might on Mr. Hammoud.

Senator KERRY. Well, if I can just follow up on it because I want to try to understand this. I ask these questions again. There is a premium price and there are other sales, and I think it would be helpful to have some documentation that would show us some of the other premium sales. The reason I ask this is that this situation is not dissimilar to other powers of attorney which your firm held on behalf of all the shareholders.

Mr. ALTMAN. To the best of my recollection, that's not correct, Senator. And that's why I need a little time to study it, because I got it last night.

Senator KERRY. Did you look at the other document? There is a Qabazard, Mohammed Husain Qabazard, who gave you power of attorney in 1983, and we have a number of other power of attorney certificates which show a 1983 date.

Mr. ALTMAN. Do you have the number in the book?

Senator KERRY. I do. It is No. 27. Just behind the Mohammed Hamid.

Mr. ALTMAN. Yes, sir, I see it. We got this document last night from the committee, and we've asked counsel to take a look at the files that we have. Based on a fairly quick review, we don't believe that we have ever seen this document before. Now I have had powers of attorney from the shareholders, and that generally relates to taking action at the company, including the right to vote stock at annual meetings. But my recollection is always excluded from those powers of attorney was the right to sell stock.

Therefore, when I first saw it, I thought this was another one of those powers of attorney. But this gives an authority to sell shares, and that is something that to the best of my recollection I'd never seen before. I do not know how to explain it. I don't know where it came from, but I don't believe it was ever in our files.

Senator KERRY. Do you recall, did you have a chance at all to see or hear the testimony of Mr. Rahman?

Mr. ALTMAN. Mr.——

Senator KERRY. Rahman. He was the former comptroller. It was in the paper.

Mr. CLIFFORD. Yes.

Mr. ALTMAN. I saw portions of it.

Senator KERRY. He described under oath to this committee. He described Mr. Hammoud as the "most flexible of our flexible fronts" for BCCI.

Mr. ALTMAN. Well, I would say two things about that, Senator. The first is that Mr. Hammoud is one of the individuals who was not listed by the Federal Reserve as a nominee in their notice of charges. He was in the category of bona fide shareholder. Now, I cannot speak for the Fed, I do not know whether that is a final position or an interim position, but we noted that he was not listed.

And the second fact that I would note to you is there is a contradictory set of letters that we received. I believe we have supplied them to the committee. I know that we have supplied them to the Federal Reserve when we received them, and these were related to these loans from Mr. Hammoud that you indicated BCCI had extended.

In the fall of 1990, we had been contacted by Mr. Hammoud's estate. Mr. Hammoud had died earlier in the year. And we had been contacted by his estate. His estate believes that the stock is stock that belonged to Mr. Hammoud and now belongs to his heirs. They certainly take the position that Mr. Hammoud was no nominee. He was a bona fide shareholder. And they had asked that the stock be transferred into the names of the heirs. And we were seeking certain documentation in that regard before the transfer could be lawfully effected.

While that was under way, we were contacted by an auditing firm in London that was an auditing firm for BCCI. I had not heard of the firm before. It was called Siddiki & Co. And they wrote us a couple of letters in which they said, as to that stock which the heirs are claiming, BCCI has extended loans and we have a lien on that stock. But 3 days later—

Senator KERRY. I have just been advised that you wanted to try to have a break. Is that accurate at some point?

Mr. CLIFFORD. No. Well, let us finish this.

Mr. ALTMAN. If we could do it when we finish this subject? But 3 days later, on November 30, 1990, we received another letter from the same firm, and it reads as follows: With reference to our letters dated November 14, 1990, and November 27, 1990, we regret to inform you that both these letters were written under some misunderstanding on our part and request you to please treat them as canceled and withdrawn. So they are in effect telling us that there are no liens against these shares.

Senator KERRY. I remember that. I think you testified to that in the House.

Mr. ALTMAN. We presented that to the Federal Reserve. We don't know what the exact truth is.

Senator KERRY. Did you ever meet Mr. Hammoud?

Mr. ALTMAN. I've met his son, but I have never met him.

Senator KERRY. You never met him?

Mr. CLIFFORD. I never met him.

Mr. ALTMAN. No, sir.

Senator KERRY. Let me kind of narrow this, and tell you why the committee is concerned. And maybe you could help us out in expressing it. Is it fair to say that this was a no-risk loan to you? A no-risk stock transaction?

Mr. CLIFFORD. No, you can't go that far. What we did was minimize the risk. But as Mr. Altman explained it a little earlier—

Senator KERRY. What would you describe the risk as?

Mr. CLIFFORD. Well, one risk is that the BCCI always looked out for its own interests, as we found that out after a while. So that when we went back to them to ask for a second loan, because we had another rights offering we'd like to take advantage of, they said, well, we will lend you the money, but pay up the interest on the first loan.

We said, the interest isn't due on the first loan. They said, we do not care whether it is due or not. Unless you pay the interest up on the first loan, then we'll not make you the second loan. So we paid the interest up. As you total the amount that I paid and the total that Mr. Altman paid, it came \$1,000—\$1,008,000. So—

Senator KERRY. So did that not in effect come out of the subsequent loan they made you?

Mr. ALTMAN. The subsequent loan was used to purchase shares—in total.

Senator KERRY. The net—net at the bottomline was that you were not really out-of-pocket in a sense. Let me tell you why I say that. There was a side agreement, correct? You had a side agreement in addition to the stock and pledge, you had a side agreement?

Mr. ALTMAN. We did not have a side agreement, at least I wouldn't so characterize it. We had three documents which constituted the loan agreement.

Senator KERRY. Well, let me ask you to turn to document 24, which is a letter which you wrote to BCCI and in paragraph 1 it says, "With regard to the note and the pledge agreement jointly referred to herein as loan agreement documents, notwithstanding any provision of said loan and documents to the contrary, BCCI." So in other words, no matter what the loan documents say, we are going to agree to the following. Now I consider that an agreement outside of the loan documents.

It says, "notwithstanding the provision, BCCI and the undersigned hereby confirm and agree as follows." So this is your agreement notwithstanding the loan documents. Paragraph 1, certain clients of BCCI have given BCCI a firm commitment to purchase any of all of the undersigned CCAH shares at such time as the undersigned wishes to sell said shares, which says to me that you entered into this with an understanding that no matter what, BCCI had an agreement with you that they'd buy the shares. So you knew that you could sell the shares.

Mr. CLIFFORD. That is not quite right, Senator.

Senator KERRY. Well, help me. What does it mean, then?

Mr. CLIFFORD. It's a move in that direction, but unless a price is put in there, it's meaningless.

Senator KERRY. Well, then it says, "Paragraph 2: BCCI shall arrange for the sale of such shares to such clients in such manner

and at such prices as BCCI and the understand shall mutually determine."

Mr. CLIFFORD. All right, and if there is no agreement, then it is meaningless.

Senator KERRY. Let me go a little further. Paragraph 4 says, "As a result of the arrangements set forth in paragraph 1, BCCI has a ready market for the CCH shares held as collateral." So they are telling you that they have a ready market to secure the repayment of the note. "And it is understood and agreed that the undersigned shall not be obligated personally to repay to BCCI the loan principal or any interest accrued thereon. BCCI shall be limited solely to the undersigned's interest in the CCH shares or any proceeds thereof." That is because they held the collateral.

So they are holding the collateral—your shares. They are promising to buy them back. You do not have any interest to pay, accruing. And you have a guaranteed buyer.

Mr. ALTMAN. That is not correct.

Mr. CLIFFORD. Wait a minute.

Senator KERRY. Do I misread it?

Mr. CLIFFORD. Well, until you get down to the end. We do not have a guaranteed buyer, because there's no price stated in there at all. They say they think there is a ready market. They will investigate it, they will come up. If we set a price on it, and nobody meets that price, I say again, the language is meaningless. Senator?

Senator KERRY. Is that, respectfully, sort of a—I am looking for the right word. I mean, is that a euphemism for what you have here, really? I mean, given the relationship to BCCI, you have called it very personal, that is the way you described it at the start. There is this ongoing relationship, you have major interests together. Now are they going to suddenly refuse you the opportunity to sell your shares?

Mr. ALTMAN. Senator, I think this document may make more sense to you if you understand its origins. And if I could just take a moment with the committee and walk you through that, then this may not seem so confusing to you. I refer back to the discussion that we had earlier about the advice we received from New York counsel that this had to be a nonrecourse loan. That was their advice to us, and obviously we were going to accept their advice. They were experts in this kind of financing.

The language that you refer to in paragraph 4 was language that they drafted, for the most part. And what it does is, it makes this a nonrecourse loan. That is all that this language does. And in the BAI loan documents that were originally submitted, they put in similar language in those documents.

Now, the reason this letter was created was really as a result of the evolution of the loan documents. Originally what New York counsel had prepared was what was called a put agreement. New York counsel felt that in order to try to create liquidity in the stock, there was a need to have a put agreement, meaning an agreement which allowed the holder of the stock to sell it to someone, to create a market. So that the stock—you would not be left with an illiquid asset. So they created a put agreement.

And originally when this loan was negotiated, they drafted these documents and they drafted a put agreement with the intention that our largest investor, Kamal Adham, who had an interest and was enthused about our becoming shareholders because it gave us an incentive to make his holdings more valuable as we build the company, he was to sign the put agreement and that would create the liquidity. Now this was discussed both with BAI and with BCCI. It also gave—

Senator KERRY. When you say, give it liquidity, what you are really saying is marketability. It needed to be marketable. I understand that.

Mr. ALTMAN. Because otherwise we had no sure way of selling the stock at the time the loan becomes due. And they had the concept that it would also be advantageous to the lender, because a lender would be in the same position. The lender forecloses on the stock, and then the lender says, do I have a market to sell the stock. So—

Senator KERRY. I understand what you are saying. I am not questioning, incidentally, there is a legal structure here. I can see that. I am not arguing that this is legal or illegal. The question is, what does it say about the relationship? I mean, we are trying to get into a real person readout on this, not a legalese readout. I have no question that this is explainable in terms of marketability, input, and this or that.

But when you kind of bring it down to the lowest common denominator, the practical effect of it is to put into the hands of BCCI stock that is indeed marketable. But it is collateral against your loan. And in legal terms, because you have borrowed money and they are holding the collateral, you are the recipient of the benefit, of the proceeds, of the sale, whatever it is going to be. So when the sale ultimately takes place, you suddenly get this enormous profit.

Now I am not saying that is bad. You worked for 4 years and you deserved some remuneration. I think the question people are asking themselves, certainly the committee is saying, is, you know, wow, here is this fellow, former Secretary of Defense, an extraordinary advisor and legal icon in Washington and another extraordinarily bright capable attorney and so forth, presidents of banks, major institutions, and there is nothing in writing. There is no sort of legal agreement for their remuneration. They accept this \$50,000 and go on for these years, and then suddenly, wham-bang, there is this small family relationship turnaround of stock in a very short period of time, with a very large amount of money.

Now, you are practical people. You know that that sort of elicits a question. And I am just trying to pose the question on behalf of the people who look at this thing and say, what is going on here?

Mr. ALTMAN. Sure.

Mr. CLIFFORD. There is another factor. I did not get into it before, but it could help explain it to some extent. When we reached the decision the time had come to buy stock in 1986, at first, I did not contemplate making any loan. I could have financed it myself, and intended to finance it myself.

I then look at the situation in my portfolio. Market is very strong. I have very substantial gains in my portfolio. In order for me to raise the money, I have to liquidate those stocks and pay the

gain. And the gain is 28 percent Federal and 6 percent Maryland. So to liquidate the stocks, I have to pay a 34-percent tax on the gain.

That seemed to be an unbusinesslike way to go at it from my standpoint, and it seemed that instead of doing that at the time, I also took into consideration the fact with which you are familiar.

If I liquidate the stocks at that time, in order to get the money to do the deal, I pay that capital gains tax. If I keep those stocks, and die with those stocks, no capital gains tax is paid. So I am looking at it very carefully from the standpoint of my widow and three daughters. So I could have financed it, but from a business standpoint, I would be paying a tax that I otherwise would not pay when I die.

Senator KERRY. Is it fair to say, gentlemen, you got a hell of a good deal? I mean do you at least characterize it as that? You did not get what Steve Ross got for one year, but you got a pretty good deal.

Mr. CLIFFORD. Did we, under all these circumstances, get a good deal? I think we did. And I think I tried to explain that in the beginning by saying that the deal was arranged in a very friendly climate.

Senator KERRY. Now, do you also see—and I know, Mr. Clifford you are too smart not to, that legitimacy of the issue is raised as a consequence of that now. Do you?

Mr. ALTMAN. Sure. We understand why it creates questions for people. We understand it very clearly. I think we would prefer that we had never bought any stock in the company in light of all the controversy about it, but it seemed so routine at the time. We were involved, we were creating an enormous value here. These people were making hundreds of millions of dollars as a result of our effort, and we thought it was appropriate, if we could acquire some stock, to participate in some of that benefit that we were creating for these investors.

And Mr. Clifford talks about it was a friendly relationship; it was. When we negotiated with BCCI, it was quite friendly. They had, I think, a desire for us to acquire stock. Keep in mind, as we understood the facts, Mr. Abedi had recommended this investment to these very important clients, the people who had founded his bank, and who kept hundreds of millions of dollars—indeed, we hear, billions of dollars—in his bank. And we are taking this investment and making it, which he once said to us, it was the best investment he ever had—had recommended to any of his clients.

And so he wanted us to gain stock and have that incentive to continue to make this valuable; that put him in very good shape with his clients. That's what investment advisors like to do.

Mr. CLIFFORD. As you get into it, Senators, there is another factor. And it helped put it in perspective. In 1988, when we sold the stock, as we looked at the figures in that year, the amount of the investment on the part of the investors had doubled. They had put up originally \$200 million. We had then called on them from time to time in rights offerings, and they had put up another \$300 million. So they had made an investment of \$500 million in First American.

In 1988 an analysis demonstrated to us that the company was worth \$1 billion, a minimum, at that time. Now interestingly enough, that was our evaluation. We discussed that at the time. They agreed over there that the value had gone from \$500 million up to \$1 billion. The amount that we had in mind for the unique service that we felt we rendered, was minimal compared to the \$500 million.

Now, in order that you understand the next event that took place, in the spring of 1990 we get a letter from Hugh McColl, head of NCNB. And he says, in effect, we have been investigating First American for some time, and we're interested in it and we would like to acquire it.

And he said that in order, Mr. Clifford, to show you that we are serious about it, I would say, even in this letter, I am willing to offer you \$1 billion for First American. So it merely confirmed the estimate that we'd made.

When Hugh McColl said in his first offer he would pay \$1 billion, I immediately translated that in my own mind that he must have about \$1.3 billion or maybe even \$1.4 in mind. So that was the value that was offered. So that as you look at it from the standpoint of those figures, if the profit that they recognize there—that we felt and they felt we have gotten from them with our efforts, and then the amount that would be our return on that, it came to less than 1 percent of what we had produced for them.

Senator BROWN. I wanted to go back a moment if I could and finish the outline of the loans. As I read the documents, on August 14, 1987, there were additional loans that apparently were designed to cover both the additional stock purchase made in that period and the interest apparently on the previous loan.

Mr. ALTMAN. I don't think so, Senator.

Mr. CLIFFORD. No.

Senator BROWN. Could you enlighten us as to what that was, then?

Mr. ALTMAN. There was a second loan that was made in the summer of 1987, if that's your reference. And the amount of the loan was the exact amount of the cost of the stock that we purchased, to the dollar. So all the money that we borrowed, we used to buy the stock, and we placed that stock as collateral. At the same time, we were out of pocket the approximately \$1 million in interest that we paid on the first loan. The interest was not funded by BCCI.

Senator BROWN. Where did the money for the interest come from? Did you borrow the money for the interest payment?

Mr. CLIFFORD. Out of our pockets.

Senator BROWN. Out of your own pockets?

Mr. CLIFFORD. That's right.

Senator BROWN. Well, let me suggest to you what I believe the facts suggest. Perhaps you can set me straight. I mean, as I look at this, we have stock purchases that are financed with 100-percent loan to value that are totally nonrecourse, and that you are not liable for the amount that is involved. The stock is held by BCCI, and the loans, interestingly enough, at least this latest loan, was written August 14, 1987, and due August 15, 1987.

Mr. CLIFFORD. That is a typographical error.

Senator BROWN. Maybe you can help us with that. What should it have said?

Mr. ALTMAN. I believe it was due 12 months later.

Senator BROWN. Twelve months later.

Mr. ALTMAN. I believe the date was a mistake.

Senator BROWN. Looking at the first loan, it was held in default for several months, and I put it to you, if you were examining this as counsel for someone, wouldn't you basically call yourself a nominee for BCCI, to receive the stock and not hold it and not have liability?

Mr. ALTMAN. Under no circumstances would we consider ourselves nominees for BCCI in the holding of the stock. A couple of points, Senator, as the Federal Reserve has testified, there was nothing prohibited or impermissible about our borrowing money from BCCI and our pledging the stock, and putting up the stock as collateral does not give BCCI ownership or control over that stock.

I would give you an example. If you go to a bank and you are buying a house and you borrow the money, say you get 80- or 90-percent financing and you borrow the money, you wouldn't say that the bank owned the house. You own the house. Now if you go into default on your loan the bank has certain rights to foreclose and get ownership. That did not happen here.

You say that the loan went default, that is incorrect. The loan did not go into default. Prior to the time of the maturity of the first loan, we had the understanding that I have described to you, and the second loan had not even come due.

At all times we had legal ownership to that stock, at all times we had voting rights to that stock, and we voted the shares every year at the annual meetings of the company. BCCI never had any ownership or control and it has never been so alleged by anyone.

Senator BROWN. A couple of thoughts, Mr. Taylor's testimony is frankly this: The Fed received explicit commitments from the investors and their representatives that the acquisition was being made with the investor's own funds and that BCCI would not acquire shares or finance the investors.

Mr. ALTMAN. I think we have explained, that related to the tender offer in 1982

Mr. CLIFFORD. Right.

Mr. ALTMAN. And Mr. Taylor has so testified.

Senator BROWN. Well, in terms of being in default, at the least the documents themselves indicate that it was in default, that it was not paid when due. Is there something missing here that we are not seeing?

Mr. CLIFFORD. Yes, there is something there, but you have seen it. There language in there that indicates that if at the due date the matter is not paid, then plans will be made to rollover the stock.

Mr. ALTMAN. That is set forth in the same document, paragraph 3, BCCI shall assist in refinancing or shall rollover the note. It is right in the loan documents that you were just referencing.

So the loan never went into default, sir.

Senator BROWN. I think what you have to do is look at the substance of the transaction.

Mr. ALTMAN. We agree.

Senator BROWN. And it appears to me, the substance of the transaction was that you got the title to the stock without putting up a single penny of your own money and suffered no loss whatsoever if the stock dropped in price, and did not have possession, apparently BCCI had possession of the certificates.

Mr. CLIFFORD. Only as collateral. Title did not pass.

Senator BROWN. What element is there here that puts liability on you for this stock purchase? Where is your liability?

Mr. ALTMAN. We have said, Senator, that it was a nonrecourse loan. When you have a nonrecourse loan that doesn't mean you are not liable on the loan. You are liable on the loan. We had every intention to repay the loan and we did repay the loan and we repaid the loan with interest.

A nonrecourse loan means simply that in the event you default on the loan, the lender cannot go seize your house or your other assets. You and the lender have agreed on the collateral which the lender must look to satisfy that obligation.

And nonrecourse lending is common. It is done all the time. I have been in other transactions in which nonrecourse lending is utilized. So it is not—

Senator BROWN. Did your bank ever make 100 percent to value nonrecourse value on stock?

Mr. ALTMAN. I am not aware of any such loan.

Senator KERRY. In effect, this loan couldn't be defaulted on in reality? The reality is you couldn't default on this loan because by the agreement the interest—

Mr. ALTMAN. Would accrue.

Senator KERRY. Correct. So there was default impossible.

Mr. ALTMAN. What it provides, Senator, is that in the event you do not repay the loan, BCCI is to assist you in refinancing the loan, and in the event—

Senator KERRY. They held the stock.

Mr. ALTMAN. Or they can seize the stock itself.

Senator KERRY. I understand that. But I still am troubled, and I just want to say to you, by a larger piece. You had a subsequent agreement, I guess, a purchase and sale agreement on your stock because you continued to hold stock, correct?

Mr. CLIFFORD. Yes.

Mr. ALTMAN. Yes, sir.

Senator KERRY. And you made an agreement on this stock, I believe, now maybe I am wrong and this doesn't apply to that stock, but I read it as applying to the stock you hold of CCAH. This is document No. 29.

In document No. 29 there are two agreements, one between Mr. Clifford and BCCI and the other between Mr. Altman and BCCI, and in both of them, you say that in the event the seller owns any shares of CCAH at the time of his death, seller hereby agrees to sell and buyer hereby agrees to buy all of said CCAH shares for cash at a price of \$2,310 per share which currently represents seller's average cost per share.

So in effect your estate would be the recipient of \$2,310 per share, correct?

Mr. ALTMAN. If you were still holding any stock, yes, sir.

Senator KERRY. If you were holding any stock.

Mr. **ALTMAN**. Right.

Senator **KERRY**. But you made that agreement with BCCI and I don't understand why BCCI would be the beneficiary of CCAH shares at the time of your death. Why wouldn't CCAH shareholders have the first option to purchase?

Mr. **CLIFFORD**. We weren't in touch at that particular time with the other CCAH shareholders. That is a group of Arabs that are in the Persian Gulf. I am the one who came up with this thought because again, considering about what would happen. If I die, and there is stock in my estate and there is no market there then that creates a problem again.

Senator **KERRY**. I understand that——

Mr. **CLIFFORD**. I approached Mr. Abedi about that and said, excuse me, Mr. Naqvi by that time and said would you agree to take that stock off my hands? He said, I would agree to take it off of your hands if you set the price at a low enough figure. So you see that it is set at book, and there are these two, we have discussed that for some time, there is the book level and then there is the trading level.

So from their standpoint, they were assured they could always get book for it, and they might do a good deal better than book. I think he looked upon it as an opportunity ultimately of making a substantial gain.

Senator **KERRY**. Well, it raises the question of whose interests you representing, the shareholders of your bank or Mr. Abedi and BCCI who would be enriched ahead of them. I mean, if the shareholders can't get a first shot at your shares and you are sort of offering them off to BCCI, it seems to me, BCCI is being enriched either in the place of their nominee shareholders or instead thereof.

Mr. **ALTMAN**. Senator, maybe I can assist you, so that you understand this more fully. We are talking about stock, as we described, that has an uncertain market and an uncertain value. Now this arrangement is made very shortly after the time we sold stock at \$6,800 a share. So it gives you some idea of how uncertain we thought the value of the stock was and how uncertain we thought the market or liquidity was for the shares because in the event of death, we were prepared to accept——

Senator **KERRY**. You just testified about a little while ago about the extraordinary growth, how it was going up every year, and how the bank was worth \$1 billion and how it could be sold and this was a great asset. Why this uncertainty?

Mr. **ALTMAN**. We believed that the value of the company, if it were to be sold was in the neighborhood of \$1 billion to \$1.5 billion. But if we were to sell our portion of the stock which was approximately one percent of the total outstanding, there might not be a buyer for it at all.

And this was the point that our New York counsel was making to us. Second, you ask, why do we go to BCCI? The point that was made to me by New York counsel is, you can't make these kinds of arrangements with Kamal Andam or one of these Arabs' shareholders because you need someone—you need an institution.

You need a place where you can go in the event you have to enforce this agreement. One of the shareholders can die. They can be

unavailable. This is the kind of arrangement that should be entered into with an institution, and that is what led us to go to BCCI to effect the arrangement.

Now the result of this transaction, if it were to occur, is that there is no restriction on us selling our stock. We may end up with no stock in the event of death or we may end up holding some shares and given the situation today, it looks more likely than not that we would own stock of whatever value.

But in the event that the shares remained in the estate, this created a market. Now from our standpoint, we were prepared to forego any potential profit in the stock, even though we thought the company would continue to appreciate in value, because we wanted to assure liquidity, particularly in the case of Mr. Clifford.

From the standpoint of BCCI it made excellent sense because they knew these shareholders, they had access to them, and they felt they had this ready market for the stock. So if they bought the stock from us at \$2,300, they felt they could turn it around at a profit, that was the expectation in this arrangement, and we didn't have that same access or same assurance.

Senator KERRY. Let me just ask counsel, I am just concerned about the time question, we are going to break for lunch before too long and I know you wanted to have a solid interval there which we are delighted to provide. Do you want to continue for another say 15 or 20 minutes and then break?

Mr. BENNETT. At your convenience, sir.

Mr. CLIFFORD. I would like to, so that we know that we are making progress.

Senator KERRY. Mr. Altman, if I can just direct you, this is something that I know came up in the House a little bit, it still has left a few questions and I want to ask, document No. 30—

Mr. ALTMAN. Thirty?

Senator KERRY. This is the letter, somewhat argued about now, that you were sent by Mr. Ryback from the Federal Reserve in which he said to you, an issue was raised on whether any of the financing, this is December 13, 1989.

Mr. ALTMAN. Yes, sir.

Senator KERRY. At this time in 1989, the Fed expresses a specific concern about whether any of the financing of the equity investment, it is referring back now to the letter that we referred to earlier. We sort of began with the original standard of operating here.

Mr. ALTMAN. Right.

Senator KERRY. And the original standard of operating was the notion that there would not be a mix of the financing, business management, et cetera. This letter now says that, it recites that, it reasserts that principle and says in 1989, according to the Fed: it was indicated at the time, referring back to the original takeover, that the individual investors had substantial funds and only a modest portion of the total investments would be financed. Further, any personal borrowing by the investors would come from financial institutions unaffiliated with BCCI.

I know you have been through this somewhat, I just want to make sure people understand what I am asking. The next paragraph says: In order to clarify the situation, it would be helpful if you would provide information on any loans extended to the origi-

nal or subsequent investors, either directly or indirectly by BCCI or any of its affiliated organizations. The information should include all loans extended to the investors, regardless of purpose, whether they are secured or not and in what manner, et cetera.

Now I know you explained to the House saying that you didn't think that that applied to you because your loan had been paid off. Is that accurate?

Mr. ALTMAN. Yes, sir.

Senator KERRY. In the letter you got back from—to you from Mr. Naqvi, as a consequence of, I think your forwarding this or forwarding information about it, Naqvi says to you, he says, I can't provide you with confidential information about our customers' financial arrangements, which begins the process of evasion to you, incidentally, not by you but to you.

He then says: We can confirm that none of the shareholders involved in the acquisition had any personal loans. That is just not true, and we have learned that: Of course no, stock of CCAH or Financial General was placed as collateral for these loans, we know that that is a lie on its face. It is a lie incidentally to you, by him.

And then it says: You should be aware—but he starts out his letter to you saying: I am writing in response to your inquiry concerning whether there are any loans to any of the shareholders in connection with the acquisition. But the letter from Mr. Ryback to you and he has indicated to us, that he was not looking just for the acquisition, and in fact, his letter is very clear.

It said: Will you provide us with information on any loans, original or subsequent investors. My question is why you would have not advised the Federal Reserve that there were in fact subsequent investors, namely you.

Mr. ALTMAN. That was the question, Senator. Let me see if I can help you with your understanding of it.

Senator KERRY. First of all, just tell me, how do you read that into the original question, I mean, into his original letter? Does his original letter say original or subsequent investors?

Mr. ALTMAN. Yes, sir, the way you read the original letter is correct, but there were subsequent communications, oral and written, which will confirm what I am trying to explain to you.

Senator KERRY. Is there any written communication from the Fed that altered that? Did the Fed alter that?

Mr. ALTMAN. There was written communication given to the Fed which altered that.

Senator KERRY. That is the memorandum that you wrote?

Mr. ALTMAN. And more than that, there were other documents that were provided.

Senator KERRY. Have you provided those to us?

Mr. ALTMAN. Yes, Senator, I believe we have.

Senator KERRY. Do you know which ones they are, Mr. Bennett? I am not familiar with them.

Mr. BENNETT. I think Mr. Altman will be going through them now.

Senator KERRY. Fine.

Mr. ALTMAN. Mr. Ryback, in December, had submitted to me a letter that is rather broadly worded and you have very accurately

read it into the record. When I received the letter I spoke to Mr. Ryback and indeed, I spoke to him more than once.

And Mr. Ryback explained to me what it is that he was seeking by way of information. I might note that the first paragraph of Mr. Ryback's letter I believe is the matter relating to the tender offer. Then he goes on his second paragraph and deals with the subject of any loans made then or subsequently.

Now when we received this letter and spoke to Mr. Ryback, I pursued the matter in two ways. I pursued the matter with BCCI directly and I pursued the matter with our shareholders and then I provided the Federal Reserve at various times with the information that we had learned.

Mr. Naqvi's letter that you have referenced indicates that BCCI did not finance the original acquisition. I don't have access to the documents. I accept what you say, that that is an incorrect statement, but that was the representation that was made.

He goes on to say in that letter that you should be aware that in the years following the acquisition, some of the persons who are on the list of shareholders of CCAH have from time to time borrowed from BCCI. He indicates there are subsequent borrowings. He doesn't detail them, because he won't give us that information for the reasons he describes in his letter.

Now during this period, 1989 and into 1990, we started to receive reports that were disquieting reports about the issue which you are now investigating. I think I have testified before the House that we heard about this conversation of Mr. Awan, the taped conversation of Mr. Awan in which he makes reference to nominee arrangements, and we had looked into that matter. We had gotten that transcript. We had spoken with Mr. Awan's counsel. We had interview with Mr. Awan himself. I didn't personally but others did and reported to me.

The Fed has also looked into that, and Mr. Awan has said that he didn't have any information. It was a corporate rumor that he had heard. We had pursued it in other ways as well. We had pursued it with the shareholders directly in some instances, and we had pursued it with the most senior management of BCCI.

I pursued it, other attorneys pursued and we pursued it aggressively. We received information back that we thought at the time was credible. In this time period, the issue of lending arrangements arose, and the matter came up about what BCCI's practices were and actually, before this letter, it is my recollection that an invitation was extended to Mr. Ryback to go and meet with the senior management of BCCI so that he could ask any questions directly that he might have.

And Mr. Ryback indicated that he didn't think that was indicated and that invitation was declined. When we received this letter, we then pursued it and we heard these reports that there were large loans out there, that the loans were secured by stock, and we reported that back to the Federal Reserve.

We did not necessarily think that the lending was impermissible for the reasons that Mr. Corrigan and Mr. Taylor have stated. It was not impermissible to borrow, even borrowing secured by the stock. But we gave the Federal Reserve the information we had obtained.

There is a document which has been provided to the committee and it is marked: note to files, BCCI, dated January 9, 1990. I make reference to this document because you need not simply accept—

Senator KERRY. Is that the May 8, 1990 letter?

Mr. ALTMAN. No, sir, it is an earlier one.

Senator KERRY. OK.

Mr. ALTMAN. You need not accept merely my representations about these conversations with Mr. Ryback, this is a note that Mr. Ryback himself wrote, that is my understanding, to his files and let me read to you the pertinent parts: Robert Altman called in response to my letter concerning loans from BCCI to shareholders of Financial General. Mr. Altman related that he talked to officials in BCCI Luxembourg and they are in the process of pulling together the information we need.

He states that BCCI told him that none of the shareholders of Financial General directly financed the acquisition with loans from BCCI. However, in subsequent years, some of the shareholders borrowed substantial funds from BCCI because of a slowdown of their business interests in the Middle East and the fact that Financial General was not paying dividends. Some of the borrowings may be supported by a pledge of Financial General stock, he was not aware of the payment history on these loans.

I also talk about a potential merger. So I told Mr. Ryback within a couple of weeks of receiving his letter by his document, that we had heard there were large loans out there but we didn't have the information about it.

Now Mr. Ryback, as I say, explained to me the focus of his inquiry, and the focus of his inquiry was twofold. Primarily, he was interested in ensuring that the original representations that had been made were accurate; that is, the representation that BCCI was not financing the purchase of shares in the tender offer. That representation had been made, it was made in that footnote that we have described in the application, and he wanted to assure that that had been observed.

That was his primary focus. He had a secondary interest however and the further interest was that he wanted to know if there are any current loans outstanding to these shareholders, personal loans. And the reason that had relevance is because of the issue of controlling influence under the Federal statutes, whether a lending institution can get a controlling influence by reason of large outstanding loans.

So he originally writes a letter that is very broadly worded in December. I report back to him what I have heard about there being large loans, about there not being any financing of the original tender offer. That is the representation that was made, and I then proceed to send letters to the various shareholders.

Now I say that I indicated that Mr. Ryback was not interested in certain kinds of information, even though his original letter would seem to call for it. Mr. Ryback wanted these two specific kinds of information, and I had also indicated to him that to comply literally with this letter, I am told, would be burdensome, to get every loan ever made to any investor by BCCI. And that is why he focused his inquiry as the specific information that he needed for his purposes.

On March 9, 1990, I write a letter to shareholders, individual letters and I state the following: We have been asked by the staff of the board of governors of the Federal Reserve about representations made by the investors who acquired First American. At the time the board was advised that the acquisition of the company would be primarily from personal funds and would not be financed by BCCI.

BCCI has recently written a letter confirming the accuracy of these representations to the board, I say this to the shareholders, they are all on notice as to what is happening.

Then I go on: The board's staff has requested current information on loans extended to First American investors by BCCI, including stock pledged to secure any such borrowings. As I said, the board is not interested in certain things.

Then I go on at the conclusion of the letter and as I say, this was provided to your staff, it says: If you have no personal loans at present from BCCI relating to First American, you may simply write us a short letter to that effect.

I make very clear by the language, if you have no personal loans at present from BCCI.

It is a letter dated March 9.

Senator KERRY. It is a letter you wrote, right?

Mr. ALTMAN. It is a letter I wrote to shareholders and signed and the language I am reading, the entire letter, the language I was just reading was the concluding paragraph.

Senator KERRY. Is this in what you provided? I don't think we have that or I don't have that. Do you know where that appears?

Mr. ALTMAN. Would you like my copy?

Senator KERRY. That is all right, if I can get a copy. You have read most of it.

Mr. ALTMAN. I believe it was provided to you, but in any event, it makes clear that this was our understanding in real time, this was our understanding of what they were asking, and we in turn were saying to the shareholders, do you have any outstanding loans? Not, did you ever have loans that have been repaid.

The Fed wants to know, we say to the shareholders, about the original financing and they want to know about any loans that are outstanding. Now interestingly—

Senator KERRY. You didn't sense from the Fed, Mr. Altman, I guess these things are always subject to interpretation, obviously, and I am not trying to force you to interpret something differently than you did, but I find it—I guess strange, that they bring up the issue so boldly in the front of the letter about the original concern and that original concern sort of ran throughout their regulatory effort.

Now you say to me, Mr. Ryback had a different interpretation in conversations. But I do know that Mr. Ryback has no memory of altering his original request.

Mr. ALTMAN. Well, Senator, if I might, the letter that I just read to you was a letter that was given to the Federal Reserve, so it is—I talked to Mr. Ryback, I tell him what I have heard. I am told there are no loans relating to the original financing. I am told there are large loans out there that we don't know what the information is, we just understand there to be large loans.

And I am told by him what we are interested in is current outstandings. What is the situation regarding current outstandings? I confirm that in writing in this letter that I am describing and then we give this letter to the Fed to show the Fed the information we are seeking to elicit.

Now I am sure if Mr. Ryback says he doesn't recall it, I accept that, but this letter will be in the files of the Fed which makes very clear the inquiry we were making in response to the Federal Reserve's question.

Senator KERRY. I have no question but that that was your interpretation and that is the way you went back to them. The question in my mind partly is where the Fed went in terms of their original inquiry and because the original inquiry I think means one thing.

That you had those conversations, or that you in fact made those representations is on its face absolutely clear and accepted. The only question is, was it full disclosure? You knew at the time—would it have been that difficult to list the people who had BCCI loans outstanding for the purchase of CCAH shares?

Mr. ALTMAN. I didn't have the information, Senator. I knew that Mr. Clifford and I had had loans which had been repaid a couple of years earlier, but that wasn't responsive to his inquiry. We get a letter, we talk to him. What is it that you want? He tells us and we try to get him that information and I confirm in writing that that is what we are trying to get for you.

Now you also have a memorandum dated May 9, 1990, a meeting we had with the Federal Reserve.

Senator KERRY. I do, I have that. Who wrote that memorandum?

Mr. ALTMAN. The memorandum was drafted by one of my partners, Mr. Leshner. I also reviewed it and on the last page, Mr. Tuttle's name appears, so I assume he also reviewed it. We were all three at the meeting, and this was a memo to the file to summarize and to record what was said at that meeting.

Senator KERRY. Just to put this in context, this May 8, 1990, memo was written—you cite the *Regardies* article and the *Wall Street Journal*, and this is just about at the time, was it not, that Price Waterhouse had had a meeting with Massihur Rahman in London and had made public to him and others the report that they had at that time.

I think it was about 1 month earlier or so, regarding all the inaccuracies and problems that were appearing at that point within BCCI.

Mr. ALTMAN. That was not made available to us and in fact, Price Waterhouse did not, when there was an inquiry made of them at that time, they didn't even mention that report. So we were unaware of this Price Waterhouse April 1990 report.

Senator KERRY. Let me inquire, Do you have more you want to ask now?

Senator BROWN. Just a couple of quick ones, and I know we are going to come back this afternoon.

To put some sort of cap on this, did you disclose to the Federal Reserve the financing you had received from BCCI?

Mr. ALTMAN. We disclosed it subsequently. We didn't disclose it in response to Mr. Ryback's letter as it was nonresponsive.

Senator BROWN. It was nonresponsive to this letter or nonresponsive to what you had discussed with him after this letter?

Mr. ALTMAN. When I received this letter I talked to Mr. Ryback to understand the information that he wanted us to collect, and he explained that to me. He explained that he was primarily interested in ensuring that BCCI did not in fact finance the original tender offer in 1982. He said, I have a secondary interest. I don't want a lot of volume of information. I don't need a lot of detail.

The second thing I need is if you can get information on any loans that are today outstanding. So it was not a question of withholding information that we could have provided to him. It was, this is not what he is interested in and I understood the regulatory objective that led him to make the inquiry.

So we say to him, we are told there are no loans, there was no financing of the original tender offer, and we get him confirmation of that, whether accurately or inaccurately and we reported to him orally, and he makes a memo to the file about it.

We tell him, we hear there are large loans out there, but we don't have any of the details. All we can tell you is we hear they are there. He says, fine. The confirmation that he is seeking, only current loans, and therefore our earlier financing was not relevant is indicated by the letter I have just described to you which was given to the Fed, that says, in response to your letter.

This is the information we would ask the shareholder to provide.

Senator BROWN. Did you feel comfortable in not disclosing it?

Mr. ALTMAN. It seemed immaterial to me. I didn't think anything of it. It was a loan that was made. It was a loan that was repaid. I didn't attach any significance to it. We had reported the fact that we had purchased stock every year to the Fed. They were aware of it—

Senator BROWN. Given the fact, let me just ask about that again.

Mr. ALTMAN. Sure.

Senator BROWN. Given the fact, and I apologize to my colleague, but given the fact that you had had these articles which you referenced in the memo yourself and there was then circulating a certain amount of innuendo regarding the bank and there—

Mr. ALTMAN. There was.

Senator BROWN [continuing]. And there was a significant amount of, sort of, hey, First American is owned by BCCI and so forth. Is it not fair to say that had you disclosed that you had significant loans outstanding, that would have simply excited that process and interest significantly?

Mr. ALTMAN. Senator, two points. One, we didn't have loans outstanding. The loans were repaid a couple of years earlier. So it had nothing to do with this particular allegation insofar as we were concerned.

And second, as I think my memorandum indicates, Mr. Ryback subsequently did not even seek us to pursue information about current outstandings. We tell him, we understand there are loans that were made subsequent to the original acquisition, and as I indicate in the memorandum dated May 8, I will read to you a sentence from that meeting.

This is what he is telling us, and we are trying to be responsive. We weren't trying to hide the fact that we had loans. It just didn't seem to be of any particular moment.

Mr. Ryback stated, I am quoting: "That his limited concern was only to inquire as to any BCCI financing of the original acquisition, in view of information supplied him by foreign supervisory authorities."

We agreed to get permission from Mr. Naqvi to release the BCCI letter, the letter where he says there was no lending, so that they could check that. And then, I write Mr. Ryback a letter on June 11 and I say to Mr. Ryback: As a followup to our meeting, this is simply to confirm that Mr. Naqvi, "has advised he has no objection if the Federal Reserve wishes to show his January 31, 1990, letter addressed to me to other supervisory authorities."

Then I go on: Again, if you wish us in the future to seek any additional information concerning any financial arrangement between First American's shareholders and BCCI, please let us know.

So at that point, even the current information as to current outstandings, they had indicated they didn't care if we pursued it and that inquiry, as far as the Federal Reserve was concerned lapsed.

Now two points: The first, from the Federal Reserve and from our standpoint, from the standpoint of both the Federal and ourselves, frankly, we didn't think there was anything to these allegations about nominee arrangements, et cetera.

So the fact that the Federal Reserve did not seem particularly concerned or excitable about reports that there were large outstandings didn't strike me as peculiar. We did personally continue to pursue the issue. We had talks with the shareholders and talks with BCCI management and in the fall of 1990 when we got this report about Mr. Hammoud and the possibility, the dispute as to whether he had large loans outstanding relating to this, because it related to this earlier inquiry, we provided that to the Fed when the information came to our attention.

I am talking now about the Hammoud letters we were earlier discussing this morning. So whenever we got this information, we submitted it to the Federal Reserve so that they would now what we knew.

Senator KERRY. Senator Brown, do you have anymore?

Senator BROWN. Mr. Chairman, I just wanted to enter into the record some figures that I think relate to our previous conversation. The loan that was taken out in July 1986 was at the LIBOR rate and the LIBOR rate at that time was 6.75, it does appear that that is the rate of interest that was paid the following year.

That particular rate, the LIBOR rate, the 6.75 percent interest was $1\frac{1}{4}$ to $1\frac{3}{4}$ percent below prime in this country at the time and at the point it was, the note was due it was about $1\frac{1}{2}$ percent below prime. So it was significantly below U.S. prime, not comparable with it, but significantly below U.S. prime at the time.

Also, in checking with the CRS, the tax law division, they indicate the applicable Federal rate was below or was above the rate, the 6.75 rate. Thus, the Internal Revenue Code provisions, the feeling is, would apply. In effect, the loan rate, the rate on the loan was below the applicable Federal rate, and therefore, I think sig-

nificantly raises a question with regard to tax liability in this hearing.

Mr. ALTMAN. We would disagree with that conclusion, Senator. If I might also note for the committee on the subject we were just discussing about Mr. Ryback, there was a letter that I also wrote to Mr. Ryback that I did not earlier reference. It is dated February 5, 1990, and in that letter I state, quote: "My understanding that your primary interest is the current state of borrowings from BCCI for many of the First American Investors."

So this was a letter I wrote to Mr. Ryback to that effect. Could you hear me, Mr. Chairman?

Senator KERRY. Yes. Let me just say that I think we have covered a significant amount of territory. There are some areas that we definitely have to go into this afternoon.

I appreciate your patience. What we will do is, according to our agreement, I think we will recess for a 2-hour period. We will come back here at 2:45 and we stand in recess until 2:45 p.m.

AFTERNOON SESSION

Senator KERRY. The hearing will come back to order. I want to come back and remind you that you stand sworn already before this committee today.

Let me just announce that we are going to have normal Senate interruptions here in a little while. I think we have a string of back-to-back votes sometime around 3:30 p.m., and what we will do is try to hang in here through the better part of the first vote and then go over and take a short recess which I am sure you won't object to. So we will proceed from there.

There are a number of areas yet to go through and I would like to continue to do that. Some of them raise some tough questions, but on the other hands, you have both proven yourselves capable of dealing with tough questions. I hope that this is proceeding in a way that everybody feels is fair and sensitive.

Turning your attention now back, Senator Brown has sort of inquired about the stock transaction and I think what we are dealing with here is not necessarily a single instance in any one place that leaps out and says, hey, something wrong happened, but the question of the larger picture that people are looking at, sort of a conglomerate effort

I want to assure you, the committee intends and we want to get some questions in generically about this, about the lessons to be learned, about the responses, about what this does or doesn't represent, about the conclusions that you both draw as a consequence of what has happened. Some of those conclusions I know are very obvious.

Let me raise one issue and this has been a problem for the committee since day one, and I think you know that because we expressed that to you previously, and that has been the production of documents and records.

And this may be something that counsel wishes, your counsel wishes to address, Mr. Bennett, but we have sought a series of documents and we have sought their release now from the liquidators who are sort of BCCI at this point. And some of those documents, it

has been asserted by you because you are the attorneys for BCCI are protected by attorney/client privilege.

We wrote requesting some of these documents, that you be released from the attorney/client privilege by the liquidators who represent BCCI. The liquidators in turn have requested from you that they see some documents in order to determine whether they want to release these documents.

And we have a list of some 20 documents. We received a letter from Mr. Bennett on October 23, 1991, a copy of which will be included in the record.

[The information referred to follows:]

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October 11, 1991

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NEW YORK
SAN FRANCISCO
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TORONTO
WILMINGTONBY HANDThe Honorable John F. Kerry
Chairman
Subcommittee on Narcotics, Terrorism, and
International Operations
Committee on Foreign Relations
United States Senate
Washington, D.C. 20510-6225Re: Messrs. Clifford and Altman

Dear Senator Kerry:

On behalf of Clark M. Clifford and Robert A. Altman, by this letter we are providing documents in response to your letter request dated September 18, 1991. That request covered a wide range of matters over the past fourteen years. In responding to this request, we have made good faith efforts given the time constraints imposed to identify responsive materials from the voluminous files relating to these matters.

For your convenience, we have restated below each separate request set forth in your letter, followed by our responses thereto. The referenced material is contained in the separate bound volumes appended hereto.

1. Request: "On page 21 [of your prepared testimony], you state that 'Before accepting the offer [to serve as Chairman of First American] however, a fundamental agreement was made with the shareholders on the issue of authority.' Please provide the subcommittee with any written documentation of this agreement."

Response: The specific agreement referenced between Sheikh Adham and Mr. Abedi (acting on behalf of the shareholders) and Mr. Clifford, that he would accept the Chairmanship on the condition that he (and the Board of Directors) would have complete authority over the management of

First American, was an oral agreement. To our knowledge, there is no written documentation of this understanding.

During the course of the April 23, 1981, hearing before the Federal Reserve, however, the investors who appeared affirmed that their investment was passive in nature, and that they intended to leave the management of the bank to Mr. Clifford and the American Directors. A copy of the transcript of this hearing is appended hereto at Tab 1; we direct your attention for example to the investors' testimony which appears on pp. 58-59, 65, 67, 68 and 118 of that transcript, as well as to Mr. Clifford's statements which appear on pp. 39-40, 96, 132-134 and 162. The investors' intention to vest control of the bank's operations in its American Board of Directors was further evidenced by their execution of a five year voting agreement pursuant to which the late Senator Stuart Symington, the Vice Chairman of the Board until 1988, was given authority to name a voting representative for holders of 60% of the outstanding stock of CCAH. A copy of the original agreement, and a superseding agreement in July 1980, is also appended hereto at Tab 1.

2. Request: "On page 22 [of your prepared testimony], you state 'the law firm of Clifford and Warnke was retained, at the express request of the shareholders to serve as general counsel to First American.' Please provide the document to the Subcommittee."

Response: The shareholders' request that Clifford & Warnke serve as legal representative to First American is memorialized in Sheikh Adham's letter to Mr. Clifford dated March 8, 1985, appended hereto at Tab 2.

3. Request: "On page 44 [of your prepared testimony], you state that 'unlike the alleged sham loans to nominees, our borrowings were real obligations, fully documented, and were repaid over three years ago.' Please provide the Subcommittee with the loan documents."

Response: Documents responsive to this request are appended hereto at Tab 3.

4. Request: "On page 46 [of your prepared testimony], you state that in response to allegations that in 1989 and 1990 that BCCI owned First American, 'we made prompt

inquiries to determine whether there was substance to these allegations.' Please provide the Subcommittee with all written inquiries made concerning this issue and all responses thereto."

Response: Documents responsive to this request are appended hereto at Tabs 4 and 5.

5. Request: "On page 47 [of your prepared testimony], you refer to several conversations with 'top management of BCCI' concerning alleged ownership of First American. Your oral testimony elaborated: 'We then went to the top management of BCCI. I went together with some of the other defense attorneys who were representing BCCI. I might say that we pursued the issue rather aggressively, and all of us believed that the denials which were emphatic were credible.' Please provide all documents that reflect your inquiries to BCCI management regarding the allegation that First American Bank was owned by BCCI, and their responses to you."

Response: Documents responsive to this request are included among those appended hereto at Tab 5. Other documents responsive to this request are protected from disclosure by the attorney-client and work-product privileges.

6. **Request:** "On page 48 [of your prepared testimony], you state that counsel made a 'private inquiry of the accounting firm of Price-Waterhouse' concerning alleged ownership of First American by BCCI. Your oral testimony elaborated: 'We also had discussions with Price Waterhouse as kind of an independent check. . . . Price Waterhouse advised counsel that there was no evidence in the record that BCCI had financed the original acquisition or had an ownership interest in the property.' Please provide all documents that reflect your inquiries to Price Waterhouse, and their responses to you."

Response: The referenced inquiries to Price Waterhouse were conducted orally. One such reference, however, is contained in the memorandum dated May 8, 1990, which is included among the documents appended hereto at Tab 5.

7. **Request:** "Also on page 48 [of your prepared testimony], you state that you 'attempted to contact all CCAH shareholders to advise them of the allegations and to request an opportunity to discuss the charges directly with them.' In your oral testimony, you elaborated, 'We pursued this [the issue of First American's ownership by BCCI] in direct discussions with the shareholders, and we pursued it increasingly aggressively as the allegations became increasingly in focus.' Please provide all documents that reflect your inquiries to the shareholders, and their responses to you."

Response: Documents responsive to this request are appended hereto at Tab 4.

8. Request (referencing oral testimony): "Mr. Clifford: 'We'd already checked carefully into BCCI and found that they constituted a respectable, credible operation. Now we wanted to find out more about the investors. And we did find out quite a lot about them.' Please provide all documents that reflect your inquiries into BCCI and its investors in the period 1978-1981."

Response: The investors provided to counsel certified financial statements, bank references, and references from major corporations, which documented their ability to purchase First American. Responsive materials we have located to date are appended hereto at Tab 6.

Certain of the investors and certain BCCI officials also testified at depositions in the lawsuit filed by FGB, and certain of the investors appeared at a special hearing before the Federal Reserve Board in April 1981. A copy of the transcript of the April 1981 hearing before the Federal Reserve is appended hereto at Tab 1. The transcripts of the referenced depositions are quite voluminous, but we would be pleased to make them available for your review should you so desire.

Messrs. Clifford and Altman also obtained BCCI's annual reports for the time period in question. They also reviewed an article which appeared in 1977 in The Economist, and press releases issued by Bank of America. These documents are also appended at Tab 6.

9. Request (referencing oral testimony): "Mr. Clifford: 'We asked that counsel in the case speak to Mr. Awan and his counsel and they did.' Please provide all documents that reflect your inquiries to Mr. Awan and his counsel, and their responses to you."

Response: Inquiries to and interviews of Mr. Awan and his counsel were conducted orally.

10. Request (referencing oral testimony): "Mr. Altman: 'The investors . . . advised us they wanted to keep BCCI, as their investment advisor, informed of the financial progress of the company.' Please provide all documents that reflect statements by the investors as their desire that you keep BCCI informed of the financial progress of First American."

Response: From the outset of their representation of the individual shareholders, Messrs. Clifford and Altman understood that BCCI served as an investment advisor to the shareholders. In addition, during the course of the takeover litigation, BCCI served as the communications liaison between counsel and the individual shareholders. As a result, a custom arose whereby Messrs. Clifford and Altman regularly communicated with Mr. Abedi to apprise him of the progress of the litigation and related transactions involving the intended acquisition of FCB. Messrs. Clifford and Altman were not instructed to do so in writing.

During the course of the regulatory approval proceedings, the regulators were informed expressly that BCCI would continue to serve as the investors' commercial banker; that BCCI would continue to provide advisory and other services; and that BCCI would act as communications link between the investors and First American. Documents reflecting these disclosures are appended hereto at Tab 7. Similar disclosures were made by the investors and counsel during the course of the April 23, 1981 hearing before the Federal Reserve. A transcript of that hearing is appended hereto at Tab 1. (See pp. 54-55, 65, 67-68, 81.)

11. Request (referencing oral testimony): "Mr. Altman: 'Mr. Awan was interviewed by us. Mr. Awan, contrary to what is being suggested, had testimony to give based on what he had told us that was very favorable to BCCI. He told us

among other things that there were no money laundering practices at BCCI. It was testimony that we would very much want the Senate committee to hear.' Please provide all documents that reflect your communications with Mr. Awan."

Response: Documents reflecting Mr. Altman's communications with Mr. Awan are protected from disclosure by the attorney-client and work-product privileges.

12. Request: "Please provide all documents that reflect your handling of BCCI's response to the Senate subpoena in 1988."

Response: Documents responsive to this request are appended hereto at Tab 8. Other documents responsive to this request are protected from disclosure by the attorney-client and work-product privileges.

13. Request (referencing oral testimony): "Mr. Clifford: 'I had no prior information about Kamal Adham. Sometime later I learned for some period of time he had been head of Saudi Arabian intelligence and I learned from others that in that regard our intelligence operations had a very high opinion of him.' Please provide all documents that reflect information you received from any current or past government official concerning Mr. Adham's involvement in intelligence and any policy or political matter involving any government."

Response: We are aware of no documents reflecting any such communications. We note that it is not clear even today that Sheikh Adham in fact was engaged in intelligence activities on behalf of Saudi Arabia. In this regard, the Wall Street Journal recently has reported that the "intelligence agency" allegedly run by Sheikh Adham employed only four persons, none of whom were involved in intelligence gathering activities.

14. Request (referencing oral testimony): "Mr. Clifford: 'What we did was we said to them [the federal regulators] in effect, 'if you, on your own, have investigated these individuals and you think they are qualified to own this bank, then we will represent to you that we will see that this bank is operated from within the United States and is operated honestly, with a group of top Americans, and we will vouch for the propriety of the operation of the bank.' Please provide

any documents that reflect your reliance on governmental investigations of the shareholders of First American as a predicate to your decision to become officers of the bank."

Response: In assuming their management roles at First American, Messrs. Clifford and Altman were of course reassured by the favorable results of the Federal Reserve Board's investigation of the investors, as reflected in the Board's approval of the CCAH application. They were further reassured by the investigative efforts undertaken by the New York Banking Department, as described in the October 12, 1982 letter from Mr. Alan R. Cohen to Congressman Rosenthal. The quoted testimony, however, was not necessarily intended to suggest that Messrs. Clifford and Altman relied on government investigations of the shareholders as a "predicate" for their decision to become officers of First American.

15. Request (referencing oral testimony): "Mr. Altman: 'We did talk to the Federal Reserve. We did provide them with the information that we had gathered. When we learned that there were loans to these shareholders, even unconfirmed reports, we presented that information to federal regulators.' Please provide any documents that reflect your provision of information to the Federal Reserve concerning reports of loans to the shareholders of CCAH."

Response: The documents responsive to this request are appended hereto at Tab 5. These materials demonstrate that soon after William Ryback's initial inquiry in December 1989, Mr. Altman conveyed to Mr. Ryback then-known information that responded to the inquiry. Specifically, as reflected in the Federal Reserve's files in a January 9, 1990 "Note to File" written by Mr. Ryback, Mr. Altman informed the Federal Reserve of reports that some CCAH shareholders had borrowed "substantial funds from BCCI . . . [and that] [s]ome of the borrowings may be supported by a pledge of Financial General Stock." The provision of reports and documentation relevant to Mr. Ryback's questions about the financing of the Financial General tender offer and outstanding obligations of CCAH shareholders continued through 1990 and 1991.

16. Request: "Please provide any documents that reflect any communication involving you or the firm of Clifford & Warnke, and Mohammed Hammoud, his representatives, and his estate."

Response: Written communications with Mr. Hammoud's counsel, his accountant and representatives of his estate are appended hereto at Tab 9.

17. Request: "Please provide any documents that reflect any lobbying activities undertaken by Clifford & Warnke and by any of its attorneys or agents on behalf of BCCI."

Response: In January 1990, Clifford & Warnke filed a report with the Office of the Clerk of the U.S. House of Representatives, pursuant to the Federal Regulation of Lobbying Act, registering as an agent of BCCI S.A. and BCCI (Overseas) Ltd. This registration was terminated as of April 1990. Appended hereto at Tab 10 are the referenced registration and termination forms.

* * *

We trust this material is responsive to your request.

Sincerely,


Robert S. Bennett


Carl S. Rauh

Enclosures

Nussbaum & Wald

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A. Katherine Toomey
Of Counsel
Russell M. Frank

October 23, 1991

BY HAND DELIVERY

Jonathan M. Winer, Counsel to
Honorable John Kerry, Chairman
Subcommittee on Terrorism, Narcotics
and International Operations
United States Senate
Washington, D.C. 20510

Dear Mr. Winer:

We write in response to your letter of October 15, 1991, requesting that our clients -- the Commissaires of BCCI Holdings (Luxembourg) S.A., appointed by the District Court of Luxembourg, the Commissaire of Bank of Credit and Commerce International S.A., appointed by the District Court of Luxembourg, the Joint Provisional Liquidators of Bank of Credit and Commerce International S.A., appointed by the High Court of Justice in England, and the Joint Provisional Liquidators of Bank of Credit and Commerce International (Overseas) Limited, appointed by the Grand Court of the Cayman Islands -- waive BCCI's attorney-client privilege with respect to certain documents referred to in the October 11, 1991 response to the Subcommittee's document request to Clark Clifford and Robert Altman which you have furnished to us.

We are not in possession of and have not seen the documents for which you have sought a waiver. Accordingly, after receiving your request, we contacted the law firm of Skadden, Arps, Slate, Meagher & Flom, which represents Messrs. Clifford and Altman, and requested an opportunity to examine the documents which were withheld on a claim of privilege. Our purpose was to review the specific documents to determine whether a waiver of privilege was consistent with our court-appointed clients' fiduciary duties. A copy of our letter requesting the opportunity to review the withheld documents is attached. We have not yet received a response but understand that the attorneys for Messrs. Clifford and Altman are considering our request.

Because we have not to date been provided access to the withheld documents we have been unable to conduct the necessary review. Absent such a review, our clients simply cannot,

Nussbaum & Wald

Jonathan M. Winer

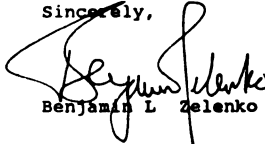
- 2 -

October 23, 1991

consistent with their fiduciary duties, waive privilege. Accordingly, we cannot at this time reach any judgment as to our clients' position on your requested waiver.

We are continuing our efforts to arrange a review of the documents at issue, and will advise you when that review has occurred and our clients are in a position to respond to your request. We remain prepared to cooperate with the Subcommittee and will continue to produce documents responsive to the Committee subpoena as they are available. In that regard, we note that, during its October 22 hearing, the Subcommittee used some of the approximately 100,000 pages of documents our clients have already produced.

Sincerely,



Benjamin L. Zelenko



Jeffrey D. Robinson

Enclosure

Nussbaum & Wald

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October 18, 1991

BY FACSIMILE

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Russell M. Finck

Re: BCCI: Lawyer-Client Privilege

Dear Fran:

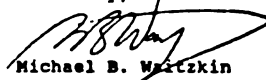
I am writing to follow our conversations over the past two days regarding certain documents that have been withheld from production to the United States Senate and the grand jury sitting in the District of Columbia by your clients Clifford & Warnke, Clark Clifford and Robert Altman upon an assertion of the Bank of Credit and Commerce International's attorney-client privilege.

As you know, this firm represents the Commissaires of BCCI Holdings (Luxembourg) S.A., appointed by the District Court of Luxembourg, the Commissaire of Bank of Credit and Commerce International, S.A., appointed by the District Court of Luxembourg, the Joint Provisional Liquidators of Bank of Credit and Commerce International, S.A., appointed by the High Court of Justice in England, and the Joint Provisional Liquidators of Bank of Credit and Commerce International (Overseas), Ltd., appointed by the Grand Court of the Cayman Islands.

On behalf of our clients, we hereby request an opportunity promptly to review the documents at issue in order that our clients may make a determination as to whether they wish to waive their attorney-client privilege.

Please advise me as soon as possible how you wish to proceed with this request.

Sincerely,


Michael B. Warzkin

MBW/pab

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October 23, 1991

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TORONTO
WILMINGTONBY HANDMr. Jonathan Winer
Legislative Assistant to
Senator John F. Kerry
421 Russell Senate Office Building
Washington, D.C. 20510-2102Re: Messrs. Clifford and Altman

Dear Mr. Winer:

In response to your letter request of October 17, 1991, enclosed please find an index of documents withheld from the Subcommittee on the basis of the attorney-client privilege and/or the attorney work-product doctrine. As you requested, we have identified the documents by date, author, addressee, type, and recipient(s).

Thank you for your continued assistance in this matter.

Sincerely,


Robert S. Bennett

Enclosure

**INDEX OF DOCUMENTS WITHHELD ON THE BASIS OF
THE ATTORNEY-CLIENT PRIVILEGE AND/OR
WORK PRODUCT DOCTRINE**

1. **Date:** None indicated
 Author: None indicated
 Addressee: None indicated
 Document Type: Confidential Memorandum of
 Client/Witness Interview
 Recipient(s)/Distribution: None indicated

2. **Date:** August 23, 1988
 Author: Robert C. Sanders, Esq.
 Addressee: The File
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

3. **Date:** September 30, 1988
 Author: John F. Kavin, Esq.
 Addressee: The File
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

4. **Date:** September 27, 1988
 Author: John F. Kavin, Esq.
 Addressee: The File
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: Robert A. Altman, Esq.,
 Robert C. Sanders, Esq.

5. **Date:** January 26, 1989
 Author: Robert C. Sanders, Esq.
 Addressee: Robert A. Altman, Esq.
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

6. **Date:** September 22, 1988
 Author: John F. Kavin, Esq.
 Addressee: Robert A. Altman, Esq.,
 Robert C. Sanders, Esq.
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated
7. **Date:** September 21, 1988
 Author: John F. Kavin, Esq.
 Addressee: Robert A. Altman, Esq.,
 Robert C. Sanders, Esq.
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated
8. **Date:** September 20, 1988
 Author: John F. Kavin, Esq.
 Addressee: Robert A. Altman, Esq.,
 Robert C. Sanders, Esq.
 Document Type: Confidential Memorandum
 of Client/Witness
 Communication
 Recipient(s)/Distribution: None indicated
9. **Date:** September 19, 1988
 Author: John F. Kavin, Esq.
 Addressee: The BCCI File
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated
10. **Date:** None indicated
 Author: None indicated
 Addressee: None indicated
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated
11. **Date:** None indicated
 Author: None indicated
 Addressee: None indicated
 Document Type: Chronology
 Recipient(s)/Distribution: None indicated

12. **Date:** None indicated
Author: None indicated
Addressee: None indicated
Document Type: Confidential Attorney Memorandum
Recipient(s)/Distribution: None indicated
13. **Date:** September 7, 1988
Author: John F. Kavin, Esq.
Addressee: Robert A. Altman, Esq.
Document Type: Confidential Attorney Memorandum
Recipient(s)/Distribution: None indicated
14. **Date:** August 29, 1988
Author: Robert C. Sanders, Esq.
Addressee: The File
Document Type: Confidential Memorandum of Client/Witness Interview
Recipient(s)/Distribution: None indicated
15. **Date:** August 11, 1988
Author: John F. Kavin, Esq.
Addressee: The File
Document Type: Confidential Attorney Memorandum
Recipient(s)/Distribution: Robert A. Altman, Esq.
16. **Date:** August 10, 1988
Author: Robert A. Altman, Esq.
Addressee: The File
Document Type: Confidential Attorney Memorandum
Recipient(s)/Distribution: None indicated
17. **Date:** None indicated
Author: None indicated
Addressee: None indicated
Document Type: Confidential Memorandum of Client/Witness Interview
Recipient(s)/Distribution: None indicated
18. **Date:** None indicated
Author: None indicated
Addressee: \ None indicated
Document Type: Chronology
Recipient(s)/Distribution: None indicated

19. Date: None indicated
 Author: Robert A. Altman, Esq.
 Addressee: The File
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated
20. Date: June 1, 1988
 Author: Clark M. Clifford, Esq.
 Addressee: Robert A. Altman, Esq.
 Document Type: Confidential Attorney
 Memorandum
 Recipient(s)/Distribution: None indicated

Senator KERRY. In response to your letter request of October 17, please find an index of documents withheld from the subcommittee on the basis of the attorney/client privilege and/or the attorney work product doctrine.

And you have identified those by date, author, addressee, and type and there are some 20 of them. My question to you is why, given the fact that we want to shed light on this thing and you do, you are not willing to waive that privilege or is that something you can't do at this point. Does it have to be done only by the bank? Is there any reason the bank doesn't have the documents?

Mr. Bennett, if you want to respond, I invite you to the table.

Mr. CLIFFORD. I think it would be best if our counsel responded.
Senator KERRY. All right.

Mr. BENNETT. Senator, Mr. Clifford and Mr. Altman have never asserted any privileges on their own behalf. There is a very complicated issue as to who can speak for BCCI and waive BCCI's privileges. I am advised that daily, representatives from country-after-country are coming forward and claiming that they represent, they are the liquidators and lawyers come forward and say they represent the liquidators, and we have advised that until we are certain as to who is in a position to waive privileges on behalf of BCCI, we feel that we have no alternative but to respectfully submit to you a letter such as we submitted to you where we identified the documents and the basis for their being withheld.

We could be exposed, my clients could be exposed if they submit something without their being clear authority to waive and in simpler times, Mr. Chairman, when it was reasonably clear who did represent—and what BCCI was, we were advised that they did not waive the privilege.

Senator KERRY. Let me ask you a question here, appreciating what you have said, their last attorneys of record, Patton & Boggs inform us that Nussbaum & Wald represent the liquidators in BCCI.

Nussbaum & Wald have indeed asserted that notion and they have, I believe, written to you saying—let me just find the appropriate letter here.

Mr. BENNETT. I am familiar with the letter, Senator.

Senator KERRY. All right. We received a letter from them to us, hand delivered October 23, yesterday, and they said: We write in response to your letter requesting that our clients, the Commissaires of BCCI holdings, appointed by the District Court of Luxembourg, the Commissaire of the Bank of Credit and Commerce International appointed by the District Court of Luxembourg, the Joint Provisional Liquidators of Bank of Credit and Commerce International appointed by the High Court of Justice in England, and the Joint Provisional Liquidators of the Bank of Credit and Commerce International Overseas Limited, appointed by the Grand Court of the Cayman Islands, waive BCCI's attorney/client privilege with respect to certain documents referred to in the October 11 response.

So they have indeed acted to waive. Their problem in not being to waive fully is that they haven't gotten the documents from you.

Mr. BENNETT. That is only one part of it. There is an assertion that they waived, but what they are waiving is whatever power

they have. The issue of what power they have is very complicated. I have the highest regard for that law firm, but Senator, I can assure you that the issue of who BCCI is today and who has the authority to waive the privileges is by no means clear.

There are, as I say, based on inquiries I have made, liquidators coming out of the woodwork literally, Senator, claiming that they represent BCCI. And I respectfully—

Senator KERRY. Are you challenging the authority of the bankruptcy court of New York with respect to this proceeding?

Mr. BENNETT. I am not challenging the Bankruptcy Court in New York, what I am saying is that there are claims throughout the world as to who truly represents BCCI in terms of the power to waive privilege. It is a very complicated issue, and I would—

Senator KERRY. We are talking about U.S. jurisdiction, aren't we?

Mr. BENNETT. We are talking about—

Senator KERRY. I am not sure that they would have a right to withstand a subpoena from the Senate of the United States on that basis, would they?

Mr. BENNETT. I am not quite sure I understand. Could who withstand?

Senator KERRY. Well, if we are operating within U.S. jurisdiction and the documents are in the United States and the bankruptcy court which is the only entity that I know of in the United States of America appointed to deal with this matter in this country is willing to waive privilege. What is the issue? There is no jurisdiction of another country over those documents.

Mr. BENNETT. No. What I am saying, Senator, is I would have to study the bankruptcy court opinion. I do not think that bankruptcy court opinion establishes who has the power to waive the privilege. I made—

Senator KERRY. Well, they obviously have waived it as to the matters that they have already looked at.

Mr. BENNETT. To the extent that they believe that they have it, Senator, I am telling you that I have made inquiry—

Senator KERRY. So you are challenging their power?

Mr. BENNETT. I am not challenging the power of the court. What I am challenging is that it is very complicated at this point to determine who can waive the privilege on behalf of BCCI.

I understand, Senator, that it is not even known at this time who owns BCCI, quite apart from the issue of the original nominee status. This is something that the liquidators, all of whom claim powers, and I don't believe that they even recognize necessarily each others' powers. It is just something that is going to have to be resolved.

I would be happy to work with your staff on it, Senator.

Senator KERRY. The questions that we have submitted are questions with respect to compliance with U.S. Senate subpoena. They are not questions that involve any foreign ownership or any foreigners.

Mr. BENNETT. I understand, Senator, but there are privileges of work product and attorney/client privilege that are well recognized in the courts of this country and the only thing that we are asking

is for there to be a definitive answer as to who has the power to waive the privilege on behalf of BCCI.

And I respectfully submit to you that it is very much in dispute. I would be happy to work out with your staff. I will contact the various liquidators and see if I can get an answer to my question.

Senator KERRY. I would obviously appreciate that.

Mr. BENNETT. Thank you, Senator.

Senator KERRY. But might I say to you, given what we know to be the substance of some of those things, it is the kind of thing that sort of just raises another question mark and makes us, forces us into this kind of dialog.

Mr. BENNETT. I understand, Senator, but I ask you too to please understand—

Senator KERRY. I respect that, and we will try to work it out. We will see if we can work it out.

Mr. BENNETT. As you noted earlier, we have been fully cooperative with you—

Senator KERRY. Let's see if we can work it out.

Mr. BENNETT. We will try to work it out.

Senator KERRY. Let's try to work it out. Let me come back now to one of the other critical issues here. There are a number of issues that still remain sort of part of the overall puzzle, and we need to ask the questions in order to understand the relationship because so much has been written about it and it is obviously part of the pattern that the documents set in front of us.

This morning, in response to my questions, Secretary Clifford said that there was indeed a separate management, and that there was a separateness in the undertakings, notwithstanding that Mr. Abedi would advise, that there would be an advisory role so to speak representing the shareholder interest.

What I would like to ask you to do if you would please is addressing document No. 11, to start with, this is—these are just a sampling of documents. Needless to say, as I said earlier, this is not a forum in which to—we are not going to—we just don't have time to go through everything.

But looking at the document No. 11, it is on Bank of Credit and Commerce International stationary and it is a Mr. Khusro Karamat Elley and I think you know who Mr. Elley is, correct?

Mr. ALTMAN. Yes, sir.

Senator KERRY. Mr. Elley worked for First American at one point?

Mr. ALTMAN. Yes.

Senator KERRY. Do you remember what period of time?

Mr. ALTMAN. He joined the bank officially in July 1983, I think that is what the records indicate, and was active in the bank until this year.

Senator KERRY. What was his title or his office?

Mr. ALTMAN. He was a senior vice president at First American Bank of New York. I think he had different functions over the years. They involved financial planning and the like.

Senator KERRY. At the time that he wrote this, October 14, 1982, he was submitting to a Mr. Shoaib of the Central Planning Division at BCCI London a monthly performance report for the month of September 1982.

And he says: Enclosed is the report of certain activities of the representative office, that is BCCI for 1982. Notable exceptions not included in the report are as follows: One, attending the IMF conference held in Toronto; and two, this is what I am interested in, advising First American Bank in the acquisition of space for their New York bank. Signed, Mr. Elley.

Now why is Mr. Elley of BCCI doing a monthly report to BCCI about the acquisition of space for First American?

Mr. ALTMAN. Senator, I can answer this. If you would indulge me, let me put this in context.

First, I might say that to the best of my recollection until last night I had never seen this letter before or the other letter under this tab. So it's a little hard for me to say what the author of the letter had in mind. I had never seen it and had never discussed it.

But I can describe for you what was happening at that time period, which I think would make sense of this.

We completed the regulatory proceedings relating to the acquisition of First American before the Federal Reserve in August 1981. We still needed to get one final regulatory approval and that was from the State of New York. We went before the State of New York and it was a very difficult situation because of political and ethnic considerations that arose in the context of those proceedings.

And our application before that banking board in the fall was initially rejected and denied. And we then had discussions with the staff of the banking board. At that time, Financial General, the company being acquired, the predecessor to First American, owned two banks in New York State. One was a very small bank in Albany, NY, called Community State Bank. It was about \$70 million, \$75 million in assets, as I recall. The important bank was called the Bank of Commerce in New York City, a much larger bank.

The Bank of Commerce board opposed the acquisition. They did not wish to be acquired as often happens in times of corporate acquisitions and had posed this before the banking board. Ultimately, a resolution of the matter occurred when the group agreed that if the application were approved, the Bank of Commerce would be sold. Indeed, it was to be sold to the directors. That was the original agreement, although they ended up not acquiring it as they couldn't raise the financing. It was sold to another bank.

But there was a program then that the Bank of Commerce, the New York City bank, would be sold. The investors were left in the posture, in effect, of starting a new bank. When we were going through the regulatory proceedings before the Federal Reserve this was, of course, completely unforeseen. We didn't anticipate that we wouldn't acquire the bank in New York City. And the condition that was agreed to with the banking board in New York was that if the Bank of Commerce were sold a license would be granted for the little Albany bank that remained in New York to open in New York City, to gain a license to branch into New York City. And it shifted its headquarters to New York City.

When the acquisition was completed in the spring of 1982 we were then in a very awkward and, to some extent, unhappy posture. We were under an obligation to sell the New York City bank.

And we were under a need to set up a new bank and really set it up from scratch. We had nothing in the city. We had no staff. We had no location. We had no resources. It put us, as I say, in a difficult position.

Now throughout the takeover litigation and during the regulatory proceedings, we essentially had two contacts in New York. One was the law firm of Wachtell, Lipton, Rosen & Katz that was cocounsel with us and represented the shareholders during these proceedings. And the other was BCCI which had a representative office and was acting as the investment advisor.

And we used those resources to try to get set up in New York. Our first obligation was to try to find space so that we could open the bank in New York. And there was some urgency about doing that because we were under pressure to sell the Bank of Commerce and we didn't want to sell that bank until we had been granted the right, officially, to open the new bank. And that required us to have space that was leased.

And so we went to the people we knew at Wachtell, Lipton and we asked the attorneys did they know of space in the city. And they did. And they recommended space. And we went to BCCI's representative office in New York, which was then headed by this man, Elley. And he also attempted to assist us by telling us of brokers or space that he was aware of. And, indeed, this was something that I worked on personally.

But I was not in New York City and when I would go up there and I was to get back messages or information, I would usually ask people to send it either to BCCI in New York or to the New York lawyers. They acted, in effect, as a local contact for us.

And so BCCI was trying to be helpful to us. Now this did not seem particularly out of the ordinary. BCCI had recommended this investment to these important clients. And an investment advisor certainly wants the investment to be successful. That's how you remain the investment advisor. And so this may be a long answer, but I think you have to understand the context.

What I am assuming happened is that Mr. Elley is reporting on what he has been doing to his superiors in London. And he reports that he has given us some information on space that we might acquire.

Senator KERRY. Was it limited to space? I mean, was this all that BCCI was doing?

Mr. ALTMAN. No; BCCI generally tried to help us get established in New York.

Senator KERRY. This occurs very shortly after the whole go around with the permission of the takeover, correct?

Mr. ALTMAN. Sure.

Senator KERRY. Muckenfuss had accepted that based on the representation of the letter earlier. Leaving out the in the future, leaving out the financial transactions themselves, the management and affairs were supposed to be separate. It seems to me that you began, almost immediately, the very thing that they had feared, which was an interrelationship, a financial dependency, a sort of intermingling of the affairs.

Mr. ALTMAN. Senator, if I might, I don't think that's the way I would characterize it.

Senator KERRY. Well, let me ask a few more questions about it, then and then see.

Mr. ALTMAN. Sure. OK.

Senator KERRY. Three months later, directing yourself to the next document, there is a letter to Mr. Naqvi.

Now you have testified that Mr. Abedi was your communications link and Mr. Abedi was the advisor for the group. Here is a letter to Mr. Naqvi on Bank of Credit and Commerce stationary by Mr. Elley—a meeting was held between myself and Mr. Altman in New York in which the following subjects were covered, not only the subletting of space, but selection of board directors, recruitment of key staff, selection of auditors, selection of lawyers, compensation package, including fringe benefits, projections for first year's operations, coordination with holding company and shareholders.

Now these are some of the most important decisions that a new bank would make. And here is Mr. Elley reporting to Mr. Naqvi at BCCI on this transaction. Why is that not directly in contravention of what Mr. Muckenfuss was talking about?

Mr. ALTMAN. The understanding that we had with the regulatory authorities was that BCCI was not going to make the decisions, that control over the operation would remain with Mr. Clifford and the board of directors.

Senator KERRY. I am sorry to interrupt you there, Mr. Altman, but is that not kind of a nicety? I mean, are we not really talking about differences without a distinctions, distinctions that are not a difference?

I mean, here you are sitting there reporting to Mr. Naqvi or talking with him about the recruitment of board directors, et cetera. And it is Mr. Elley reporting. It is not you reporting. You are the lawyers, you are supposed to have the communications link with Mr. Abedi.

Mr. ALTMAN. Senator, if I might, a couple of points.

The first is that while Mr. Abedi was the individual who had the close, personal relationships for the most part with these Middle Eastern investors, it wasn't Mr. Abedi personally who was designated as the communications link. It was BCCI, the institution. And Mr. Naqvi was his right-hand man who later succeeded him.

Senator KERRY. It seems to me that makes it even more complicated. BCCI as the bank is the entity and not Abedi. You have a real problem here in terms of dealing with the separateness.

Mr. ALTMAN. I am trying to explain what the understandings were.

It was understood by the regulatory authorities at the time, not that Mr. Abedi was the advisor to the shareholders, not that Mr. Abedi was the communications link, but that BCCI performed and would continue to perform those functions. That was expressly disclosed to the regulators during the regulatory proceedings in 1981. I can refer you again—

Senator KERRY. Was that not expressly objected to by them afterward?

Mr. ALTMAN. No, sir.

Senator KERRY. That is not what this letter means?

Mr. ALTMAN. You are not talking about Mr. Ryback's letter? Are you talking about the letter that Mr. Muckenfuss wrote?

Senator KERRY. Yes.

Mr. ALTMAN. Mr. Muckenfuss was writing an opinion for the Comptroller of the Currency to the Federal Reserve, giving the Federal Reserve their comments on the application. They are not the decisionmaker.

Senator KERRY. I understand.

Mr. ALTMAN. The Federal Reserve and, indeed, the Comptroller understood that we were going to have a continuing relationship with BCCI. It was stated expressly in the application. It was stated at the hearing. Some of the hearing examiners made that comment, that they recognized that BCCI was going to continue to provide this service.

This was not anything that was unknown to them. But the basic understanding was that the control over First American was going to be exercised by the American board. And I refer you again to the comments made by Mr. Clifford in his opening remarks. They have now come in and done intensive audits of First American. They did them all through the years.

And when this allegation arose they came in with this wide-ranging, intensive coordinating audit of the holding company and all the banks. And the conclusion that has been reached insofar as it has been reported is they find no evidence of any BCCI control over First American. And that is the issue.

Senator KERRY. Well, control is a fascinating issue here. You are absolutely correct.

There are many definitions of it, actual, constructive, legal, and so forth. And there is such a thing as hidden control. I mean, that is another nature of the beast where you can have all kinds of things happening on one side and then there can be real control that is not even hidden, excuse me, that is not exercised, neither constructive nor implemented, but it can exist, to be exercised at some appropriate moment. So control is a very big question that is sort of dangling out there. And I do not think anybody has a handle on it yet.

But, proceeding, just to sort of go through these various things that sort of go to this issue of control or what is at stake here. And this is really just part of the confusion.

I do not know what it all means. I just know that it raises a question. And you cannot help but ask it. For instance, turning to the next document, you have Mr. Naqvi again receiving a letter from Mr. Elley in which Mr. Elley says "Re: The Board of Directors, First American Bank." He says,

I am enclosing for you the particulars of an individual who I've known for the last 4 or 5 years and who I consider to be eminently suitable to be a member of the board of directors of the First American bank of New York.

Mr. Richard Paget is president of a very prestigious management consulting firm. He's on the board of a number of companies including the Washington Post. My relationship with him is fairly close and I feel we could not only use his name, but also his contacts which are at very high levels. Mr. Paget is 69 years old. Recently he's been awarded the U.S. Navy Civilian Service Medal and has agreed to become chairman of the American Friends of the Australian National Gallery Foundation.

I would like you and Mr. Abedi to meet him on your visit. Yours truly, Khusró Karamat Elley.

Now here you have Mr. Elley who works for BCCI writing a letter to Mr. Naqvi regarding the board of directors of your bank,

and he says, I am enclosing, who I've known, who I consider to be, who I feel, I would like you to meet him on your next visit. There is no mention of Mr. Clifford or Mr. Altman. There is no mention of CCAH. This seems to be a totally, sort of, BCCI operation with respect to the board of directors of your bank.

Mr. ALTMAN. Senator, I have several comments to make because I think they are indicated.

As I stated initially, we had a very unusual situation that developed in New York. And you are focusing on a period nearly 10 years ago, very limited in time, and it's appropriate that the committee look at it. But fairly, the committee should look at what happened at First American for the decade that we managed this property in New York and in Washington and in Maryland and in Virginia and in Tennessee and in Georgia and in Florida and all of the various subsidiaries we had.

And I think that you will conclude that there was no control over First American by BCCI. I gave you two quick commonsense indications of that. One, there is a perception that BCCI is a corrupt institution and that it engaged in misdeeds around the world. Now if BCCI was controlling First American for 10 years, presumably you would find some indication of that. But you do not.

Senator KERRY. In what sense? What do you mean by that? I mean, when you say—

Mr. ALTMAN. BCCI, if you accept the allegations, I don't know whether they are true, but accepting them for purposes of discussion, that BCCI engaged in everything from financing terrorists to money laundering and all this parade of horrors, account manipulations, fraudulent statements, cheating depositors, et cetera—

Senator KERRY. I do not think that happened in First American and I do not think anybody has suggested that.

Mr. ALTMAN. I am making two basic points.

Point No. 1 is there is, the evidence is, I think, quite clear that First American was operated honestly.

Senator KERRY. I agree with—

Mr. ALTMAN. If we were controlled—

Senator KERRY. To the best of my knowledge, I absolutely agree with the basic premise that the bank as we knew it in Virginia, Maryland, Washington, I have not discovered any impropriety in the day-to-day operations.

But that is sort of skirting the issue, I think. And I am just trying to put in front of you what the issue is that keeps coming back.

The issue is did Mr. Abedi set out on a quest, which according to the testimony of countless people now, Mr. Rahman, Mr. Sakhia, people who were part of this bank, have talked about his goal of entering the U.S. market, of gaining a foothold in America. And he tried several times in several places. Everybody knows he wanted to do this. It is part of the regulatory record. It is no mystery. He wanted to be in the American market.

And he could not do it with an outright purchase initially because Bank of America was there and then there were some problems in what they were able to disclose. And they did not want to come under one regulatory head at first.

So they found their shareholders, maybe without you even knowing it, obviously. You have so testified and nobody has shown to the contrary. He comes up with this investment group, puts them in as First American and First American now has a group of shareholders from the Middle East run through Mr. Abedi who very cleverly is managing this group from the Middle East, getting a foothold in America.

And you are representing it very effectively and competently. You are wearing a lot of hats. You are attorneys for BCCI, attorneys for him, attorneys for the bank, president and manager of the bank. It is very tight. So nobody knows really whether 10 years from then he expected to cash in, maybe buy you out, have a foothold, have built it up.

But that is the issue that is lurking here, is what was going on. Now I am willing to allow—let us say we leave the New York situation for a moment. You say that that is a situation that was set up because you had an urgent need to deal with the New York bank.

Mr. ALTMAN. But I am not saying that anything inappropriate was done despite the urgency of the situation. I am just trying to describe for you what happened.

Senator KERRY. I accept that. I just want to move on from that.

Accepting that, you have said that it was a legitimate sort of relationship, that you noticed the Fed would continue and this was an urgent situation, so they were helping you in the context of the urgent situation. Is that fair?

Mr. ALTMAN. Yes, sir. But they were not making the decisions.

The decisions remained with the American group as we had said to the Federal Reserve.

If I could just complete the thought that I had a few moments ago.

Senator KERRY. Sure.

Mr. ALTMAN. One, I say that, again, we proved the negative. Did BCCI control you? We say no they did not. We point at the evidence that if BCCI is a criminal organization as has been alleged, why from a commonsense standpoint do you find no indication of that at First American? Why is there none of the practices at First American that are said to be in other parts of the BCCI operation if we are really a part of BCCI? That is point 1.

Senator KERRY. Do you want me to answer that?

Mr. ALTMAN. Certainly.

Senator KERRY. Because it is, I mean, I can give you an answer. I do not know if this is the real answer. But because it obviously did not serve their interests. They did not have the kind of sort of, they had conceivably the sort of expectancy control and expectancy ownership through their knowledge of the shares they held because of the financing mechanism.

But, indeed, they wanted you out there, out front, controlling and growing and moving on the day-to-day decisions because ultimately they wanted an asset that was a big asset, that had grown. And they did not want to upset the American marketplace. There is ample evidence that they continually sought ways to avoid coming under the U.S. regulatory process precisely because they would then not have had the freedom they had in the Cayman Is-

lands, Panama, and other places to do the kinds of things that they were doing.

So, that is, I think, the answer to your statement.

Mr. CLIFFORD. Senator, I have refrained from interrupting.

As Mr. Altman and I started together, and as we have continued through the last 9 years, we would separate the areas of responsibility. New York was one of his areas of responsibility. So I have not interfered.

You cannot look at any of these comments without understanding that the relationship and agreement between Mr. Abedi and me was such a final and definite and unequivocal one. I told you about the understanding when I first agreed to take over the chairmanship.

The agreement was that I would have total responsibility and I would have total authority. He never violated that at any time. He can make suggestions. He can make offers of help. But when the time came to make decisions, he did not make any one of these decisions in any way. The board and I made them all.

Now we turned for help in New York to BCCI because we needed the help of a banking organization that had a background in foreign banking. Mr. Altman and I had no background in foreign banking. Keep in mind, New York was just one of our eight banks. And I think constitutes maybe 15 percent of the assets of First American. So it was not by any manner of means our most important. It offered the most serious problems because we had to start a bank from scratch, literally. We bought chairs and tables and typewriters and pencils and erasers. We started right from the beginning.

We needed the help we could get. We turned to Wachtell, Lipton for help. We turned to two or three banking advisory groups for help. We turned to Abedi and his organization for help. And by all working together, we got the bank started. But all during that time they were assisting us, they did not make one decision.

Senator KERRY. Is it possible, Mr. Secretary, that Mr. Abedi and the group around him were convinced that they owned First American and they did not need to make decisions, but that they viewed it as part of their holdings, without your being aware? Is that—

Mr. CLIFFORD. You ask if something is possible. It never entered our mind at the time because we never had the slightest indication that BCCI owned any stock in First American or even contemplated ever owning any stock. We accepted them in their capacity as representative of the investors who were our bosses.

Senator KERRY. Did there not come a time when one of you saw a printed brochure of BCCI with First American in it and you discussed that with Mr. Abedi? Do you recall that incident?

Mr. CLIFFORD. No, I do not.

Mr. ALTMAN. I don't either.

Senator KERRY. Let me direct your attention to article 2, document No. 12, which are the minutes of the U.S. marketing meeting held on April 24 in New York.

The following attended the meeting: Mr. Aijaz Afrifi, Mr. Tariq Jamil, Mr. Khusro Karamat Elley, and then seven other people are listed. The seven other people are all employees of BCCI. But at that point in time, Mr. Elley represented First American in New

York. Mr. Tarig Jamil was running National Bank of Georgia, a bank that they do not own yet, but which has the BCCI logo. And Mr. Afridi is representing, I believe, First American.

So here you have a minutes of a U.S. marketing meeting held in 1985. And I read from the matters discussed, purpose of the meeting.

Mr. Afridi opened the meeting and emphasized that the purpose of the meeting was to coordinate the efforts of different locations of BCC and other institutions so that the president's desire to have a totality in approach is achieved. It is a great challenge that the group faces in the present and future U.S. operations. And this is only by the joint efforts and coordination we can meet the challenge. Mr. Tariq Jamil described it as a very timely meeting.

Now this is the National Bank of Georgia talking at a U.S. marketing meeting for BCCI, National Bank of Georgia being owned supposedly by Gaith Pharaon with a loan from BCCI.

They describe it as the first meeting, as the initiation of our efforts to move into the future of BCC in U.S.A. in a calculated and planned way, with the uniformity of approach and totality in operational objectives.

It talks about the assistance of U.S. operations will be presented to the CSO. I gather that is Mr. Abedi.

Now it goes on and Mr. Afridi of First American says that our major task in the United States should be to build market share. BCC has been a success. Now this is Mr. Afridi then working, I believe, for First American talking about BCC having been a success in Third World. And now we're embarking on establishing an equally successful business in the most competitive country in the world. "He requested the members to work together to overwhelm the U.S. market. Historically, we have not made calculated approach to the local indigenous market"—indicating that now they will. I mean, as you read this, and here is Mr. Sakhia who testified here the other day, Mr. Sakhia talking about concentrating on increasing the customer deposit base and so forth, finally, the National Bank of Georgia.

To update each member of the operations of different units, they would discuss their size and volume. So here you have the National Bank of Georgia, not yet purchased by you, then owned supposedly by Gaith Pharaon on this loan from BCCI, and all of these banks are here, sitting there together, talking about their size, their customer approach, creating a 1985 coordinated approach to this process, and obviously one is left looking at this with an extraordinary impression of a very special relationship that existed here, unlike other banking institutions that are competitors, that are separate but are operating according to the standards that I thought the Fed expected.

Now, I guess you are going to say that is not what it meant, but can you explain to us what it does mean?

Mr. ALTMAN. Senator, I can't explain what this does mean. To the best of my recollection, the first I heard about this committee was in the fall of 1990. I received a telephone call from a reporter from the Washington Post, and he had asked Mr. Clifford and me about an American coordinating committee, and I have not had the opportunity to study the minutes of those various meetings, so I can't comment on what was intended, and I can't comment on the

propriety of what the participants were doing, but I think it is troubling. But these are matters, to the best of my recollection, we never heard about until these documents surfaced.

Senator KERRY. It is possible, Mr. Altman, then, that Mr. Elley and Mr. Afridi were working for you but behind your back, unbeknownst to you at these meetings? Did you not know they were at these meetings?

Mr. ALTMAN. That is correct.

Senator KERRY. Now, Mr. Elley says at the end in this conclusion, he says—this is on page 7—Mr. Elley concluded that “In America we are sitting on \$7 billion worth of assets, and this is just the beginning. The U.S. team should play an important role in identifying the products in the market,” and so forth. There is no way they could have obviously talked about \$7 billion worth of assets without including the First American family at National Bank of Georgia in there, and in fact, Mr. Sakhia and Mr. Rahman both assert that is exactly what they did.

So you are saying that these folks were basically somehow viewing themselves as a separate entity, acting as that but absolutely without your knowledge?

Mr. ALTMAN. To the best of my recollection, Senator, we never heard about any of this activity.

Now, I would say there is nothing necessarily impermissible on banks getting together and talking about business, but the way this is presented here is disturbing. I understand that the minutes of these meetings show—I have not seen them all, but the minutes of these meetings show that neither Mr. Clifford nor I ever attended any of these meetings or were given copies of these minutes.

I think it appropriate to note that these two individuals from First American were working for First American Bank of New York, and whatever efforts they were engaged in here, they would have to answer. I could not explain, and certainly I would need some time to study the documents, but I think it appropriate to have in the record that the chief executive officer of the bank, a man named William Duncan—he has been the CEO there for about 6 years—this past year wrote a letter to customers, employees, and friends when the financial statements came out.

It is dated March 1991, and he writes as follows: “As this report goes to press, there has been publicity concerning First American Bank shares, this bank’s holding company, and the Bank of Credit & Commerce International. The publicity addressed alleged connections between BCCI and the management of First American Bank shares. The sensationalized tone of some of the publicity was disappointing, because First American Bank of New York’s integrity has always been of the utmost importance to me personally”—I am quoting. “At no time did the Bank of Credit & Commerce International exercise any control over the management of First American Bank of New York. This bank is independently governed by a board of directors comprised of distinguished business people, as well as a group of highly professional managers who use their objective judgment and experience to guide our organization,” and he describes just a little bit of the board.

So I cannot explain what was going on at these meetings, but I can tell you what the perspective was from the senior officers of the company.

Senator KERRY. I have some more questions along this line, but let me turn to Senator Brown for a moment here.

Senator BROWN. We had earlier heard from Mr. Sakhia. You may have heard that testimony—perhaps not. But there was a point in his testimony where he indicated that he had helped co-ordinate marketing for BCCI in Canada and the United States, and implied clearly that he in effect had developed marketing plans, market allocations for BCCI's holdings in the North American continent.

He directly implied that the operating nature of these banks was that they all operated as though they were directed by BCCI. In effect, he indicated that First American operated as a branch in this regard. Can you think of anything—well, first of all, would you comment on that?

Mr. ALTMAN. There is much that Mr. Sakhia has said to which we take the strongest exception. It is false and it is without factual foundation.

Senator BROWN. Well, that is a very direct statement and I think deals with that.

Is there anything you can recall in terms of meetings that would have given him this impression?

Mr. CLIFFORD. Let me try, Senator. What impression? just give me that again. I did not quite understand it.

Senator BROWN. The impression that BCCI coordinated your marketing strategy.

Mr. CLIFFORD. Of our various banks? Totally untrue. Let me say that the background of this whole subject is such that we never knew these meetings were going on among the BCCI people.

It may be during this period—we do not know when they began to acquire First American stock. We did not know that. Nobody else knew it. So they had plans going on, secret plans. Perhaps they were conspiring among themselves, but we were not conscious of that. The authorities were not conscious of it.

This may be part of the typical operation of the way BCCI does its business, handling it secretly. This was probably going on—using the analogy this morning of an inside bank and an outside bank, this is the inside bank operating.

As long as you have brought up, Senator, the name of Mr. Sakhia, I was so concerned about a comment that he made yesterday that I decided to put my remarks in writing so that perhaps they would be restrained. If I made then naturally, they would be less than restrained.

I hesitate to dignify Mr. Sakhia's testimony by even referring to it, but I want this committee to know that at no time did I ever say to Mr. Sakhia or anyone else in a joking manner or otherwise that we can "now tell more lies." It was an outrageous statement, has no basis whatsoever in fact.

It is totally a departure from any kind of comment that I would make. It is grotesque. It is totally and categorically false, and I think it is exceedingly unfortunate that such a remark was made and spread out to the public that I am talking to somebody else

about the time has come to tell lies, and I deeply resent the opportunity that he had to tell that.

Senator KERRY. Well, let me just say, Mr. Clifford, I reacted to it with a certain amount of shock at the time, and I questioned it two or three times, because I did think it sounded bizarre, but it was something that he insisted on saying and wanted to say no matter what, and as incredulous as I thought it sounded for anybody to make, he insisted on making it, and I think we went back over it several times because I think we were both somewhat dumbstruck by it.

Senator BROWN. Along this line, there is a memo dated September 4, 1984, from this Mr. Naqvi, and I do not know if you have a copy of that available to you.

Mr. ALTMAN. I do not have it, sir.

Senator BROWN. I guess we have a copy we will bring down to you. I was hoping when you have a chance to review it that you might be willing to comment on it. [Pause.]

Mr. CLIFFORD. Senator, we had not seen this before. My recollection is this first came to our attention when we were testifying before the Federal Reserve. I remember the incident about which Mr. Naqvi is speaking. We wanted to keep Abedi and Naqvi informed so they could keep their investors informed.

We were selecting from time to time directors. We went ahead and did it on our own in about 95 percent of the instances, and this one here was a man, a very able fellow that we were considering bringing on to the board—Pursley, but he was a partner in J.H. Whitney & Co. Now, we wanted to be sure that that did not constitute any kind of a conflict in the operation of our banks, and in the event that—we just wanted to be careful.

We mentioned that to him. We did not have to be guided. My recollection is that they said they had no objection to Mr. Pursley, but later on as a result of other developments we did not appoint him.

There is something that is fundamental, and that is, in every contact we had with BCCI, after our understanding on what we will call responsibility and control, and that meeting in London, everything that passed between Naqvi and Abedi and me was in contemplating of that agreement that we had. If they had suggestions, we would be glad to hear them. Sometimes we even asked them for their reaction to something. But in the last analysis, the board and I made every decision without any one exception.

Senator BROWN. The paragraph we wanted to draw your attention to is at the end of No. 1. It reads as follows: "I indicated to him that if Mr. Clifford's judgment is that he would be suitable for the proposed position, Mr. Abedi should not have any reservations. To save time, I suggested that he may proceed to finalize the arrangements," the implication being—and I guess I would appreciate your view as to whether you feel it is a fair implication, but the implication being that Mr. Abedi would be required to pass on this before action could be taken, or there was a relationship that involved Mr. Abedi passing on this. Would that be a fair reading on this?

Mr. CLIFFORD. Well, I can only read it in the light of what our understanding was. We had said we were considering this man, did

they have any reactions of any kind? We would get whatever their reaction was back, and then I made the decision.

Senator BROWN. The reaction you were looking for was from someone who was an advisor to you, not someone that you viewed as—or, the reaction you were looking for was someone who was an investor?

Mr. CLIFFORD. No. We treat Mr. Abedi, we treat Mr. Naqvi, as the representative of our investors. Maybe we felt that if it was an important enough matter we might have gone to the investors, but we did not. That takes too long. We wanted to get any reaction that they had. We would merely put that in our computer along with other information before the board and I made the decision. That is what it comes down to.

Mr. ALTMAN. Senator, there is, I think, a much more fundamental—I believe there is a more fundamental event that might throw light on this issue that you are pursuing. In this case, Mr. Clifford ultimately did not determine to put Mr. Pursley on the board, so this did not go anywhere, and obviously we cannot speak as to what the author of this document had in mind or interpreted Mr. Clifford to be saying. We had not seen it before.

Let me reference you, if I might, to the acquisition that First American made of the National Bank of Georgia. I think, again, we are in the posture of proving negatives continually, but I think this is a transaction which is quite revealing. National Bank of Georgia we understood to be owned by Gaith Pharaon, and while it was under his ownership, it operated in a manner that was quite characteristic of BCCI.

I do not know if BCCI actually controlled it, or if they just adopted BCCI's operating characteristics, but it was very similar to a BCCI operation, and I was making the point earlier that we have operated very differently from BCCI, despite allegations of control.

The similarities between the National Bank of Georgia when owned by Dr. Pharaon—ostensibly owned by him, and we do not know the truth as to that allegation, but that bank at the time it was acquired by Dr. Pharaon changed the way it had operated, and it started to operate the way BCCI operated and the rest of the world.

That bank had been a retail-oriented bank. It totally changed its focus, and it became, or attempted to become, an international bank doing trade financing and the like, such as BCCI conducted in its operations in the rest of the world.

They adopted cultural characteristics of BCCI. They changed their logo so that it was very reminiscent of the distinct logo of BCCI. They changed the way their executives sat on the floor of the bank. Instead of being in offices, they were all out on the floor. This was a BCCI concept. Indeed, we understand they distributed BCCI literature.

The man from BCCI went to the National Bank of Georgia, this Mr. Jamil, who the chairman made reference to earlier, and became, I think, the chief operating officer. He was running the bank. A Mr. Carlson, who had a close association for many years with Mr. Abedi, became the chairman of the bank.

That was the situation when we acquired the property in the summer of 1987, and I think it appropriate to look at what hap-

pened to that bank after we acquired it. Mr. Carlson, the chairman, presumably of BCCI owned it, was someone they thought was an appropriate chairman of the bank. Mr. Jamil of BCCI owned it or controlled it, at least had operated it in a manner characteristic of BCCI. We replaced Mr. Carlson immediately. Mr. Jamil departed. Another individual who was close to Dr. Pharaon also left.

We installed as the chief executive officer a man named Mr. Freeman. Mr. Freeman is a man who in point of fact was not much taken with BCCI. He did not find much favor with the way they operated or their cultural—corporate cultural concepts, but despite that, because we thought he was the right man for the job, even though he did not have particular regard for BCCI, he was installed as the CEO of that bank. Whatever BCCI may have thought of him or he thought of BCCI did not enter into it.

In addition, we changed the strategic concepts at the National Bank of Georgia. We deemphasized this international focus that they had had. We returned to the way that First American operated, which is a primary focus on retail banking, and on banking with small commercial businesses. We got rid of the cultural concepts. We put them back in offices. We eliminated the distribution of BCCI literature.

We operated it as a First American Bank, just like all the other First American Banks, and that is what we did for 9 years, and I return to the conclusion that the Federal Reserve made this year. Having heard all these allegations, they came in with a coordinated audit of First American involving FDIC, State regulatory authorities, the most experienced Federal examiners they had from all 12 Federal Reserve districts—they wanted their best people—and they went through First American and they went through everything at First American, and their conclusion was “and in delving into these records we found no evidence of influence or control.” That was the conclusion of the Federal Reserve, and I think the experience of the National Bank of Georgia is indicative of that.

Senator KERRY. I hate to interrupt on this point, because we are on the back end of the vote that typically was predicted for earlier than this, but if you will forgive us, we are going to recess just for the period of these votes. I suspect it would be a recess of 20 minutes or so, and then we will return.

We stand in recess.

[A brief recess was taken.]

Senator KERRY. The hearing will come back to order. Thank you all very much for your patience. I apologize for the interruption. I think we are on a clear course now. We ought to be able to proceed until we finish, which I hope can be punctually, and obviously we will try to do that.

Mr. CLIFFORD. Thank you.

Senator KERRY. Let me come back—did you complete your line of questions, Senator Brown?

Senator BROWN. If it is timely, Mr. Chairman, I have a few other lines, but I think it makes sense to go with yours, but I would like to put some things in the record now, if the subcommittee might consider it.

There is a statement here from Senator Helms on the subject that he would like entered into the record.

Senator KERRY. Without objection, so ordered.

[The prepared statement of Senator Helms follows:]

PREPARED STATEMENT OF SENATOR JESSE HELMS

Mr. Chairman, this morning this subcommittee writes another chapter in the saga of BCCI and its worldwide web. As I have followed these hearings, I have been amazed by the statements and allegations that have been made by former BCCI insiders who have told the subcommittee that they knew that First American was part of BCCI's empire.

We have heard that the leadership of BCCI knew that they owned First American. We have also heard that the staffs of BCCI's offices in the United States knew. Today, we will hear from two key players in the relationship between BCCI and First American who have testified that they did *not* know—Messrs. Clifford and Altman.

Last month, both of today's witnesses testified before the House Banking Committee. Despite a long session, there are still many questions that I feel they need to answer about the relationship between the two banks and their roles in both banks.

For example, questions have arisen about loans that First American made to the shareholders of the bank. While these loans are not illegal, there are questions about whether these loans would have been made in the normal course of business and about steps made by First American to collect on them.

There are questions which need to be answered about at least two BCCI meetings attended by members of the staff of First American Bank of New York. According to testimony before this subcommittee, no other banks that BCCI had a relationship with ever attended these meetings. There are also questions about who asked Mr. Clifford to take the position of chairman of First American.

I take this occasion to compliment Senator Kerry and Senator Brown for their leadership on this issue. As the United States continues to move forward into this so-called international marketplace, it has become imperative that we in this body understand the way that international companies operate with seeming impunity and lack of oversight. This includes not just rogue banks, but also firms willing to sell anything to anyone for the sake of profit as well as former government officials who are willing to use their reputations as "fixits-for-hire" or as one witness has testified, "rent-a-faces."

Senator BROWN. Several questions that Senator Helms asked to be put in the record and would ask for responses from the witness.

Senator KERRY. Without objection. We will leave the record open in the event that we have some questions, or in the event that either of the witnesses would like to submit something subsequently. So the record will remain open for a period of time.

[The information referred to follows. No answers to these questions were provided by the witnesses as of December 31, 1991.]

QUESTIONS FOR MESSRS. CLIFFORD AND ALTMAN

TAKING CHAIRMANSHIP OF FIRST AMERICAN

Question. Mr Clifford, I would like to clear up a question about who exactly asked you to take over the chairmanship of First American. In your testimony before the House Banking Committee and in press interviews, you stated that Mr. Abedi and Mr. Adham asked you to take the position. In your written responses to questions submitted by the House Banking Committee, you stated that you were asked by Mr. Adham. Finally, in your written statement before the House Banking Committee, you stated that the investors asked you to take the post.

—For the purposes of clarification, just who did ask you to take the post?

ATTENDANCE BY FIRST AMERICAN STAFF AT BCC MEETINGS

Question. In your previous statements and in various press accounts, you both have testified that you had no idea that your bank was under the control of BCCI. Yet, as I understand there a number of documents in the possession of the committee that question your statements.

—In your written responses to questions by the House investigators, you state that “Mr. Abedi, however, did not make decisions regarding the selection, hiring or retention of any First American officers.” Can I assume from this comment that it was your independent decision to hire Mr. Elley to head the new First American branch in New York?

—How often did either one of you keep in contact with Mr. Elley to track the actions of your New York subsidiary?

—Where you aware of the fact that in the words of one former First American employee: “Everyone knew each other. They [employees of BCCIs New York office] were here all the time?”

—Was it standard practice for employees of the bank to inform their superiors when they attended meetings with representatives with other banks?

—I bring your attention to a document obtained by the committee relating to meetings of the “U.S. Coordination Committee” on April 24, 1985. You will note that Mr. Elley and Mr. Alfredi of First American Bank of New York attended. I also bring your attention to a statement on page one of the minutes of the meeting. The first paragraph states: “It was the consensus of the meeting that the challenge facing the BCC Group in the U.S. was a unique one, since they had hitherto been mostly successful in developing countries. They were now embarked on establishing an equally successful business in the most advanced and most competitive country in the world.”

The fourth paragraph of the same document begins: “It was agreed that whatever the problems that were to be faced and the potential solutions we would arrive at we had as good a chance of success as anywhere else because we truly believe BCC was a mission.”

Based on these two lines from the first meeting of the Coordinating Committee, do either of you believe that the participants of the meeting believed that object of the meeting was to improve the position of the BCC Group in the United States?

—Did either of you authorize Mr. Elley and Mr. Alfredi’s participation at this meeting or the meeting in June?

—Did either of you receive a report from either Mr. Elley or Mr. Alfredi on the events that took place at this meeting?

—Were either of you aware of the fact that, according to the testimony of Mr. Sakhia, only representatives of First American Bank and National Bank of Georgia attended these meetings and that BCCI did not have a similar relationship with other banks such as Bank of America and Security Pacific?

LOANS TO FIRST AMERICAN SHAREHOLDERS

Question. Gentlemen, on September 27, the Philadelphia Inquirer reported that “the first big real estate loan made by First American’s New York subsidiary” went to a partnership which included Sheik Kamal Adham, who was, as we now know, a share holder in First American.

—While loans to shareholders are not illegal, they must be reported to the Federal Reserve Board. Was this loan reported to the Fed?

In 1985, First American in New York loaned \$11 million to Lancet 150 Nassau Ltd. According to former First American employees interviewed by the Inquirer, it was the largest loan on the books and many thought that the loan was a bad idea. According to one employee, Fred Giancola, interviewed by the Inquirer, Lancet started missing payments on the loan early this year. Mr. Giancola noted that this was about the time BCCI started getting more bad publicity and he stated that “It was scary * * * because we knew one of the owners of the bank was a principle in the partnership. He noted that bank officials feared that the bank would attract unwanted attention. Finally he stated that he was told by a superior at the bank that Mr. Altman personally interceded to demand repayment on the loan. Public records state that the loan was assumed in mid-June by Credit Suisse.

—Based on your knowledge of the bank’s activities are the events described in this news story correct?

—Was this loan reported to officials of the Federal Reserve Board?

—Mr. Altman, was it standard practice for you to personally intervene to demand payment on loans?

—Why was the loan assumed by Credit Suisse?

THE SENATE SUBCOMMITTEE SUBPOENA

Question. Mr. Altman you testified before the House Banking Committee that you had advised on September 8, 1988, investigators working for Senator Kerry that Mr. Amjad Awan had been transferred to the Paris office of BCCI. You also testified

that it was your firm that informed the subcommittee in August of 1988 that the names on one of their subpoenas was incorrect and that in August of 1988 they knew that they really wanted to speak to Amjad Awan not Khalid Awan.

—Based on your knowledge of the case, who first made the suggestion that Mr. Amjad Awan be transferred to Paris?

—As BCCI's lawyers at the time, we you consulted in this decision?

—Mr. Amjad Awan has publicly stated that you, Mr. Altman, were responsible for the decision to transfer him to Paris. If you were not responsible for the decision, why would he specifically single you out?

—In retrospect, do you understand the concern that many have that the transfer of Mr. Awan gives the appearance of impropriety?

Senator BROWN. In addition, I have two other things that I would hope that we could include. One is a 3-page analysis from Tax Notes in the October 7 edition, dealing with the question regarding compensation, specifically, an area that we had discussed earlier today.

Senator KERRY. Without objection, so ordered.

[The information referred to follows:]

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NEWS ANALYSIS

The BCCI Blues: Clark Clifford's Potential Tax Troubles

People in the rest of the country think that New Yorkers are only interested in money and that Washingtonians are only interested in power. Nothing could be further from the truth. Washingtonians are just as obsessed with money as New Yorkers, only the latter are more direct about it. (In fact, it is largely this habit of being direct in all their dealings that irritates everyone else about New Yorkers. In the rest of the country, getting straight to the point is regarded as extremely rude.) Washingtonians are actually worse in one respect—when they sell their souls, they tend to sell them cheap.

Clifford and Altman should have reported compensation income rather than capital gain.

But now Clark Clifford, doyen of Washington lobbyists, and his sidekick Robert Altman, Wonder Woman's husband, eventually may be found to have redeemed forever Washington's reputation as a hotbed of low-rent sleaze. When they allegedly sold out, they sold out for a lot of money: about \$10 million from their bank stock deal, plus another \$45 million in legal fees for their law firm, Clifford & Warnke. Both Clifford and Altman have denied any wrongdoing.

This article explores possible tax treatment of the two lawyers' dealings in the stock of a company that indirectly controlled First American Bank. The article argues that Clifford and Altman should have reported compensation income rather than capital gain. What difference does that make if both capital gains and salary were taxable at 28 percent in 1988? Capital treatment allows for capital loss offsets. (Altman and Clifford appear to have made identical deals with BCCI, but some of the available documents concern only one man. For purposes of tax analysis, this article will treat the two as having made the same deal.)

Bank of Crooks and Criminals

If you have not read John Gresham's best-selling novel *The Firm*, do not bother. Get the September 11, 1991, House Banking Committee Minority Staff report on the Bank of Credit and Commerce International (BCCI) instead. It's engrossing, suspenseful, and better written, besides. The report argues that Clifford and Altman knew full well what BCCI was doing in the U.S. and aided and abetted BCCI in achieving its goals. The report drew its information from the Federal Reserve Board's in-

vestigation and various documents possessed by the House Banking Committee.

According to the report, several Arab investors whose purchases were financed by BCCI obtained control of the predecessor of First American Bank in 1982, Clifford and Altman having comforted the Federal Reserve Board that BCCI had nothing to do with the purchase other than acting as an investment adviser to the purchasers. The acquisition vehicle was a Netherlands Antilles holding company called Credit and Commerce American Holdings N.V. (CCAH)—the name of which raised federal eyebrows about the purchase. Clifford became a managing director of CCAH and the chairman of First American Bank. Altman became a director of First American Bank and president of First American Corporation, the direct parent of First American Bank. Clifford & Warnke were counsel to the bank, its parent, CCAH, BCCI, and other BCCI affiliates.

The Fed now believes that BCCI controlled CCAH from the outset, and that the investor group was a front to get past the Fed's refusal to permit BCCI, which it recognized was answerable to no regulator, to operate a bank in the U.S. The Fed also believes that BCCI was very active in the management of First American Bank, to the point that Clifford and Altman had to seek BCCI's permission to do certain things, like hire executives.

In July 1988, BCCI gave Clifford and Altman an opportunity to buy into CCAH pursuant to a highly advantageous rights offering, apparently by causing one CCAH shareholder, Mashreq Holding Co., to waive some of its rights to participate in that offering. The offering allowed investors to purchase CCAH common stock at its book value of \$2,216 per share; at the time, it had been selling for prices as high as \$4,000-\$5,000 per share.

BCCI guaranteed Clifford a profit on his CCAH stock and promised to gross it up for U.S. capital gains taxes.

Altman and Clifford bought 6,742 CCAH shares (2,247 and 4,495 respectively), representing about three percent of CCAH stock, in July 1988. They borrowed the nearly \$15 million purchase price from BCCI. The loans were nonrecourse 18-month notes at the London Interbank Offered Rate (LIBOR)—a rate rarely offered to individuals—with interest due at the end of the term. In March 1988, Clifford and Altman sold 3,200 and 1,600 shares, respectively, to Muhammad Hamoud, another CCAH shareholder, for \$6,800 per share. (For a description of Clifford and Altman's stock deal, see Potts, "BCCI Stock Deal: Was Profit Proper?" *The Washington Post*, Sept. 10, 1991, p. A1.)

Although CCAH shares are not publicly traded and, therefore, are difficult to value, it appears that a value of \$8,500 per share for CCAH was extravagant. Price Waterhouse valued the CCAH shares at \$3,100 each in a 1985 audit of BCCI. Clifford and Altman made \$9.8 million gross profit on the sale of CCAH stock in 1988, of which they kept about \$3.5 million after expenses and taxes. They reported the transaction as capital gain on their 1988 tax returns.

Fed exhibits recently released by the House Banking Committee indicate that BCCI guaranteed Clifford a profit on his CCAH stock and promised to gross it up for U.S. capital gains taxes. Clifford and Altman were not permitted to sell their CCAH stock without obtaining permission from BCCI. Correspondence between BCCI and the two lawyers indicates that BCCI had a "firm commitment" from "certain clients" to purchase any and all of Clifford and Altman's shares at the time the two bought their shares, and that BCCI would arrange for the sale of the shares at a price agreed upon by the parties. Basically, BCCI retained the authority to transfer the shares. The letters indicate that BCCI contemplated rolling over the debt should the shares remain unsold when the note became due.

According to the report, federal investigators believe that Altman's loan and stock purchase may have been merely a mechanism to give Altman the cash profit on the stock without him having to assume the risk of owning the stock. The report points out that Altman borrowed about \$6 million to purchase the CCAH stock, which he pledged to BCCI as collateral for his loan. When he sold his stock in 1988, he sold it to an Arab investor whose purchase was financed by BCCI. Altman received the proceeds of his sale not from the purchaser but by means of a wire transfer from the account of a BCCI affiliate in Grand Cayman. Altman immediately repaid his loan principal, interest, and commission to the account of a BCCI affiliate in Grand Cayman. Federal investigators call this mechanism a "round trip," and take it as an indication that the transaction was a sham. Clifford and Altman did, however, retain the right to vote their pledged CCAH shares, indicating some ownership rights.

Section 83 Analysis

Section 83(a) states that, if property is transferred in connection with the performance of services, the recipient is taxable on the excess of the property's fair-market value over the amount paid for it at the first moment that the recipient's rights in the property are either transferable or not subject to a substantial risk of forfeiture. Section 83 is very broad, and determines the timing and character of compensatory transfers of property. The discussion below deals with the section 83 require-

ments of: compensation; transfer; and restricted property.

The sale of stock to Clifford and Altman at an advantageous price was compensatory. Before the Senate Banking Committee on September 11, Clifford stated several times that the difference between what he and Altman paid for their CCAH stock and the amount for which they sold it was nothing more than their late return for services rendered to First American Bank. Even if Clifford had not made these admissions against his own tax-minimizing interest, however, the surrounding circumstances show that the stock gains realized by the two men were compensatory. Clifford took an annual salary of only \$80,000 to serve as chairman of First American Bank, and Altman took no salary to serve as its president. Even if he did not need the money, neither man was in the business of providing valuable services at no charge.

Clifford and Altman could argue that they did not perform services for Mashriq, whose waiver of its rights to the stock offering enabled them to buy the CCAH stock. The Fed believes that BCCI caused Mashriq to waive its rights in favor of Clifford and Altman, so that BCCI could be considered the transferor. Under section 83, the transferor of property need not be the employer of the recipient. Nor need the transfer be a quid pro quo for the performance of services; a presumption of compensation is raised if the recipient at some time in the past, present, or future performed services for the transferor.

The surrounding circumstances show that the stock gains realized by the two men were compensatory.

If a shareholder of a corporation makes a transfer directly to an employee of the corporation in compensation for services rendered to the corporation, section 83(h) and regulation section 1.83-9(d)(1) treat the transaction as a contribution to the corporation's capital by the shareholder and the use of the property by the corporation to compensate the employee. That the ultimate purchaser of Clifford and Altman's stock was another shareholder of CCAH adds to the compensatory effect of the transaction.

But there may have been no transfer within the meaning of section 83 because of the way the purchase was financed. If there was no transfer of property from BCCI or its affiliates to Clifford and Altman, then they were not in receipt of income in 1988. They could argue, based on regulation section 1.83-9(a)(2), that, because their purchase was financed with nonrecourse debt, it was the equivalent of the granting of an option, which is not considered a transfer of the subject property. A

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nonrecourse loan is like an option because the borrower can just walk away from it.

Whether their nonrecourse loan will be considered tantamount to an option depends on the facts and circumstances, the focus being on whether the two men had the risk of loss on the stock while they held it. Because the circumstances show that they did not assume this risk, they should have open transaction treatment as if they had an option. Nonetheless, the income they reported in 1988 would still be compensation rather than capital gain, because the option analysis would keep the amount of compensation open until the time Clifford and Altman paid their debts.

Though the regulations' treatment of nonrecourse debt may seem like a loophole, one should be reminded that the normal business corporation behaving in a rational way would not make this sort of loan. The company would seek to link its executives' personal wealth to the company's fortunes. It would make a recourse loan at market interest with all sorts of conditions designed to prevent the executive from walking away. One-hundred-percent financing, as Clifford and Altman enjoyed, is unusual because the normal employer wants the employee to be at some risk of loss.

If the stock purchase was merely a mechanism for the transfer of funds to Clifford and Altman, then step transaction theories apply.

Should the apparent guarantee of a profit on the CCAH shares accelerate Clifford and Altman's receipt of compensation into 1988? The apparent guarantee of a profit to each man does not affect the timing under section 83 because it does not appear to have been a funded and secured promise to pay. Because the stock securing the promise to pay was in the hands of the transferor rather than a trust or escrow, the two men were not in constructive receipt of income unless their ownership of the stock was unfettered, which it seems not to have been.

Another ground on which to argue that there was no transfer is the fact that the parties contemplated that the stock would be resold to the transferor's designee when the notes came due. Under regulation section 1.83-3(a)(3), no transfer may have occurred if the property is transferred under conditions that require its return upon the happening of an event that is certain to occur.

Even if there was a transfer, the CCAH stock may have been restricted property. The CCAH stock held by Clifford and Altman was not transferable without the permission of BCCI. Given the sort of operation that the Fed believes that BCCI was running, it is reasonable to believe that the

transfer restriction was genuine. But was the CCAH stock subject to a substantial risk of forfeiture? A "substantial risk of forfeiture" usually means that rights to the property are conditioned on the performance of substantial services in the future, which is a factual question. Clifford's testimony before the House Banking Committee indicates that the stock deal was in recognition of his past services to BCCI and its affiliates. Yet if Clifford and Altman were required to sell their shares back to BCCI if they decided to bail out, and then was a business purpose for this requirement, then that would constitute a substantial risk of forfeiture under *Robinson v. Commissioner*, 805 F.2d 36 (1st Cir. 1986).

What if BCCI's business purpose for the restrictions attached to the stock was intended to conceal what the Fed asserts are BCCI's violations of U.S. banking laws? Under a broad reading of *St. James University v. U.S.*, 461 U.S. 574 (1983), I might be against public policy to give Clifford and Altman the benefit of deferred taxation under section 83 if the restriction was designed to aid and abet the violation of U.S. banking law.

Similarly, many courts have found public policy limitations on the sort of business expenses, such as bribes and kickbacks, that can be deducted. A least the IRS could argue that fostering a violation of the banking laws, if a violation could be proven was not a business purpose that would uphold the restrictions. If the stock was not restricted property when Clifford and Altman bought it in 1988, then they would have compensation for the difference between the purchase price and its fair-market value in 1988, and capital gain on the difference between the 1988 fair-market value and the selling price in 1988.

Whether section 7872 should apply to the compensation-related loans to impute a higher interest rate depends on the relationship between LIBOR and the applicable federal rate (roughly the Treasury bill rate in this instance) at the time. Interest on Clifford and Altman's 18-month loans was calculated annually. LIBOR was about 6.2 percent in July 1988. The annual short-term applicable federal rate in July 1988, applicable to loans with terms shorter than three years, was 7.23 percent. The difference between the applicable federal rate and LIBOR should be imputed to the parties under section 7872, with the result that Clifford and Altman would have a larger interest deduction.

Step Transaction

If the stock purchase was merely a mechanism for the transfer of funds to Clifford and Altman then step transaction theories rather than section 83 apply. The Fed's concern that the transaction may not have been real is substantiated by a bizarre worksheet concerning Clifford's deal that was released by the House Banking Committee

The worksheet shows a "total amount payable" to Clifford of some \$21 million, which was to be used by him to repay two BCCI loans of some \$14 million and to pay capital gains taxes of about \$3 million.

The worksheet contemplated that Clifford would have about \$3.7 million when the dust cleared. It further indicated that the number of CCAH shares to be sold by Clifford was the number necessary to cover the \$21 million transfer at the agreed price of \$6,800 per share plus several sums that look like commissions to the bank and the buyer of these shares.

There is no reasonable compensation issue here. In hindsight, \$10 million looks like a great bargain.

If the BCCI loans to Clifford and Altman to purchase the CCAH stock were a sham, then the two lawyers would presumably not have a basis offset to the nearly \$33 million of gross proceeds they received on their asserted sale. Nor would they be able to deduct interest and commissions related to the asserted purchase. However, the transactions must be considered as one to show that the arrangement was a sham, so that only the net amount each man received in 1988 would be taxable to him. Clifford could argue that, even if the loan and stock purchase were not real, he is taxable only on the roughly \$7 million net proceeds from the integrated transactions and not on the temporary receipt of \$21 million. The character of this income would be compensation, given the surrounding circumstances.

There is no reasonable compensation issue here. Given that Clifford and Altman's real job seems to have been to keep the Fed off BCCI's scent—rather than to actually run First American Bank—compensation of roughly \$1 million per year for the period of their relationship is a reasonable price for their services. In hindsight, \$10 million looks like a great bargain.

Another compensation question is raised by Lynda Carter's Jaguar, a gift from BCCI. If BCCI gave her title to the car, the value of the car would be taxable compensation to her and her husband under *Duberstein v. Commissioner*, 363 U.S. 278 (1960). The tax rules regarding cars are so lenient, however—more of the great American hidden subsidy for driving—that if BCCI merely gave her the use of the car and retained title for itself, she and her husband would have no reportable income. a

—Lee A. Sheppard



TAX NOTES, October 7, 1991

The House Bank: A Question of Interest

Adopting the suffix applied to all Washington scandals, the revelation of the check-cashing abuses of members of the House of Representatives has been dubbed "Housegate" on the editorial pages of *The New York Times* and "Rubergate" on the front page of *The Washington Times*. Average citizens are outraged at the latest example of government officials getting sleazy privileges for which they are not eligible.

The sleaze is that House members have been caught writing bad checks on their own private bank that are floated until the member can redeem them. In its latest audit of this private bank, the General Accounting Office reported that members had cashed 8,331 checks over a one-year period—checks that were returned because of insufficient funds. The issue has a tax implication: Do the interest-free loans extended to the sleaze-writers constitute unreported income?

The bank in question actually is a private operation within the House Office of the Sergeant at Arms, subject only to House regulations. Its chief function is to cash checks and maintain noninterest-bearing accounts for the convenience of members. Congressional staff and reporters also may write checks on their own bank accounts for cash. Funds used to cash checks at the bank are provided by deposits made by the account holders.

Do the interest-free loans extended to the sleaze-writers constitute unreported income?

The GAO's September report, which covered July 1989 through June 1990, was not its first on the matter. It had identified the problem in a February 7, 1990 report and had recommended procedures to help Sergeant-at-Arms Jack Russ tighten the operation. Though the procedures were supposedly implemented in December 1989, the GAO said the bank was being run just as sloppily.

In the second half of 1989, 4,006 House bank checks were returned because of insufficient funds. In the next six months, after the procedures had been implemented, 4,325 were returned. "Just considering checks written for \$1,000 or more, we found that 134 account holders cashed 581 checks that were returned," the GAO said. The one-grand-plus checks were floated an average of a week before the account holder redeemed them, and "a few" were held up to four weeks.

House Speaker Thomas S. Foley, D-Wash., is getting roasted for refusing to reveal the names of the transgressors. Some members have admitted to various media that they were guilty of writing

Senator BROWN. And the last. I do not know if we reached an appropriate point with regard to the White House staff, a statement put out by the White House in that regard. I thought it made sense to include it in the record as well.

Senator KERRY. Without objection, so ordered.

Senator BROWN. Thank you, Mr. Chairman.

[The information referred to follows:]

THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release

October 24, 1991

Governor Sununu has never discussed BCCI or Sheikh Adham Kamal with Ed Rogers. Governor Sununu has no role in monitoring the BCCI investigation in any way.

The Chief of Staff's office and the Counsel's Office confirm that there is no formal or informal group in the White House involved in, or monitoring, the BCCI investigation. The BCCI investigation is being conducted by the Justice Department. The White House has not, in any manner, attempted to influence the Department of Justice's conduct of this investigation.

#

October 23, 1991

MUELLER

RSM:

As Assistant Attorney General in charge of the Criminal Division, I have had responsibility for overseeing and coordinating the various investigations into BCCI.

At no time has anyone at the White House sought in any way to influence these ongoing investigations. Moreover, to my knowledge Governor Sununu has had no communication with anyone at the Justice Department concerning these investigations.

BARR

JFB:

The notion that anyone at the White House has attempted to influence the BCCI investigations is utter nonsense.



Department of Justice

FOR IMMEDIATE RELEASE
WEDNESDAY, OCTOBER 23, 1991
10:00 p.m. EDT

CRJ
202-514-2007
(TDD) 202-514-1686

Statement of Assistant Attorney General in charge of the
Criminal Division, Robert S. Mueller, III:

"As Assistant Attorney General in charge of the Criminal
Division, I have had the responsibility for overseeing and
coordinating the various investigations into BCCI.

At no time has anyone at the White House sought in any way
to influence these ongoing investigations. Moreover, to my
knowledge, Governor Sununu has had no conversation with anyone at
the Justice Department concerning these investigations."

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91-423

FOR IMMEDIATE RELEASE
WEDNESDAY, OCTOBER 23, 1991
10:00 p.m. EDT

AG
202-514-2007
(TDD) 202-514-1888

Statement of Acting Attorney General William P. Barr:

"The notion that anyone at the White House has attempted to
influence the BCCI investigation is utter nonsense."

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91-424

Senator KERRY. Gentlemen, there are, I think, two principal areas that I want to try to make some inquiries about, and then I am going to try to see if we can move on. There are a few sort of loose odds and ends also that I just want to try to touch on in a few places.

Coming back to the question of sort of the nature of the involvement, let me just say that I think Mr. Altman, your statement about the changes that were made at the bank I accept, and I think the committee accept that indeed those were made.

The concern the committee had was that that happened in the wake of the 1988 drug money laundering indictment, when chills and alarm bells went off at BCCI, and what witnesses have told us—and the reason I ask this is not some sort of grand conspiracy theory that we are conjuring up. I assure you we are trying to separate what is grand and outrageous from what is reality.

But a number of witnesses have testified under oath and put evidence before the committee to the effect that what you really had happen was in 1988 with the drug money laundering indictment concerns were expressed in London and elsewhere about the exposure of the bank overall as a consequence, and whether or not that might draw the regulators like moths to the klieg lights—or politicians—and the result was that there was sort of a get-the-act cleaned up, not necessarily in First American, because frankly I do not think First American as a banking entity had those kinds of problems or had a need to get something cleaned up, but that outside of it, and particularly with respect to NBG—National Bank of Georgia and the Gaith Pharaon situation, coupled with his financial problems, which put the bank at exposure, it has been asserted by Mr. Sakhia by Mr. Rahman and others, that it was necessary to dump the bank and protect it.

Now, do you have any comment on that?

Mr. ALTMAN. Senator, I am puzzled. The National Bank of Georgia acquisition was completed in the summer of 1987, and these changes were effected immediately upon acquisition—this management change that I described—and those were effected immediately. BCCI was not indicted until October 1988, 1 year and 3 or 4 months—12, 13, 15 months later—so I do not understand the point. I am confused.

Senator KERRY. Let me come back to that, and I will try and tie it together in the context.

Mr. ALTMAN. OK.

Senator KERRY. The other pieces that have been brought to the committee's attention, again by the witnesses who have testified as well as by the Fed and others who have provided both documentation and information, is the ongoing sort of business relationship as it appeared to some.

For instance, turning your attention to document 13, there is a telex message that shows Mr. Sakhia had arranged for First American New York to get a deposit of \$4,200,000 for 6 months at slightly below market rates. That was sent to you, Mr. Altman, in Washington.

Then the next document shows in paragraph 2 of the enumerated paragraphs, all business passed on by BCCI to First American Bank, New York may please be reported to Mr. Afridi. So you have

had a sort of joint management relationship which people have alluded to.

Then the next document—this was the coordinating committee to which you referred that you had not heard of. There are other documents, and again, I am not going to go through each and every one of them here, because I do not think the moment or time provides for it, but there was this ongoing, very integrated exchange of deposits, of business, if you will, and Mr. Sakhia told the committee that from their point of view they did not mind taking a loss, or they did not mind putting the business there, because to them it was viewed as their business. They were going to get it through the relationship of First American to BCCI. Now, that is what they say. I think you have heard that testimony.

Mr. ALTMAN. I have heard part of Mr. Sakhia's testimony, and the committee can accept it for whatever weight you wish to give it. I have stated earlier, I take the strongest exception to many of the statements Mr. Sakhia has made, not just the one Mr. Clifford has identified, although I think that is indicative of the testimony.

Senator KERRY. Could I ask you, Mr. Altman, as an attorney as well as a participant in this, what motive you would attribute to Mr. Sakhia with respect to his testimony? Is there something that you have thought of? Is there a sense you have of what is happening here?

Mr. ALTMAN. There is, Senator. I am not sure that this is what you want me to go into in public session, but if you do I can.

Senator KERRY. I am looking at Mr. Bennett, who feels that it would be more advisable not to at this point.

Mr. BENNETT. Senator, yes. I think in fairness to you, the committee, Senator, there are certain matters that are under seal in Federal court, and as much as I would like Mr. Altman to answer, I do not think it would be appropriate for him, nor would it be in the interest of the committee.

Mr. ALTMAN. There are some other matters that are privileged that—and I want to be careful about making commentary which is not perhaps a commentary that should be offered in public, but there is certain information that we can provide the committee, I think, that might be illuminating.

Senator KERRY. May I ask you at this point in time, then, at least in open session, were you ever contacted, either of you, by members of the intelligence community of the U.S. Government?

Mr. CLIFFORD. I have not.

Mr. ALTMAN. Nor have I.

Senator KERRY. Do you know whether or not Mr. Abedi was?

Mr. CLIFFORD. I do not know.

Mr. ALTMAN. Nor I, sir.

Mr. CLIFFORD. I did not hear him say that he had been.

Senator KERRY. And was there any time in the course of any discussions with you when he alleged in any way that he was concerned about the CIA or about being on the watch list or any such matter?

Mr. CLIFFORD. Never in my presence.

Mr. ALTMAN. Never in mine.

Senator KERRY. And you never heard from any of the personnel within the BCCI community anything to that effect?

Mr. CLIFFORD. I did not.

Mr. ALTMAN. The first I heard about it was some reference Mr. Sakhia made in his testimony, to the best of my recollection.

Senator KERRY. Do you at this point have any knowledge with respect to the \$10 million Adnan Khashoggi note through BCCI?

Mr. ALTMAN. I do not know anything about it.

Mr. CLIFFORD. I do not. I never heard of it.

Senator KERRY. Was First American in any way used as a depository of intelligence community accounts?

Mr. ALTMAN. Senator, I don't have the specifics about it, but I do have an understanding that the CIA has maintained accounts at First American.

Senator KERRY. But you have no knowledge of any of the reasons therefore or the specific efforts that those accounts might have been part of or anything?

Mr. ALTMAN. No, I do not.

Senator KERRY. None whatsoever.

With respect to another area of inquiry with respect to BCCI, did you ever become aware in your dealings with National Bank of Georgia or with Mr. Gaith Pharaon of any involvement that he might have had or that the bank had with Centrust in Florida? Did you ever learn of that?

Mr. ALTMAN. I heard that, to the best of my recollection, after he sold the National Bank of Georgia he bought a large stake in Centrust. I think he was the largest individual shareholder. I think that is what I was told.

Senator KERRY. Do you know when that would have been?

Mr. ALTMAN. Our transaction was completed in 1987, so probably around that time period. But I wasn't involved in it. It is just something I had heard.

Senator KERRY. So you have no first-hand knowledge as to any BCCI involvement specifically with Centrust?

Mr. ALTMAN. That is a different question.

There is an investigation that was commenced, if I recall, it was with reference to a debenture or some issue that Centrust got out that either BCCI or Dr. Pharaon or both of them participated in, a \$25 million debenture. There is some allegation about that. I do not know the specifics of it, but I'm aware of it.

Senator KERRY. But it is only through the investigation that you have learned anything about it?

Mr. ALTMAN. Oh, yeah. I didn't know about it before all this arose. I wasn't involved in that. No, sir.

Senator KERRY. I just wanted to find out whether you were or not.

Let me come back now again to this question of who knew what. And I think it is very helpful to us as we have been proceeding to get a sense of where you stand with respect to what you understood was happening at the time and what others might have understood. Because some of the evidence that we have is obviously suggestive of something else. And one needs to know what it means.

I turn your attention, again, going back to this question of the mutuality of relationship, to document No. 14. Document No. 14 is a minute, minutes of the president, president Abedi's meeting with the Far East region senior executives in Hong Kong in April

1987.121What he says there, this is a sort of transcript of his comments or excerpt of them. And he says, for me this is the event in importance only to one event that happened in September 1972 when this bank came into being. If I were to be honest with you, I think it is not second to that, but it's just as important to that. This bank—referring to BCCI—has become a significant banking institution in the committee of banks internationally.

You are now—speaking to all the assembled personnel there—you are now with the First American group of banks, at the moment over \$27 billion in assets. And we will be \$30 billion by the end of this year.

We are now being recognized in the brotherhood of international banks as an important factor to the banking system of the world.

At this meeting was Mr. Tariq Jamil from National Bank of Georgia or formerly therefrom, and other members of the BCCI/First American community.

Were you there, either of you, at that? Is this a document you have ever seen?

Mr. ALTMAN. To the best of my recollection, the first time we saw this was last night.

Senator KERRY. When we provided it to you?

Mr. ALTMAN. When you provided it to us.

Senator KERRY. Does it indicate to you, as it seems to to us, that Mr. Abedi is certainly not keeping a secret of the fact that he thinks he owns First American, that it is part of the family? And would you agree at least with that as his assertion?

Mr. CLIFFORD. I would have to add that I do not understand, Senator, when he says that, "You are now with the First American group of banks, at the moment over \$27 billion in assets." That is not us. I don't know what he means.

Senator KERRY. You had how much in assets? \$11 billion?

Mr. CLIFFORD. The highest we ever got was \$11.5 billion.

Senator KERRY. He is adding in all the 69 branches of BCCI. What he is saying is that the BCCI family, including First American, now represents \$30 billion worth of banking power.

Mr. CLIFFORD. Well, that doesn't add up either because by 1987 I would say that the assets of BCCI must have been \$20 billion.

Senator KERRY. Was that according to Price Waterhouse? [Laughter.]

We will figure that one out. I suspect it was a fluctuating total asset base. But who knows?

So at any rate, this is a mystery. Is that correct?

Mr. CLIFFORD. It's a mystery to me.

Mr. ALTMAN. It is to me. Obviously, we had some shareholders in common, but I can't explain this language.

Senator KERRY. Does it not strike you as extraordinary that in 1987 so publicly they are marketing? I mean, surely you would understand why Mr. Sakhia would come here and say it was no secret we owned First American. I mean, this seems to give some credibility to the notion that he had a reason to believe he thought that they owned it.

Mr. CLIFFORD. Senator, it was a secret to the Bank of England. And it was a secret to Price Waterhouse. It was a secret to us. It was a secret to the Fed. So there were a great many people—

Senator KERRY. Actually, Mr. Secretary, and I do not want to—I am not here to just contradict you, but it was not a secret to the CIA in 1982 because they moved a memo through the agencies of Government saying First American, BCCI has bought banks in the United States. Did you read that memo?

Mr. CLIFFORD. We would give a great deal if only we could have been told about that memorandum in 1982.

Senator KERRY. I am sure you would. I have no question about it.

Let me move on to the next document, if I can, Mr. Altman, it is No. 15. This was a deposition taken with respect to the Virginia Bankshares case in 1988. And in it you were asked on page 17 of the memo, it is the second page of the 3-page memo, you were asked about your communication with the investors of CCAH. And you were asked, is there any particular investor with whom you communicate on a regular basis as opposed to other investors. You said no.

Do you communicate with all of them with equal frequency? You said no. Is there an investor with whom you communicate with greater frequency than others? You said no, there's no particular pattern to it. Sometimes some of the investors call me or at times I will contact one of them. At times I will contact all of them. Do you recall that testimony?

Mr. ALTMAN. I don't recall specifically this testimony. But I accept what the transcript says.

Senator KERRY. The reason I ask you that is because one of the questions raised in the House and one of the questions raised publicly is how often these investors appeared and really were dealt with and so forth.

And if you turn to the next document, which is a First American Bankshares document, No. 16, a letter to Mr. Fulaj. It is a notice from Secretary Clifford to the shareholders about an important meeting, excuse me, about a meeting to discuss important developments at First American Bankshares. And the meeting was to be held in London on October 23, 1990.

The question I ask is, turning to the next document, No. 17, you invited in your letter each shareholder to designate a representative to attend on their behalf if they could not attend. A representative did attend representing the government of Abu Dhabi, Sheikh, then Sultan, Al Nahyan Zaied.

And his report to Shaikh Zaied said as follows:

The meeting was attended by Mr. Clark Clifford and Robert Altman from First American. The shareholders or their representatives present were H.E. Kamal Adham, Mr. Gauhari, Mr. Fulaj, and myself. The meeting was opened by Mr. Clifford who gave a background of First American and its progress to date.

It was pointed out by Mr. Clifford that the contact maintained by First American and its shareholders were through Mr. Aga Hassan Abedi, who acted as a liaison between both parties. And this was the first time that an attempt was made to contact the shareholders directly.

Now that seems to contradict the notion that you had been in touch with them previously. It seems to contradict the notion that the shareholders knew that Mr. Abedi was the contact because you were informing him of that fact at that time. And I am just, again, just left with sort of why, why does this appear this way that there is a first meeting, for the first time there is a contact in 1990 when

nevertheless these people were supposedly participants on a regular basis.

Mr. CLIFFORD. Let me take a cut at it.

Mr. ALTMAN. Fine.

Mr. CLIFFORD. I think the wording that Mr. Azad has used is incorrect. When he says, this was the first time that attempt was made to contact the shareholders directly. I think what he means to say is this is the first time attempt was made to contact the shareholders in person, which is very different.

We had contacts with the investors starting in 1982. But this is the first time——

Senator KERRY. So I take it there had been no meetings of the shareholders in person previously.

Mr. CLIFFORD. We had meetings with some of them in person. But I do not recall our ever having a call for all the shareholders to come or their representatives. Do you?

Mr. ALTMAN. I think a couple of comments, Mr. Chairman.

First, with reference to the memorandum, which again I saw for the first time last night, I agree with Mr. Clifford's interpretation. Although obviously we didn't write that.

Incidentally, I think it is addressed to the chairman of a private department and not to Shaikh Zayed himself.

But in this case——

Senator KERRY. I stand corrected. You are absolutely correct.

Mr. ALTMAN. Mr. Azad who worked for that private department was new to the matter. He didn't have a lot of the background that others had because this was really the first time he had become involved with the First American investment.

Going back to my testimony that you made reference to, I say I don't know the number of times I've talked to any particular investor. I believe over the years I would have talked to Shaikh Kamal Adham more frequently than any other investor. But it is just a guess.

And what happened that gave rise to this meeting and the report on this meeting that you are reviewing in the document, is that BCCI had served as the communications link. It is interesting that we did not have direct contact with Shaikh Zaided through the years. We had our contact through Mr. Abedi. And Shaikh Zaided is considered, to our understanding by the Federal Reserve, as a legitimate shareholder. So this concept of communications link and investment advisor worked in his case.

Senator KERRY. Let me say for the record that at least this Senator is convinced. I am not sure of the rest of the committee, but I think it is clear that Shaikh Zaided was, indeed, a legitimate investor.

Mr. CLIFFORD. And very likely the two other Abu Dhabi parties, one of them Prince Khalifa and the Abu Dhabi Investment Co.

Senator KERRY. And I think there is no question that they had significant sums at stake. And that is evidenced in a number of different ways here.

Mr. CLIFFORD. Right.

Mr. ALTMAN. In that regard, I would just say so that the point is clear on the record, from our standpoint, that is, I think, speaking for the management of First American, we had no way to distin-

guish between shareholders. We did not know that there were two groups of shareholders, some nominees, some legitimate. And the use of Mr. Abedi as a communications link and as an investment advisor was an appropriate use and one that worked in the case of these shareholders who are believed by the Federal Reserve to be legitimate shareholders.

What happened, however, was that in 1990, in the spring, BCCI was acquired by the Abu Dhabi interest. And the management group that had been in London moved to the Middle East. It left London and moved to Abu Dhabi. And in the summer of 1990 I had a meeting with Kamal Adham in London and I said that we had been using Mr. Abedi as our communications link, but Mr. Abedi, of course, is because of health no longer involved. And Mr. Naqvi who we were using on a limited basis thereafter is not going to be around. And BCCI is not going to be a major operation. And we need a new means of communicating with this group.

Kamal Adham suggested, A, that he would as he had been the informal chairman of the group so-called for many years, accept that responsibility. And, further, he thought that we should have meetings at regular intervals. And he suggested that a representative of Shaikh Zaid, given their financial interest in the property, they were the second principal investor, should be invited.

And so an invitation was also extended to a Mr. Mazrui, who was the chairman of this department which managed the ruler's investments.

We decided to have such a meeting. We extended an invitation to all shareholders who wanted to attend. It was going to be, in effect, a new approach to try and create an effective means of communicating with these people since the link that we had utilized for some 8 years was being severed and was no longer effective. Therefore, these letters went out.

This memorandum reflects the fact that Abu Dhabi wished to attend the meeting and they sent Mr. Azad, who as I say had no real background in it at the time, although a knowledgeable individual, sophisticated man, he was sent to the meeting so that he could get the report and take it back to the Abu Dhabi shareholder group.

Senator KERRY. Let me turn to Senator Brown and then I am going to come back and perhaps be able to wrap up my set. Let us see where he goes. Senator Brown?

Senator BROWN. Thank you, Mr. Chairman.

I have just a few brief areas that I wanted to cover. The first dealt with compensation.

In your statements originally you had mentioned that the compensation was very modest, referring, I think, to the compensation from First American where you served as chairman and president, respectively.

Mr. CLIFFORD. That is correct, Senator.

Senator BROWN. I thought it would be helpful for the record to go through and accumulate what we can in terms of compensation. As I understand it, Mr. Secretary, your compensation was limited to \$50,000 a year as chairman.

Mr. CLIFFORD. Yes, and remained that way all through the 9 years.

Senator BROWN. And, Mr. Altman, as I recall the testimony, you did not take a salary for acting as president?

Mr. ALTMAN. Mr. Clifford, as chairman, received a retainer. I received no salary and no retainer. I did receive director's fees for serving on the boards.

Senator BROWN. Can you give us an idea of what those would have amounted to over that period?

Mr. ALTMAN. I would think that—they would be the fees that were paid to all directors of the company except for inside directors.

Senator BROWN. I do not mean to put you on the spot. If that is something you want to supply later.

Mr. CLIFFORD. I have a recollection that the directors were paid \$12,000 a year basis. And then they received a fee for attending meetings, which may have been \$500 or so. So it was in the area of \$12,000 to \$14,000 a year that was paid to the directors.

Senator BROWN. Which is a standard arrangement for boards of directors.

Mr. ALTMAN. Yes, sir.

Senator BROWN. In addition, we have already talked about the stock transaction. And as I review the records, the combined before-tax gain of both of you is \$9.85 million.

Mr. CLIFFORD. That's correct.

Senator BROWN. And after tax, that was reduced to somewhere near \$4 million.

Mr. CLIFFORD. Yes, I think mine was \$2.7 million and Mr. Altman's was \$1.3 million. So the total was \$4 million after taxes.

Senator BROWN. And in addition, both of you would still have stock ownership of the, was it roughly 40 percent that you retained?

Mr. CLIFFORD. Yes, and that was paid up in the transaction that took place there, the stock that we had remaining was paid up.

Mr. ALTMAN. In that regard, Senator, in 1989 there was another rights offering and Mr. Clifford and I each subscribed for some more stock. This was after we had held the balance from selling the first block that we had purchased.

We bought some more stock in 1989. And incidentally, that stock was not financed by BCCI. There were no loans, in fact, from a bank. And then in 1990 there were convertible debentures that were issued by the company in an effort to raise capital and Mr. Clifford and I each purchased our pro rata portion of those convertible debentures.

Senator BROWN. Of the stock that you had purchased originally, which appears to me to be 2,200 shares for Secretary Clifford and 1,100 shares for Mr. Altman, do we have a way of coming to a figure as to what that would amount to? It looks to me if you value that at \$6,800, which was the figure we used earlier, that that comes close to \$22.9 million.

I guess the question is—

Mr. ALTMAN. We would be glad to sell them at that price.

Senator BROWN. Yes. What is an appropriate price at this point, do you have a feel for that?

Mr. CLIFFORD. I wish to make two points.

One, the fact that we had one transaction at the \$6,800 figure did not set a price at that time. In very narrowly restricted sellings of unlisted stock, one sale does not set a price. We mentioned that earlier. Different prices are agreed at depending on how much the buyer wishes to pay for the stock.

So that one transaction came and went.

Now with the stock that we own today, unfortunately, there is no way to value it. For the conditions that exist today result in that. The stock is widely distributed, but we don't know where it is. Some of it may be held by the liquidators. Some of it may be held by Abu Dhabi. We do not know. I don't believe anybody knows where the stock is distributed today.

Also, the value of the stock, obviously, is much lower because of what has happened to economic conditions in this country. Just as illustration I was checking some figures in this relationship. Riggs in 1988, that's the year when we made our sale, Riggs stock was selling then at 48, excuse me, was selling then at 26 and as of now, August 1, it was selling for 8, so there's been that amount of decline.

The other one that I noted, which is one of our main competitors, that's the Maryland National Bank, that stock was selling for 48 in 1988 and on August 1 of this year it was selling for 4½. That's the precipitous decline that has taken place in bank stocks in this area because, mainly, of the collapse in real estate values.

Senator BROWN. Do you have a feel for what book value would be?

Mr. CLIFFORD. Today? It's come down.

When we first bought our stock it was \$2,200 and in the next 4 or 5 years it worked up very close to \$3,000. Then came the precipitous decline in bank stocks and the loss in real estate values, which caused us to take our first loss in our 9 years in 1990. All the banks then suffered substantial declines in book value.

I don't know even now if it would be \$2,000. It probably is less.

Mr. ALTMAN. It's approximately \$2,000 a share, although, Senator, you would understand that most bank stock today, unlike the case in 1988, sells at a substantial discount from book value. That is, Mr. Clifford indicated by the numbers, say, from Maryland National, one of the biggest banks in the area, selling at \$4 a share, or Riggs at 8, something like that.

Senator BROWN. Well, as I went through this, if I have read the record correctly—and I guess I presented it so that you, perhaps, will straighten it out in this process. The law firm—your law firm provided legal services and received fees, presumably, from a number of parties in this area. BCCI, Bert Lance, CCAH, CCAI, FAC, FAB, the parties you represented in the original takeover of the FGB, and there is some indication in the record that you may want to comment on that you had the ability, at least, to designate other law firms to handle BCCI business. I do not know if that resulted in referral fees or not. Would all of those be correct? Were those fees at the law firm received of all of those entities?

Mr. CLIFFORD. Let me give the part of it that I know about.

Senator BROWN. I've given you a long list.

Mr. CLIFFORD. I think I can get to it quickly. The representation started at the time the litigation began. That would be back in

1977, so that the relationship with the investors began then. The litigation lasted maybe 3½ years.

When the litigation was over, the investors indicated that they wished our law firm to continue to represent the properties which the investors now owned. As you are already familiar, there were three Shell companies at the time for tax purposes, CCAH, CCAI, and First American Corp. Then comes First American Bankshares and the investors ask that we represent all of those whenever they needed counsel.

Most of our services were rendered to the operating holding company, First American Bankshares, and that stated out at a lower figure when the bank was not so large, and as the bank expanded, then the cost of legal services expanded. The fact is our law firm served as the legal division of First American Bankshares. They didn't have to go out and hire lawyers. We supplied them with the lawyers.

I would give you a little idea of the overall picture. I would say that through the 9 years, if I tried to average it, I would say that about each year the total cost of lawyers to First American Bank Group ran between \$10 and \$12 million a year, and of that figure the amount received by our firm would average about one-tenth of that, or maybe \$1 million a year.

Senator BROWN. That would include the First American Bank Group. Would it also include the fees from BCCI?

Mr. CLIFFORD. No. That would be a separate matter, and those fees were nothing like the fees that we charged First American Bank, because there wasn't nearly that much work to do. We had no regular work for BCCI.

At the end of the year, we would look back over it and figure the items on which they would call us. They were not very many. It would just be an occasional matter that came up that they would call on us, because they used White & Case, sometimes Sullivan & Cromwell in New York, Morrison & Foerster in San Francisco, Holland & Knight in Florida.

I think, as a matter of fact, they used them a good deal more than they used us, and also if I might just insert a parenthetical comment, oftentimes we have been approached with the thought, well, you must have known what BCCI was doing, because you represented them. That does not follow. They used us only on selected matters. We were not their general counsel, and just to put it succinctly, they told us only what they chose to tell us. That is the situation.

Senator BROWN. I appreciate, in looking at these figures, that the amount of billing is obviously different from what the take-home pay might be from these kind of services. I thought it was important to get a feel for the volume that was involved.

Mr. CLIFFORD. That is correct, sir.

Senator BROWN. I had a question about referral fees. Did the firm also receive compensation for referral to other law firms?

Mr. CLIFFORD. I know of no such situation. I do not know of any case, in all the years we have had our firm—41 years—that we have ever charged a referral fee for a matter which we have referred to another firm.

Mr. ALTMAN. And incidentally, so that the record is clear, Senator, we did not have the authority to designate a law firm for BCCI, but we would recommend law firms to BCCI. They had to make the decision to accept it, which they would do in cases where we were called upon, but it was not our authority to pick their law firms.

Senator BROWN. You had also mentioned in your testimony that there were no financial improprieties in the way First American was managed under your leadership. We had testimony earlier that one of the traits or characteristics of BCCI was to seek to gain favor or a working relationship with political leaders, and in that regard they made donations to charities, they made payments to the individuals involved, and a variety of other things. I thought that was an area that would be helpful to try and put on the record.

First of all, let me ask, was it First American's practice to loan money to political campaigns?

Mr. CLIFFORD. No, it was not.

Mr. ALTMAN. As a matter of fact, Senator, my recollection is that at our request they adopted an express prohibition in the lending policies from doing that. We did not think that was a business that First American should be in.

Senator BROWN. Senator Kerry and I both appreciate why that might be considered a somewhat risky business.

Senator KERRY. Speak for yourself.

Senator BROWN. I will speak for myself. [Laughter.]

Did First American loan money to political campaigns?

Mr. CLIFFORD. No; not to a campaign that I've ever been conscious of.

Mr. ALTMAN. The only instance that I'm aware of, we at one time became aware that there was a loan which we had no prior knowledge of that had been made to, I think it was then Senator Hart, Gary Hart. That was one instance that we had adopted a policy, and I'm not clear about that loan. I think that loan was paid off. We had adopted a policy that we did not want to be in the business of making loans to finance campaigns.

Senator BROWN. Was that after the Hart loan, or do you recall?

Mr. ALTMAN. I don't recall, but I know it was something that was a holding company directive. We did not believe it was an appropriate business for First American. Even though we were not sitting on loan committees, we asked that our banks not be involved in that kind of lending, and I think that's reflected in the loan policies, although I don't have them.

Senator BROWN. So as far as you know, that was the only one that you recall?

Mr. CLIFFORD. It's the only one that I ever heard of, and I think we inherited that.

Senator BROWN. What about to political leaders themselves? Can you give us an idea if that was a practice of the bank?

Mr. ALTMAN. First American was one of the dominant banks in Washington, DC. There are really three major banking institutions in this market-by-market share—First American, Sovran, and Maryland National—and I am confident that all three banks, as well as others, such as Riggs, have loans to people who are involved in Government and politics, but those are not political loans. If

someone needs a car loan, or someone needs a mortgage loan, they certainly aren't disqualified because they're in political or governmental, service, so I'm sure we do.

Senator BROWN. To your knowledge, were any of the loans to political leaders granted at or granted involving special treatment? That is, lower interest rate than normal, less security?

Mr. CLIFFORD. I have never heard of such a case.

Senator BROWN. I know the House bank used to assist Members in finding loans to finance. I hadn't realized that the service wasn't needed at the time. Was First American a referral bank for the House—the House Sergeant at Arms Office? Are you aware of that?

Mr. ALTMAN. I am not aware. I was unaware of the House bank until the recent publicity, and I'm unaware of whether they ever referred any customers to First American.

Senator BROWN. Did the bank ever engage—make political donations with the bank's money?

Mr. CLIFFORD. Not that I ever heard.

Mr. ALTMAN. No, sir, not to my knowledge. Individual offices can do as they will, but not as a corporate matter.

Senator KERRY. Thank you, Senator Brown.

Senator BROWN. Thank you.

Senator KERRY. I just want to come back to one thing you said, Mr. Altman. You mentioned that you did loan—that the First American had an account for the CIA, or accounts therefor. How did you learn that?

Mr. ALTMAN. It came up in a conversation I had with the chief financial officer, where he indicated to me there are certain authorities that are granted to banks that have those kinds of accounts, and I became aware that we had some of those accounts at First American. I don't know.

Senator KERRY. Do you remember when it was, approximately?

Mr. ALTMAN. It was this year.

Senator KERRY. This year. And what kind of authorities was he referring to?

Mr. ALTMAN. It was who is entitled to handle those accounts. There are certain requirements that the banks have to follow for special accounts, but I didn't get into the specifics. It's only when you ask the question I am aware that there were certain relationships.

Senator KERRY. Now let me ask you something that's been a puzzle to a lot of us, as exprivate sector attorneys and now as public officials—the \$45 million cost of litigation on the money laundering. Your firm acted as the paymaster, in a sense, for that, and I believe one or both of you was sort of the head of the team, and you had Mr. Banoun and Mr. Wechsler and others below you and then a tier of lawyers in Florida.

But when one looks at the payout on that, starting in 1988, November 30, 1988, with \$1 million paid out, November 30, 1988, a separate payout of \$650,910, 1 month later another \$1 million paid out, the same day another \$1,032,000, so in the first 1½ months you have got close to \$4 million out.

Then you've got a series over 1989 of payments of \$900,000, \$595,000, \$1 million, \$1.1 million, \$1,843,000, \$1.1 million, \$750,

\$583, \$1.35 million, \$500, \$334, \$1,338,000, \$1,250,000—this is all 1989, and it still goes on: \$1 million, \$1.2 million, \$2.1 million, \$2.3 million—that's 1989.

Then you go into 1990, and you have got \$335, \$643, \$250, \$693, \$1 million, \$1 million, \$909, \$1.3 million, \$1 million—and so it goes, through 1990. Those are mind-boggling payouts, I think, to anybody just sort of sitting here. Can you shed some light on what happened in the course of this litigation that was so expensive and what people did and who received this money?

Mr. ALTMAN. Let me try. First, Senator, you have used a figure that we heard also before House Banking, and that is \$45 million. I'm not sure where that number comes from.

Senator KERRY. Well, it's the total of all the numbers I just read out to you. BCCI payments from Legal Defense Fund, managed by Clifford & Warnke, statement dates, and there are a series of statements with specific amounts. BCCI's board of directors authorized payments for the legal fund to be handled by First American.

Mr. ALTMAN. I don't have a copy of that document.

Senator KERRY. This is a document from the House Banking Committee. Have you not seen that?

Mr. ALTMAN. No, sir, I have not.

Senator KERRY. This was the House. I think this came up in the House, which is why—

Mr. ALTMAN. Well, they used the figure in the House, and we didn't know how it was computed.

Senator KERRY. Well, they've got the payouts here.

Mr. BENNETT. We never got a copy of that, Senator.

Senator KERRY. Well, I'll get a copy to you right away. It may be inaccurate. This is what I'm trying to find out.

Mr. ALTMAN. Let me give you a couple of observations, if I might. The amount of money that I'm aware of—now, I haven't studied these figures, but the amount of money that I understood was paid in connection with this general effort was half that—approximately \$20 million.

That money was not expended simply on the defense of the Tampa proceedings. The money went to law firms. The money—a substantial portion of the money went to Price Waterhouse, and the money went to various other kinds of costs, and let me give you a feel for why.

After the Tampa case was announced, BCCI then had substantial legal problems in a number of parts of the world. There were investigations that were commenced in London, there were investigations that were commenced in Luxembourg, investigations in France.

In addition, there was a general belief, as the evaluation was made of BCCI and people started taking a hard look at BCCI, which we had the opportunity to do for the first time, it was clear that BCCI's operating controls and procedures were seriously deficient, and a substantial amount of time and money was spent analyzing their controls and writing new kinds of controls, controls that would prevent money laundering abuses in the future, Bank Secrecy Act violations in the future, a large number of controls that one would have thought that a bank—these were then agen-

cies, but agencies that had been operating for this period of time would have had in place.

Senator KERRY. You know what I think we can do to try to save some time here, excepting that, what would be helpful to the committee is if you could provide us with some sort of a correlation of these payouts to entities, and I think that would resolve—I don't think we need to spend a lot of time on it.

Mr. BENNETT. We're pleased to do it, Senator. I think there may be a confusion of accounts, but I'm not sure of that.

Senator KERRY. There may well be. I want to make it clear, I don't know with specificity what this is. This is a document that came from the House. It has the statement dates. I can't even tell you with a certainty that each and every one of those figures belongs in the legal fund, but this is based on testimony, may I say, of a number of the bank personnel who have said that was the amount that they paid, and it cost them, and there is some information from the bank itself that has argued this amount of money.

Mr. CLIFFORD. There's another factor involved. When the indictment came down, that was in the fall of 1988. It not only indicted BCCI, but they indicted nine employees of BCCI, and BCCI made the decision, which corporations sometimes do, to also extend and pay for lawyers for each of the employees.

So it isn't just bills to BCCI.

Senator KERRY. No, I understand that.

Mr. CLIFFORD. Every one of those individuals had to have a different law firm, and every one of those lawyers felt it was very important that he give a lot of time, and I'm sure there was a lot of duplication, but there was more than one.

Senator KERRY. If I had a bank paying the bills, I'd give it a lot of time, too. I'm just saying, \$1 million per defendant in a case like that, assuming—I mean, that only gets you halfway to the 21 on the individual defendants, and it's an extraordinary sum of money per defendant.

Mr. CLIFFORD. It's also been suggested that, in occasional pieces that we profited greatly from this matter. The fact is, not one penny of that fund came to us.

Senator KERRY. I appreciate that comment. The committee didn't ask that question, and we haven't alleged that.

Mr. ALTMAN. I would just note for the record, Senator, that trial went on for about 6½ months, and as you know, legal costs are quite high.

Senator KERRY. I understand that. All we are looking for is a breakdown so we can understand that.

Mr. ALTMAN. Right. We'll be glad to.

Senator KERRY. Now, coming back again—and we are going to get through here before too long. This is not a deposition, it's a hearing, and it reminds me why I am glad I'm not doing depositions, I'm doing hearings.

But let me ask you a few other areas of concern that have been written about publicly as well as testified to here. The annual conferences and your participation in them has been an issue of concern which has been expressed on a number of occasions.

People have said well, Mr. Altman was in Vienna at the conference, or Mr. Altman was in London at the conference, and I choose

Vienna particularly because in 1984 Mr. Roy Carlson of the National Bank of Georgia was there, and people were there from the BCC Foundation, from the National Bank of Georgia, from a whole bunch of individual affiliates.

The question is, you've testified earlier that you've sort of had some feelings about the similarities of National Bank of Georgia with BCCI. You saw that it had the same structure, the same logo, the same this and that. Now, we are told by individuals that Mr. Carlson would talk openly at these events about his relationship, the sort of being part of the family, and my question to you is whether or not you ever learned or even had greater suspicions as a consequence of these international conferences that there was some deeper relationship between the National Bank of Georgia and BCCI than met the eye?

Mr. ALTMAN. Senator, the conference to which you make reference is 1984, the Vienna Conference. I'd be glad to explain for the record, if you like, why I attended, but if that is not the focus of your inquiry—

Senator KERRY. That's not the focus. The focus is really whether or not you got a sense in the course of Mr. Carlson's and NBG's link and the nature of its relationship to the BCCI?

Mr. ALTMAN. I don't recall hearing Mr. Carlson speak at any conference. I never spoke at the conference, and in 1984 I was not really aware of the manner in which NBG operated. I became aware of it when we took an interest in acquiring the property, and then we got very deep into the manner in which they operated when all this became quite apparent to us, but back in 1984 I gave them no real attention.

Senator KERRY. In 1986, Mr. Afridi and you and Mr. Elley attended a Luxembourg BCCI Conference.

Mr. ALTMAN. Right.

Senator KERRY. Was that of the same nature? You've testified, I know, previously, and I said I don't want to go back through everything you've already got on record, but was that simply part of the relationship that you testified to earlier in terms of communication, or was there another reason you were there?

Mr. ALTMAN. Well, I was there for a couple of reasons, I suppose. I was invited to attend. BCCI was then a client, of course, and BCCI also had a close relationship with the owners of First American, and as a matter of good relations, both as a client and—they did parenthetically invite lawyers who represented them over the years to attend some of their conferences, so this was not unique to me, but both because they were a client and because they had a relationship with the shareholders, I attended the conference.

I think it's important to note that these were not meetings where BCCI's secret business or strategies, or even much business at all, was discussed. Perhaps you've had testimony as to the nature of the conferences, but they were largely philosophical in nature, if I might call it that.

Mr. Afridi attended the conference. He was working on international for our New York bank. He and Mr. Elley both had contacts with BCCI because they had come from that organization, and when he returned from the conference he wrote a memo to Mr.

Duncan, the CEO, detailing the amount of business that he was able to obtain as a result of going there.

One of the things we constantly tried to do was to compete for BCCI's business, most of which went to Security Pacific and Bank of America and these other banks, and we were very eager to try to handle that business because it was profitable to us.

Senator KERRY. Mr. Secretary.

Mr. CLIFFORD. One year, we sent Robert Stevens, who was president and CEO of First American Bankshares, and he took a box of his cards with him, and it was his job in 2½ days or so to try to find the manager of every one of the 70 banks at BCCI, give him his card, and say, if you ever need a banker in the United States you now know me, and please get in touch with me. He said he gave away every card he had.

Senator KERRY. Did you have this kind of relationship with any other bank in the world?

Mr. ALTMAN. We had a lot of correspondent banking relationships.

Senator KERRY. Did you go to those conferences, and were you in a consecutive way as much a member or a partner—I know you don't want to use those words. As much of a presence?

Mr. ALTMAN. There was no other bank where we attended their conference. This was something unique to the way they operated, where they invited the people in.

Senator KERRY. Why do you think the National Bank of Georgia was there all the time?

Mr. ALTMAN. My understanding was that Dr. Pharaon owned the National Bank of Georgia. He was a major shareholder of BCCI, and he wanted his people exposed to BCCI concepts. That was kind of the rationale that was given.

Senator KERRY. It never struck you that the fact that it was always NBG and First American and BCCI from, what, 1982 to 1989, 7 years, that people weren't gaining something out of that—a sense of affiliation, a sense of unity, the kind that's been described in the terminology put forward?

Mr. ALTMAN. First of all, Senator, one correction, if I might. It was my understanding that the last such conference was held in 1986, 5, nearly 6 years ago. They didn't continue throughout the years.

Senator KERRY. You bought the National Bank of Georgia, correct, in 1986, 1987?

Mr. ALTMAN. We bought National Bank—no, I'm saying that BCCI conferences, where people came and attended, were not—you indicated they went on for 7 years.

Senator KERRY. The relationship. I'm not saying the meetings went on, but the same kind—if it wasn't a specialized conference, it was a specialized referral. If it wasn't a specialized referral, it was—for instance, why did you put a \$75 million certificate of deposit in ICIC?

Mr. ALTMAN. A couple of points. You've raised separate problems.

Senator KERRY. These kinds of things keep cropping up.

Mr. ALTMAN. First, First American and BCCI did have a connection that First American and Citibank did not have, and that is, we

had our shareholders, who also had a substantial financial stake in BCCI, so you have this at the ownership level, this overlap, so there is a relationship there that is different than a relationship that existed with other U.S. institutions. This, parenthetically, was also known to the regulators at the time.

Mr. KERRY. That is an important question. What you are saying to us is that it is your interpretation that the Feds signed off on that. I mean, that is what I am hearing now.

Mr. ALTMAN. It was expressly provided. They asked us and we gave them that information during the regulatory proceedings.

Senator KERRY. I realize that, but taking the Muckenfuss letter, which is the Comptroller of the Currency, went to the Fed. The Fed made its decision and you are really saying that the Fed approved of precisely what followed. Is that correct?

Mr. ALTMAN. No, sir. I wouldn't say it quite that way. I'm not sure, when the acquisition was made, anybody could ever say precisely what's going to happen or even generally what's going to happen with—for the next 10 years, but the Federal Reserve had a specific overriding concern, and I think it's important to get this on the record, because whatever happened at BCCI and whatever happened to the stock of this company—and these are matters that we don't know—but the Federal Reserve had some specific concerns. They want to know who was going to run First American. Is BCCI running it, is this American board running it; and we said, this American board is going to run it. We are making the decisions. We are not controlled by BCCI. And the Federal Reserve has now stated several times recently, after all their audits, that that is true.

Senator KERRY. That is true as to First American in 1990.

Mr. ALTMAN. Well, they came in in 1991.

Senator KERRY. In 1991, but it looked back at the operation which had fundamentally changed in many ways.

Mr. ALTMAN. Well, the other point that I want to make is, you are indicating that BCCI was managing our business or directing business or somehow assisting us and that isn't the way this operation went. Now I don't know what was in BCCI's mind and I can't attest to what some of those people said, or what they may have done unbeknownst to me, but you can talk to every director at First American, you can talk to every CEO at First American, and they will tell you BCCI did not run or control their business.

I heard Mr. Sakhia's testimony, which was one of the few portions of it that I heard—was—and considered with some amusement, when he indicated that BCCI was this very professional, skilled, efficient organization that had to deal with First American, which was kind of a bureaucratic, bumbling organization, the way he described it. I think our record would speak for itself. I don't have to—it's another one of the areas of Mr. Sakhia's testimony that I think the committee could look at more closely.

We ran First American, we made the decisions. We ran it honestly; we didn't need assistance from anyone else. We competed for BCCI's business, most of which went elsewhere despite our competitive efforts, although over time we were able to get it. The amount of business that BCCI may have referred to us, while I haven't analyzed it, I would suggest to you is minimal. They weren't even in

the businesses that we were in. Our primary business was retail banking, it was banking to small businesses, real estate—more real estate than perhaps we wish we had now. BCCI wasn't in this business and they sure didn't know these businesses as well as our professional bankers.

Senator KERRY. With respect to that sort of business relationship, let me just ask a couple of other questions on the acquisition of NBG.

You asked Mr. Scaffone—is that the correct pronunciation, Scaffone?

Mr. ALTMAN. Yes, sir.

Mr. CLIFFORD. Right.

Senator KERRY. Scaffone, to analyze the acquisition or potential acquisition of NBG, and he came back with that fair purchase price of 2.5 book value, which worked out to \$160 million?

Mr. ALTMAN. \$211 million.

Senator KERRY. \$211 million, with cash of \$160 million and \$51 million of CCAH stock. Correct?

Mr. ALTMAN. I'm not sure where you're getting that number. He has—there is a—under tab 20 of my book, Senator, there is Mr. Scaffone's memo, dated May 7—

Senator KERRY. Correct. That is what I am looking at.

Mr. ALTMAN [continuing]. 1986, and he says: It is my opinion that a fair purchase price for NBG would approximate 2.25 times book, this would yield a purchase price of \$211 million.

Senator KERRY. Right. And on the next page he suggests \$160 million in cash, \$51 million through stock.

Mr. ALTMAN. Oh, I see where you are.

Senator KERRY. OK. I am just splitting it up. It is \$211 million. Now, I gather the ultimate sale price was \$250-million something?

Mr. CLIFFORD. No. That's too high.

Mr. ALTMAN. The ultimate sale price was \$227 million, but that is there's a wash item in there. The actual price that was agreed upon was \$210 million. There was a \$10 million debt that owed to Dr. Pharaon, and the sale price was increased and the debt was forgiven, which made an effective sale price of \$210 million, but it was reported as \$220 million.

Senator KERRY. That is why I wanted to ask you that, because in your letter to Mr. Naqvi that you wrote, and that is the next document on May 8, you had suggested to him that you hoped you could negotiate, quote, "your paragraph 7." It is hoped that negotiations would produce a deal for \$160 million to \$175 million in cash with no stock. Mr. Scaffone provides information concerning various other bank sales, but it is clear we are nearing the point at which this purchase is too expensive. Now, why did that suddenly change? What happened to make it \$220 million, when \$175 million with no stock was deemed to be too expensive by you?

And, you see, the reason this sort of gets flagged again is that people keep getting out of these transactions with their full obligations paid. In other words, Mr. Pharaon needed x amount of dollars to get out of there, to pay his note and to not have any exposure of BCCI in the event that people came after him for his failing businesses. So to get him out and cover it, in fact, on the paperwork, it works out that if he got the \$225 million, BCCI is no longer ex-

posed. So the question is, why did you, if you thought the price was too expensive, let it go up so that he got out free and clear and BCCI is happy, if you are purchasing this bank on your own?

Mr. ALTMAN. Let me state unequivocally, we were purchasing the bank. This was a decision that we made. And let me explain also that I'm unfamiliar with the financial situation of Dr. Pharaon, so I can't comment on whatever lending arrangements he might have had. I had some different understanding at the time about his situation, but that may not be relevant or accurate.

What happened, and it often happens in corporate acquisitions—I think American history is replete with these kinds of transactions—we got into a competitive bidding situation. NCNB, North Carolina National Bank, a very aggressive bank, also had identified—the National Bank of Georgia—they had a strategic concept, as we have subsequently discovered, virtually identical to our own. They thought it made sense for the same reasons we thought it made sense and they started bidding against us. They flew to France—the team of them flew to France. They met with Dr. Pharaon and they upped the bid, and the bids kept going up. They made a bid of \$210 million, roughly. I think it was \$4 million worth of their stock, then trading at 52 and a fraction.

Senator KERRY. This is NCNB?

Mr. ALTMAN. NCNB, so they made a bid of \$208 or \$210 million and if we wanted the bank, we had to match the bid. That's what happened.

Senator KERRY. Now, they——

Mr. ALTMAN. And NCNB would confirm for you that was their bid.

Senator KERRY. Now, just a point of curiosity, I am reading the next sentence here—and we have never seen a written bid from NCNB. Why would you expect to see a written bid from NCNB, if NCNB is competing against you for an independently owned bank and you are writing Mr. Naqvi, the only thing you could expect is that Naqvi was going to let you see their bid so you could know how to counter. Would that happen in a transaction like this?

Mr. ALTMAN. I think the point I was making is, we are hearing that NCNB is getting into this and getting very aggressive, but we're upping our bid and we're talking millions of dollars without having real confirmation that this is what NCNB——

Senator KERRY. Well, how would you get that confirmation? Would you ever see a written bid from NCNB?

Mr. ALTMAN. No. I would not see it. I was just commenting.

Senator KERRY. Well, why did you write that, that you would say we have not seen it, unless you expected Mr. Naqvi to show it to you?

Mr. ALTMAN. I don't know if, in fact, NCNB made a written bid. The point that I was making, I am observing here that we haven't seen anything in writing. All we know is that Dr. Pharaon keeps telling us that the bid is going up, and whether he is telling us that accurately or not, we don't know. We'd like to see some confirmation before we start competing against ourselves.

Mr. CLIFFORD. I might interpose this thought there. We later learned from NCNB that they did make that bid, and I think it

came to \$208 million. But their bid was in stock. Our bid was in cash.

Senator KERRY. I know that NCNB was interested in it, but it is no question about the legitimacy of their interest. The question is, because of other testimony we have had which suggested that Mr. Abedi wanted your bank to buy it, and that the decision had been made in Florida to do so, that NCNB was a harassment here. They were sort of in the way and the way in which the shareholders were able to now not make this too expensive, was because BCCI loaned them the money in order to beat the NCNB bid so that they could buy. And that is ultimately what happened. They loaned them the money, did they not?

Mr. ALTMAN. I don't know if BCCI loaned them the money or not.

Senator KERRY. Well, that is what you testified to in the House. You said that you came up with the extra money, and the way the extra money came up was through BCCI. Excuse me, not through BCCI.

Mr. ALTMAN. No, sir. I don't think I said—

Senator KERRY. I am sorry. I apologize. I am incorrect on that. Where did the extra money come from?

Mr. ALTMAN. We did a rights offering in 1986 and we did a second rights offering in 1987.

Senator KERRY. But this was to the existing shareholders of CCAH?

Mr. ALTMAN. Yes, sir.

Mr. CLIFFORD. Correct.

Mr. ALTMAN. And the first rights offering was for \$150 million, and the one in the summer of 1987 was for \$115 million.

Senator KERRY. But was not some of that offering taken up by loans to those shareholders through BCCI?

Mr. ALTMAN. It may have been. We don't have that information.

Senator KERRY. I think it was. I think that is what I am referring to. So in effect, BCCI enabled you to make that sale, or to make the purchase by virtue of your shareholders, who were all part of this family, being able to buy over the NCNB bid.

Mr. ALTMAN. Even if it is correct, and I accept what the chairman says, even if it's correct that the shareholders borrowed the money from BCCI, I would have to say I see nothing impermissible about doing that. If our shareholders want to buy NBG, and if they are meeting the market price as set by a competitive bid situation, however they raise their money, as long as these are legitimate loans and not shams, it's not a prohibited transaction.

Now, there were representations made to regulators about the source of that funding and would have to be consistent with those representations. I do, Senator, want to go to one fundamental point, however, and that is the testimony that this committee received that Mr. Abedi made the decision for us to buy the National Bank of Georgia.

Perhaps rather than hear from Mr. Clifford and me again on the subject, it would be helpful if I were to read to you from an affidavit, from one of the directors of the company at the time. His name is Lee Jenkins. He was the president of a New York Stock Exchange listed company. He was, incidentally, a man who was very

skilled in mergers and acquisitions, very financially astute and sophisticated, and he says the following in his affidavit: With respect to the acquisition of the National Bank of Georgia, the board was presented with the relevant financial data and was apprised of the status of the ongoing negotiations throughout the acquisition process. The agreement to acquire NBG was approved by the board of FAB's parent.

One of the principal reasons for FAB's decision to acquire NBG was that NBG's central location in the Southeast satisfied one of the bank's long-term strategic objectives of expanding in the southeast. I, and I believe the other directors concluded, that the purchase of NBG represented a unique opportunity and was in the best interests of First American Bankshares. BCCI had no influence on my conclusion, nor to my knowledge on any other director's conclusion that the purchase of NBG was in the best interests of the First American organization. To my knowledge, BCCI did not in any respect cause First American to acquire NBG.

Senator KERRY. There is a way to explain that, as there is everything in this, and it is that once a decision had been made to try to effect it, you obviously had to get a board of directors and other people to approve it and go through it. There is not any question about that, and I am sure BCCI did not touch any of them in the effort. Probably it was a good deal, and I am sure for First American, it made a lot of sense, but in terms of the testimony originally made by Sakhia and Rehman, and some of the documents, it just raises the question as to it. You have answered that and I am not trying to suggest to you that—but it is hard. It is hard to pick one's way through that, because there is not a total relevancy to whatever happened to the board of directors decision.

Mr. CLIFFORD. If I might add one factor. There has been criticism of First American for expending this amount of money to acquire the National Bank of Georgia. People who make that criticism just do not understand what happened. We had a rights offering in 1986 that produced \$150 million. We had a rights offering in 1987 that produced \$115 million. So there came to us, from the investors—then I have to add and/or BCCI, because we don't know which is which during that period—but there came from the investors and BCCI, a total of \$265 million from those two rights offerings.

The money that we paid to buy the National Bank of Georgia came out of that \$265 million, so we end up with BCCI going broke, all this thing in a terrible mess—we end up owning the National Bank of Georgia and we didn't put any of our own money in it.

Senator KERRY. Let me—

Mr. ALTMAN. Excuse me, Senator. Well, one other comment I would make for the record, you made reference to Mr. Sakhia. I think it's noteworthy that Mr. Sakhia was very careful. He did not say he was in any meeting where he heard that decision made.

Senator KERRY. Let me just say for the record—and it is something I meant to observe that day—the committee is well aware or at least the chairman is well aware that Mr. Sakhia was careful to choose where he was involved and where he was not, and we understand that Mr. Sakhia himself might be under investigation. We know that with respect to the Bilbazi coffee smuggling case, there

are issues. We understood that before he came here, and we sort out what he says in that context.

In an effort to speed this hearing, I am going to submit a number of questions in writing. I do not want to sit here and nitpick at some of the stuff that has to be asked because it is there and it has been raised. The committee is not going to be capable of doing its job if we do not have the answers and there is not a record there to deal with it.

One other issue that is of concern to the committee and I know, gentlemen, that you were aware that we were somewhat concerned about it, because we articulated it at the time and that was the response postsubpoena, the question of the production of documents and the whole issue of Mr. Amjad Awan. There is a memo that came to our attention recently through this process of discovery which was originally covered by attorney/client work product privilege. It came from the confidential file of BCCI. It is one of the documents that you have. I think it is document No. 39. No, excuse me. 42, and it is a document which involves our committee and our work in reference to the subpoena served on you and Mr. Banoun in July 1990.

Now, I notice an error immediately right there. In fact, there was no subpoena served you or on Mr. Banoun only a request that you testify at a hearing on BCCI, which you resisted at the time. Subsequently, the memo raises an issue about—suggesting, in response to the subpoena as the source stated that Altman and Banoun are opposing the subpoenas, doing everything within their power to call in political markers. That maybe Altman and Banoun will succeed in quashing the subpoenas and so forth.

Would you share with the committee, please, what if anything, you did commensurate with what is asserted in this memo, with respect to the committee's subpoena and request for documents?

Mr. ALTMAN. The first time I saw this memorandum was last night, Mr. Chairman. I had seen a reference to it in some news article recently. I have no idea what the author is talking about when he talks about calling in political markers. As you have observed, I was not under subpoena, and to the best of my recollection, I didn't talk to anybody on the Hill about this particular matter.

The committee had scheduled a hearing in the summer of 1990, in July. Mr. Banoun was on vacation, out of the country. I believe he got in touch with your staff. There were some issues that had to be resolved relating to attorney/client privilege and the like, and Mr. Banoun worked those out with your staff, but I was not calling in political markers or doing anything to try to quash the subpoena. I don't even believe I responded in writing to the committee to ask for any delay.

Senator KERRY. Do you know who, if anyone, contacted Senator Hatch with a speech defending BCCI?

Mr. ALTMAN. Yes.

Senator KERRY. Who did that?

Mr. ALTMAN. Well, there were several people. This would have been in the winter of 1990.

Senator KERRY. This was right after the plea bargain, I believe.

Mr. ALTMAN. Right around that time. Senator Hatch was a member of the Judiciary Committee at that time and had taken an interest in this particular case. He had wanted a briefing on the case originally, and I knew Senator Hatch and I went to see him, along with the attorneys of record. I think it was then Mr. Wechsler and Mr. Barcella. Mr. Banoun may have been there, I'm not clear about it. Senator Hatch indicated that he felt the criticism that was being made of that plea was unjustified and he was intending to make a floor speech about it and asked for information.

I know that he also contacted the Justice Department. I think he got briefings from them, although I'm not sure of that, before he made that speech.

Senator KERRY. Recently, an article in the National Journal quoted Mr. Banoun as saying that the subcommittee was, quote, "outlawyered," after previously advising us that he wanted to cooperate with us and that was his goal. That is OK by me, but my staff is outraged. Do you know what he meant by outlawyered with respect to the process of production of documents and cooperation?

Mr. ALTMAN. I do not, sir. I know that Mr. Banoun felt that the original subpoena was not well drawn, a matter that he discussed with Mr. McColl of your staff, but I don't know what he had in mind.

Senator KERRY. You do not have any sense beyond that?

Mr. ALTMAN. No.

Senator KERRY. Was there any intentional withholding of information about BCCI for any purpose?

Mr. ALTMAN. No, sir, and no intention to mislead this committee.

Senator KERRY. What happened with respect to the Noriega checks? We had requested a number of checks indicating Noriega—there was a production of some four checks, after some considerable period of time. We now have some 40—35 checks, I think it is, all drawn from First American. These are items—item 41. These are all checks drawn on or passed through, I believe. I guess the question is, these were in the country and we received notice that there were not were none in the country and then, later on, only through the liquidators—ultimately through the liquidators, they provided this, and so that gives rise to this question of why that was not originally provided. Can you shed any light on that?

Mr. ALTMAN. I think I can, Senator. When a subpoena is issued to a corporate client, the lawyer necessarily relies on that client to advise whether there are responsive documents; and at the time, we were advised that there were no responsive documents within the United States, and subsequently, when it was determined that there were documents that relate to Mr. Noriega within the United States, an effort was made to get BCCI to find these records and produce them.

It is my recollection that BCCI's records were so chaotic that we had BCCI, as a customer of First American, make a request of First American of every check ever written so that someone could go through the checks and find out if there are any checks that are responsive. And I have not seen the documents here. This appears to be from the checkbooks that have indications of Noriega that are not on the checks themselves. I wasn't involved in this particular search, but I can only say to you that a lawyer has to depend

on the client to at least give him the universe of files so that a review can be made for responsive documents.

Senator KERRY. Who gave that advice? You said you were advised. Do you know who?

Mr. ALTMAN. Well, originally—originally what happened was that the subpoena was issued in the summer of 1988 and a meeting was held in Miami with a number of BCCI officials, including Mr. Awan, and Mr. Awan—that all of the BCCI officials told us was the only person who knew information about the Noriega account—they all said they didn't have any information about it, they knew of the relationship—but they said he is the one who has the information.

Senator KERRY. Did you meet with and talk to Mr. Awan?

Mr. ALTMAN. I did, and he said that very directly to me.

Senator KERRY. With respect to Mr. Awan, as you know, there have been a number of people who have alleged that he was told to leave the country, and I know you have commented publicly on that once before, but I want this record to address the issue.

Mr. ALTMAN. Good.

Senator KERRY. Mr. Sakhia, again, testified that he had heard from two or three different people the same thing. Was there any such instruction to Mr. Awan?

Mr. ALTMAN. I'm glad you raised the subject, Senator, because I want it on this record. I want it every place the subject has been raised. I think it is unfortunate that it has been raised and the record here should be very clear. The original subpoena that was issued by this committee was directed to a Mr. Khalid Awan. That subpoena was served on a Mr. Khalid Awan in Miami. In mid-August, August 16 and 17, as I recall, 1988, we went down to Miami; I, together with two other lawyers from the firm, to go over the specifications of the subpoena and to see if there are responsive documents. When we—when we got down there, we realized that the subpoena was directed to the wrong person. In fact, what happened was, as I recall it, I looked him up in the phone book and I called this individual who said, yes, he had been subpoenaed. He didn't know what it was all about. He had nothing to do with BCCI. It clearly was a mistake.

We immediately, I believe we did the very same day, called the committee, spoke to, I believe it was Kathleen Smith on the staff and advised that the subpoena had been misdirected.

I suggest that this conduct is wholly inconsistent with the notion that when we learned someone is trying to serve Mr. Awan with a subpoena, we tell Mr. Awan to get out of the country.

Now, we interviewed Mr. Awan and Mr. Awan in point of fact had very helpful things to say about the issues that the committee was investigating. Mr. Awan stated quite flatly that BCCI was not a bank that was engaged in drug money laundering. It is the kind of information we certainly want this committee to hear.

The problem was, Mr. Awan expressed quite clearly that he was afraid of Mr. Noriega. He was concerned about his personal safety, and he was fearful that if he testified, reprisals would be taken against him.

The management of BCCI in response to this indicated that they were going to transfer Mr. Awan to Paris in order that he might

have a lower profile and lessen the risk of reprisal or injury from Mr. Noriega.

But this was not a matter that was kept secret. By coincidence, on the day that Mr. Awan has his taped undercover conversation, and that was September 9, we had a meeting with the staff of this committee. And we advised the committee at that time that Mr. Awan may be transferred to Paris.

So we were not keeping this a secret from the committee, and the effort here was not to prevent Mr. Awan from testifying. The concern was, as Mr. Awan states in that same undercover taped conversation, quote: "The reason being that if I say anything about Noriega and it is reported by the press, I am dead. He is going to kill me."

Now that is what Mr. Awan was saying to us at the time and when we talked to the staff of this committee, we were told that this was not fanciful, that indeed there were true risks about making disclosures relating to Mr. Noriega.

We advised the staff of this impending transfer, but we suggested to the staff that if they truly wanted to understand BCCI, and I might note that the staff had told us when we first got into this in August 1988 about the allegations about BCCI and we then go to BCCI and ask them about it, and we hear a dramatically different story, totally inconsistent with the allegations.

And we said, this committee should talk to the senior management of BCCI and hear from them directly. They were very convincing. And we suggested to the staff that they go to London and they meet with a Mr. Rizvi who is in charge of all of these operations in this hemisphere and Mr. Naqvi, and we said if they would make that trip and if Mr. Awan is transferred to Paris, then Mr. Awan can come over and give his testimony. You are not going to be deprived of your testimony.

But the point I am trying to make is, there was never an effort to prevent Mr. Awan from giving his testimony. There are two other items I would note. The first is that Mr. Awan resigned from BCCI in mid-September because he had plans of his own in terms of his career, and he retained separate counsel. He was no longer with BCCI, and indeed I understand he retained counsel that was recommended to him by this staff.

He gave that testimony at the end of September 1988 and just as he had with us, he represented to the committee under oath, no money laundering and the like. So it is the kind of testimony you certainly would want the committee to hear.

And one final note that I think also is pertinent, under United States Code, given Mr. Awan's resident status, he was equally subject to subpoena in London and Paris as he was in Miami. It would have the same legal force and effect, but I am glad to have the opportunity to put this on the record, and I thank the chairman.

Senator KERRY. I think it is important, particularly before this committee, since we are subject of the inquiry obviously. Again, for the record, I just want to ask the question, were any documents transferred out of the United States to the London office to avoid production, to your knowledge?

Mr. ALTMAN. To the best of my recollection, I never heard that. I asked one of the other lawyers in the firm the other day when we

heard, I think it was Mr. Sakhia make that allegation, and I think it was the first time he had ever heard it as well.

Senator KERRY. And again, I want to ask this because I think it is important and the record needs it, allegations were made with respect to the chairman of this committee being called in order to delay matters. I know that this Senator never received any delay instructions from the chairman, but I want to ask you if any phone calls were placed to the committee or in an effort to try to derail this process somehow?

Mr. CLIFFORD. Not by me.

Mr. ALTMAN. No, sir. You are aware——

Senator KERRY. There was one phone call seeking a delay in which Mr. Gerry Christiansen was contacted by somebody, is that accurate?

Mr. ALTMAN. There was no effort to derail this process. There was a 30-day extension granted, a routine extension——

Senator KERRY. Do you recall who was talked to in seeking that?

Mr. CLIFFORD. I did that. Mr. Altman was on the west coast and the matter came up about our needing more days. The original subpoena allowed us so few days to gather a very substantial amount of documents. The subpoena had been issued by Senator Pell. His name was on the subpoena. I called Senator Pell, told him the matter, and he said he knew nothing about it, I should call Mr. Christiansen.

I called Mr. Christiansen, and Mr. Christiansen said, I will look into it. Mr. Christiansen then perhaps called your staff or a member of your staff and the matter seemed very reasonable and so I think a 30-day continuance was granted.

Now a very malicious story was planted by someone at that time. I am sure you are familiar with it, and the malicious story was that this action on my part was done in order to sidetrack the investigation because if I could get 30 days more, then the tenure of the committee would expire, totally untrue.

So when that statement appeared in the Wall Street Journal, I have oftentimes wondered where they get such a malicious interpretation, Mr. Christiansen wrote a letter to the editor of the Wall Street Journal, and I won't read it, but it says that Mr. Adams asserts that Senator Claiborne Pell, chairman of the Senate Foreign Relations Committee, frustrated efforts by the committee special counsel, Jack Blum, to investigate information relating to BCCI's role in laundering drug money for Manuel Noriega.

Specifically he state that, quote: "Clark Clifford pulled strings with Senate Foreign Relations Chairman Claiborne Pell to stall production of crucial documents past the expiration date of Blum's contract with the subcommittee."

Next sentence: That statement is categorically false. That occurs in Mr. Christensen's letter. Then he says, he goes on to tells about it, and he says that after the 30 days was granted, there still remained 6 months of the committee's life within which anything could have been done.

So no mistake was made by somebody in planting that story with the Wall Street Journal, it was purposely and maliciously done.

Senator KERRY. Let the record show that Gerry Christiansen contacted Richard McColl of my staff and Dick McColl is the one who

authorized it and acted as if it was pro forma, so I never saw any great conspiracy in it, but you are correct, it has been built up as one.

I would like to draw this in. There are some, there are, as I say, a number of questions we want to submit for the record. But here we are, we have an extraordinary tale that has unfolded. Two distinguished, capable, well-thought-of lawyers who are claiming victimization by this thing, individuals within the bank who are indeed victims, some of them claiming it, who knows, distinguishing between the pure victim and the claims, but they are there.

You have two witnesses who have come before this committee who are prior bank employees of longstanding who have made allegations.

You have Price Waterhouse that by everybody's account messed this thing up to a fare-thee-well. You have the Bank of England that missed a lot of signals, but also has deemed BCCI to have been, quote: "Culture of criminality."

You have operating practices that either were with the Fed's blessing or weren't, but no matter what, you have this sort of integrated operation going on. You have a National Bank of Georgia purchase which like it or not has turned out to have ties to BCCI through Ghaith Pharaon and the question of stock that was pledged and questions of ownership.

You have notice through articles and the regulators back in the late 1970's that you had serious issues about nominees and not necessarily that came to your attention, incidentally, I am just sort of summing up what people are looking at now.

You have the goals and the aims of BCCI as articulated and enunciated by Mr. Abedi in many meetings, as evidenced through the minutes which we have read today. You have got the annual conferences and sort of this family gathering over a period of years which included NBG, First American, et cetera.

You have questions about the setting of price and the transactions on a sale, again, sort of an insider, family operation. You have the use of a flexible front man or two here or there, people who were never met as investors and so forth. You have documents indicating possible BCCI deep involvement in a number of transactions of question and so forth.

Now all of these things have been explained. And my question to you is not to question your explanations, but to say, what do you learn from this? What are we going to learn from this? Where are we in your eyes as a consequence of all of this? What does it mean to you? Did you wear too many hats? Have you learned a lesson perhaps with respect to being lawyers for all of these entities, and that there was a conflict in your capacity to always represent the interests as fully as you might have liked to now in retrospect?

Were eyes shut to something along the way here? I mean, what does it mean, other than it is obviously a horrible, harassing, ugly, painful event which both of you would rather not have had any part of, but what does it mean in terms of us and the whole process, if you can shed some wisdom on that at this point.

Mr. CLIFFORD. Let me direct my attention to that, Senator. On June 1 of this year, I had practiced law for 63 years. In 63 years there had never been a cloud against my name. That was no acci-

dent, particularly 41 years of practice in Washington. I took the greatest and most particular care to refrain from getting involved in matters that might have effected my reputation and my character.

I suggest to you that after building up that record, the furthest thing from my mind would be to permit myself or my partner to become involved in some criminal conspiracy. There was no evidence, evidence of any kind to me that any such element appeared. I wouldn't have touched it with a 100-foot pole.

To suggest that I would involve my own reputation is bad enough, but even worse, that I would bring in old, respected friends like Senator Symington and General Gavin and my friend, Quesada, other men of that stripe and nature and involve them in the kind of mess that BCCI has gotten into, I suggest is unthinkable. It just does not tally with one's understanding of human behavior.

Now as far as our not recognizing what was taking place, you may rest assured that I have combed my memory over and over and over in that regard. I do not recall an instance, I do not recall any act on the part of anybody, I do not recall any evidence being brought to our attention which would alert me to the criminal conspiracy that was going on.

At the same time, I still have an uncomfortable feeling about it. Why didn't I sense it in some way? I would have wanted to. I have sensed it in other instances in past experience. So that is a purely personal approach to it, but it helps you understand it better.

Now as far as the committee is concerned, I think the committee has rendered a unique and invaluable service to the country. You have brought out the extent of the machinations perpetrated by BCCI. That is a splendid public service.

Now what must we do about it? I think it can be prevented in the future. I think that this can be a situation that can be turned to our country's advantage. It could happen again.

Mattingly, Virgil Mattingly in testimony before a committee said: It is not too difficult to deceive if you really put your mind to it and if the deception takes place outside of the United States. I agree to that, but there is within the body of Senate bill 1019 the structure and the machinery by which this can be prevented.

I think that Mattingly's suggestion that a special unit be set up and when a foreign bank wishes to enter the United States, that special unit goes into action, and gets the facts that we didn't have, the Fed didn't have, the Congress didn't have.

So I honor you. I honor the Senator who took—for rendering this service. I want it to lead to a change in the law so that it will not happen again, and in that way, a great many people would be benefited even Altman and Clifford would have benefited had it been in existence.

Senator KERRY. Mr. Secretary, I appreciate your comment, but with respect to the hats issue, have you thought about that a little more? I mean, if someone is the president of a bank, and you are also counsel to the bank and you are also counsel to an outside bank with whom you are doing business, let us presume that the outside bank entered into an illegal activity for the purposes of this question, and you became aware of it and you are counsel to them.

Your duty is to them, obviously, to protect their interests and rights, but those rights may well conflict with the rights of the shareholders of the bank that you are president of. There are 10 variations on that, which as lawyers you both can dream up and imagine.

And I wonder if, in retrospect here, you don't sit there and say, hey, you know, that wasn't a good idea or I wouldn't do that again. Do you have any feelings about the multiple hats?

Mr. CLIFFORD. Yes. These representations flowed very naturally from the 3½ years of litigation. We occasionally did legal work for BCCI. That was perfectly appropriate. The assignments they gave us were legal assignments, oftentimes regulatory matters.

So there was nothing about that representation that in any way in my opinion was reprehensible. I do not think that that had any conflict with the representation of the other units that were involved.

The major factor here that controlled it all was that the investors led by Kamal Adham wished us to take these different positions in assisting them in their efforts. They wanted us to be counsel to First American. They wanted us to be counsel to the three Shell companies. That was their request.

They made a specific request that I become chairman of the board. I think the fact that those functions could be performed together led substantially to the unique success that First American had. We had the information there among those of us who were charged with the stewardship.

Senator KERRY. Senator Brown, we are going to try to wrap this up, so I just wanted to turn to my colleague for a moment.

I think he has perhaps just something to enter into the record.

Senator BROWN. I sent to you through your attorney a copy, a portion of the House Banking Report that dealt with wire transfers from Panama, BCCI in Panama and the allegations involving Secretary Clifford.

It struck me that those were two areas that you may wish to comment on and that I think we would be interested in your comments. We are in the process of wrapping up and what I would do is simply invite you, if you would, to submit your comments to both of those, specifically, what you know about the wire transfers and second, the allegations that appear on pages 21 and 22. They are significant areas and I think your observations would be helpful to us in those areas.

Mr. CLIFFORD. We shall do so, Senator, and do it promptly.

Senator KERRY. Mr. Secretary, throughout my political lifetime, I have heard you give a lot of good advice and obviously you have made many contributions. I must say to you that I can't find myself agreeing just with your last comment on the hats issue, and it is—I think just personally that there is an inherent problem with any attorney serving as the president of the bank and as counsel to the bank.

I mean, let us assume that the president of the bank himself, and this is not the situation, but if the president of the bank himself were engaged in embezzlement and were the counsel to the bank, there is no way for that attorney to represent the interests of both.

Inherently, there are management decisions and conflict in trying to implement a management goal which sometimes runs counter to what legal advice might want to. It is that old notion that only a fool represents himself and I think you are not that at all, and no one has ever, ever, ever possibly thought that.

So I just find it very difficult to find how you can be still so sanguine about the notion of that multiple representation, but that is indeed your judgment which you have every right to, and I just personally have difficulty doing that.

I would like to see, Mr. Bennett, if we could try to work on the issue of those documents which the committee hopes to be able to get at some time, and we would like work that out with you. Do you want to respond to me? I don't want to have the last word. If you want to say something to me, I am not trying to cut you off, I just—

Mr. CLIFFORD. Only this, President Truman had a saying that he would use from time to time, he says, the man with hindsight has 20-20 vision, and that applies in this instance. I am not referring to your comment.

But in the climate that existed through that 9 years, the arrangement that we had worked exceedingly well. We didn't have to employ a lot of outside lawyers. We maintained a very economical operation. We watched the dollars that we spent. There was not lavish entertainments of any kind. We didn't waste the shareholders' money.

This was a very meticulous, tight operation, and we could do it with the group that we had at the direction of the people and I say only to you, for 9 years, it proved to be a unique success.

Senator KERRY. I respect that. Is there any issue that you feel you did not address that we didn't give you a chance to or that you wish to make as a comment before we close out?

Mr. ALTMAN. I would make a general observation, Mr. Chairman, and that is that this committee has heard testimony from other witnesses and I don't want to take the time to be specific about our rebuttal to allegations that have been made, but in general, I would say that the allegations that relate to misconduct on our part, I want the record to be clear, that we deny them totally and completely.

I find it curious, given the reports that we now have about BCCI, that they have very senior managers who are now appearing before this committee and making these reports, that they were unaware of certain things, but Clifford and Altman had to know them.

I find that a rather curious observation on their part. But so that the record should be clear, we do not accept those allegations, and if there is any particular question about it, we would like to have the opportunity to respond. There have been suggestions made by certain witnesses that we were engaged influence peddling and the like, in order to protect BCCI. Those are totally untrue.

There are suggestions that have been made that we condoned obstructions of this committee's efforts or investigations of BCCI. Those are totally untrue, and the record should reflect that that is our view, and as I said, we can detail it.

I would conclude with one observation: There certainly have been failings here, that is evidence from the enormous controversy

that has erupted in the dreadful year that Mr. Clifford and I have each spent.

But the system did not fail entirely and I think it appropriate to conclude with an observation: In this instance, the regulatory authorities have a fundamental objective and that is to protect the deposits of American citizens.

And First American, you see round the world, BCCI depositors standing in line, losing enormous amounts of money. It is a terrible tragedy and we feel for those people, but First American, as the regulators have said, was run honestly. We think it was run properly. There was no bank that failed. There was no U.S. taxpayer bailout at First American and no depositor at First American ever lost a cent.

So the regulatory authority in this regard did achieve the most fundamental purpose that these regulatory agencies were created—and I think you have to credit them for that ultimate objective.

Senator KERRY. I appreciate your comment. I am going to let you have the last word here.

I know this is a difficult process. I also hope observers will have a sense that we haven't pulled any punches here. We have asked the tough questions that I think had to be asked, but at the same time, I hope you feel that it has been done fairly and appropriately and with that, we will leave the record open for the submission of any further questions in writing, and I thank you for your appearance today.

We stand adjourned.

[Questions submitted to the witnesses by the subcommittee were not responded to at the time of publication. Attorneys for the witnesses have advised the subcommittee that the answers would be provided in February 1992, at which time they will be included in a subsequent volume of these hearings.]

Mr. ALTMAN. Mr. Chairman, if I could just say, personally, we very much appreciate both the opportunity to appear and state our side, as Mr. Clifford said, it is very difficult to do that with all of the media. It is hard for us to get our side across, and in particular, we appreciate the way this hearing was conducted today, the even-handed and fair treatment that we have received.

Senator KERRY. Thank you. At this time, I wish to insert into the record the documents referred to in today's hearing. Thank you very much. We stand adjourned.

1ST STORY of Level 1 printed in FULL format.

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October 20, 1978, Friday, Final Edition

SEE
PAGE 2

SECTION: Business & Finance; D8

LENGTH: 890 words

HEADLINE: Lance Out In Takeover Bid for FG;
FG Takeover Bid Filed, Lance Out As Front Man

BYLINE: By Jerry Knight, Washington Post Staff Writer

BODY:

The Middle Eastern investors who are trying to buy control of Financial General Bankshares of Washington yesterday filed an application to form a bank holding company, revealing, among other facts, that Bert Lance will not be involved in running the bank if the take-over bid succeeds.

The application also promised that "U.S. Citizens of high standing and respect" will hold a majority of the seats on the board of directors of the company. It said former U.S. Sen. Stuart Symington will control almost half of the stock.

The proposed new bank holding company's stock would be owned by investors from Saudi Arabia, Abu Dhabi, Kuwait and Iran. They plan to put up at least \$50 million of their "personal funds" to buy control of Financial General, the application says.

Bank holding company applications are not normally made public, but this one was included in a report filed late yesterday with the Securities and Exchange Commission, which has monitored the Financial General takeover fight closely since it began last winter.

The application to organize an American bank holding company is the latest step taken by the Middle Eastern group which last January bought about 20 percent of the stock of Financial General.

Despite an investigation by the Securities and Exchange Commission and a massive legal battle by Financial General's management, the group has moved steadily ahead with plans to make a public offer to buy all of FG's stock.

Before that offer can be made, however, the Federal Reserve Board must approve the bank holding company application filed yesterday.

The application reveals that Lance - who first advised the Middle Eastern investors to try to take over Financial General - will have nothing to do with running the bank if the takeover succeeds.

Lance, the application states, "would not participate in the management of FGB or become a director of FGB" and he "will not be a shareholder" of the proposed new bank holding company.

Lance's ties to Financial General began when he purchased National Bank of Georgia from FG. After resigning a year ago as President Carter's budget

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director because of his activities as a Georgia banker, Lance began advising wealthy Middle Easterners about potential U.S. investments.

Replacing Lance as the prominent American representing the Middle Eastern group is Symington, the former senator from Missouri and Secretary of the Air Force.

Symington, the bank holding company application discloses, will have voting control of 48 percent of the stock in Credit and Commerce American Holdings, a Netherlands Antilles company that will control Financial General.

Symington will act as trustee for stock owned by Sheikh Kamal Adham, the former chief of intelligence for Saudi Arabia who is "closely related to the royal family of Saudi Arabia" and by Sheikh Mohammed bin Zaid al Nahyan, son of the ruler of Abu Dhabi.

Because Sheikh Mohammed is a minor his share of the Washington banking company will be controlled by Abdullah Darwaish, chief of personal affairs for the ruling family of Abu Dhabi.

U.S. District Court Judge Oliver Gasch ruled yesterday that another member of the ruling family of Abu Dhabi, Sheikh Sultan, could sell stock he owns in Financial General to Adham.

The bank holding company application shows the Abu Dhabi and Saudi Arabian royal family members would each own 24 percent of the Washington banking company. Another 12 percent would be owned by Faisal Saud al Fulaij, former chairman of Kuwait Airways, and an advisor to the royal family of that country.

Identified for the first time in the application is another Middle Eastern owner of the proposed Washington banking company, Mohammed Rahim Motaghi Irvani, founder of an Iranian industrial corporation. Irvani would own 5 percent. Another 5 percent would be in the hands of a Kuwait investment company and smaller blocks would be held by other unspecified investors.

In addition to detailing the proposed owners of the company formed to take over Financial General, the bank holding company application also spells out plans for the company.

Americans will make up a majority of the board of directors, the application says, but the board members have not yet been selected. With control of 48 percent of the stock Symington would probably be among them.

Sharply critical of Financial General's current management, the application says two top executives experienced in bank holding company operations will be hired to run the company.

Financial General, the application contends "has been the subject of significant management problems and has failed to take advantage . . . of opportunities that would enable FGB to realize its full potential growth and performance."

Because of poor management the application says, FG "is of relatively little consequence" in the markets it serves "compared to other bank organizations of comparable size."

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With assets of \$2.2 billion FG owns 13 banks including Union First National Bank of Washington, First American Bank of Virginia and American Bank of Maryland.

tr add 7

Formerly controlled by International Bank, a Washington investment company, Financial General's biggest stockholders now are its chairman, real estate man B. F. Saul Jr., and a group headed by the bank's president, G. William Middendorf.

1ST STORY of Level 1 printed in FULL format.

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Summary of World Broadcasts

July 1, 1981, Wednesday

SECTION: Part 1 The USSR; A. INTERNATIONAL AFFAIRS; 4. THE MIDDLE EAST

PAGE: SU/6763/A4/3

LENGTH: 480 words

HEADLINE: Sadat's 'Capitulationist Course'

SOURCE: (a) 'Radio Peace and Progress' in Arabic 1630 gmt 28 Jun 81

Excerpts from commentary

BODY:

Sadat's intelligence service co-operates closely with that of Israel in exchanging information about the Palestinian resistance movement. An agreement to this effect exists - an agreement concluded by President Sadat and the Israeli Prime Minister Menahem Begin. They agreed to undertake actions aimed at liquidating the leader PLO and elements which sympathize with it both in the occupied Arab territories and abroad.

Thus we see that President Sadat, who likes on every occasion to brag about the need to settle the Palestinian issue, is in fact playing the role of Zionist informer, assisting them in their efforts to liquidate the PLO and to dampen the will of the Palestinian people to resist and struggle for their just cause. It is difficult to determine what has made Sadat do this. Is it just his desire to render a service to his friends the Zionists, or is it because - and this is more likely - of his inherent inclination towards cunning and treason on which he has built his political life right from the start? [References to Baghdad tribunal in 1978 to try Sadat; his connection with assassinations in the days of Faruq.]

Sadat also likes to portray himself as a friend and ally of Jamal Abd an-Nasir. But information exists to the effect that he was planted among those close to Jamal Abd an-Nasir as an agent of the CIA. The 'Washington Post' says that Kamal Adham - a relative of King Faysal of Saudi Arabia - secured for Sadat financial aid from CIA funds, when Sadat was Vice-President. . .

Recent developments in Egypt today, the detention and persecution of elements opposing Sadat's capitulationist policy affirm the fact that Sadat has linked his political future for ever with the camp of imperialism and Zionism. He has embarked for ever on the path of treason, the path he started on in the time of King Faruq. (b) Tass in Russian for abroad 2240 gmt 29 Jun 81 Text of report of 30th June 'Sovetskaya Rossiya', article 'A capitulationist course':

Sadat's verbiage on 'protecting the rights of the Palestinians' can only be seen as mocking the memory of patriots. 'Sovetskaya Rossiya' says today in connection with the recent TV interview given by the Egyptian President to the head of the Institute of International Studies in Tokyo. As the Kuwait newspaper 'Al-Watan' says, the Egyptian intelligence service 'Mukhabarat' supplied the Israeli secret services with information about the whereabouts of armed

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detachments of the Palestinian resistance movement, Lebanese national-patriotic forces, and prominent leaders of the PLO. Many fighters were killed as a result of this information. 'Sovetskaya Rossiya' also cites other facts confirming the capitulationist and anti-Arab course pursued by Sadat. [Note Section A4 was last published in SU/6761.]

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The New York Times

December 6, 1981, Sunday, Late City Final Edition

SECTION: Section 1; Part 1; Page 1, Column 3; National Desk

LENGTH: 3125 words

HEADLINE: FORMER INTELLIGENCE AIDES PROFITING FROM OLD TIES

BYLINE: By JEFF GERTH, Special to the New York Times

DATELINE: WASHINGTON, Dec. 5

BODY:

Many former American intelligence agents have entered into profitable business arrangements based on the extraordinary secret access to foreign officials and to sensitive information they gained in Government service.

One former agent, for example, now represents an American company in an African country whose president he helped install in a covert operation backed by the Central Intelligence Agency. Another obtained a \$300,000 consulting contract because of his close relationship with the king of an Arab country that stemmed from confidential Government negotiations involving the two.

These and other examples were turned up through a review of records and interviews with dozens of officials and businessmen here and abroad.

Called Hindrance by Some

Some American diplomats say the former agents can be a hindrance to American foreign policy, and businessmen who compete with the former agents say they have an unfair advantage.

The activities of the former agents have been placed in the spotlight by disclosures that Edwin P. Wilson and Frank E. Terpil used their intelligence connections in elaborate and, in some cases, illegal foreign business deals. They have been indicted for illegally shipping explosives to Libya for use in training terrorists. Both men are fugitives living abroad.

Different Kind of Revolving Door

Intelligence officials and Government prosecutors say they know of no other former agents who have committed such offenses. But for the first time, the C.I.A. is addressing questions about conflict of interest and revolving-door employment in the intelligence business, issues usually associated with officials who trade on their experience in the military or Government regulatory agencies.

The revolving door for covert intelligence agents is different from the one used by generals and lawyers, many officials say, because the former agents have had unusual and sometimes clandestine relationships with foreign leaders and access to sensitive intelligence information. Intelligence agents over the years have occasionally paid off foreign officials as a matter of course and have

*See
pages 3, 4, 5*

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violated foreign laws. Some appear or pretend to have continuing connections with American intelligence agencies after they leave the Government.

Among the former agents who have used their foreign contacts and expertise for business purposes after leaving the Government are these:

Lawrence Raymond Devlin, the former C.I.A. station chief in Zaire. He covertly helped support President Mobutu Sese Seko's rise to power and then went to work in Zaire as the representative of an American metals company.

Raymond H. Close, the former C.I.A. station chief in Saudi Arabia. After official retirement in 1977, he went to work there, and his numerous business interests include partnerships with former Saudi officials.

George C. Benson, the key defense intelligence attache in Indonesia for nine years and the American with the closest ties to the Indonesian generals who took power in a 1965 coup. He is the Washington representative for Indonesia's state-owned oil company.

Vernon A. Walters, the former Deputy Director of Central Intelligence, now the Reagan Administration's ambassador at large. He earned \$300,000 for consulting on a potential arms sale to Morocco before joining the Administration.

Former and current State Department officials who said they were troubled by the foreign-policy implications of retired intelligence agents' continuing to do business in foreign countries frequently cited Mr. Devlin as an example.

For much of the 1960's, Mr. Devlin was an official of the Central Intelligence Agency, including service as station chief in the Congo, which later became Zaire. The Senate Intelligence Committee, in 1975, reported an aborted 1960 plot by the C.I.A. to murder the Congo leader, Patrice Lumumba, and Mr. Lumumba was murdered in 1961.

In 1965, with the help of Mr. Devlin and the C.I.A., Mr. Mobutu took office, according to former intelligence officials. The C.I.A.'s support for Mr. Mobutu included secret financial aid.

A former agent, John Stockwell, wrote in his book, "In Search of Enemies," that Mr. Devlin "shuffled new governments like cards, finally settling on Mobutu as President."

'Excellent Contacts' Cited

After leaving the Government in 1974, Mr. Devlin became head of the Zaire office of Leon Tempelman & Son Inc., a New York-based metals and precious minerals company active in diamond and mineral exploration in Zaire. William A. Ullman, a vice president of the diamond company, said the hiring of Mr. Devlin, who had no experience in diamonds or metals, took into account his "excellent contacts" in Zaire.

Government officials provided a fuller picture of Mr. Devlin's contacts. They said that President Mobutu regarded Mr. Devlin, even long after he left the Government, as the representative of the United States. This gave Mr. Devlin better connections in Zaire than the United States ambassador there, the

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officials said.

Stephen B. Cohen, a Deputy Assistant Secretary of State in the Carter Administration who visited Zaire in 1979, said State Department officials there "believed that Devlin functioned as the true representative of the United States Government in President Mobutu's eyes."

Mr. Cohen added that it "was commonly believed by State Department officials in Zaire that Devlin had complete access to classified Government files long after he left the Government."

Mr. Stockwell said in his book that the C.I.A. continued to use Mr. Devlin in 1975, after he left the agency. One Congressional aide said that arrangement still existed.

Impact on American Policy

Former and current State Department officials said Mr. Devlin's extraordinary access caused intelligence officials in Zaire to regard him as more important than embassy personnel.

The officials said that the C.I.A. was less interested than the State Department in reducing corruption in Zaire and that at times the agency bribed Zairians for information. Mr. Devlin's strategic relationship with President Mobutu helped, on occasion, to undercut American foreign policy objectives, the diplomats said.

For several years Mr. Devlin's deputy in the Zaire office of Tempelman was Col. John Gerassi, the former military attache at the United States Embassy there, according to Mr. Ullman.

Mr. Devlin's relationship, according to an American businessman who works in Zaire, also gives him and his company an unfair advantage over other businesses trying to operate in Zaire.

"I thought it was unfair to have to compete with people who have developed extraordinary contacts as a result of their Government experience," said the businessman, who requested anonymity because of continuing business relationships. His view was repeated by many others who do business in third world countries.

Mr. Ullman said Mr. Devlin was in the United States this week, coinciding with a visit by President Mobutu, but he did not return repeated telephone messages.

Question of Post-Retirement Work

In the case of Mr. Close, the onetime station chief in Saudi Arabia, former Government officials say his actions, while in the C.I.A. and since retirement, are often clouded in mystery.

In the first place, some think Mr. Close may still be working for the C.I.A. in some capacity, although he officially retired in 1977. They add that a further complicating factor is that some Saudis privately share the same perception.

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In addition, Mr. Close, while station chief in the 1970's, delivered secret official messages to top Saudi leaders that, on at least one occasion, were at odds with communications delivered by the United States ambassador to Saudi Arabia, the officials said. Two former officials recalled an incident in the early 1970's when Mr. Close gave approval to top Saudi officials to sell arms to Pakistan at the same time the American ambassador was denying permission.

In one of his first business ventures after leaving the C.I.A., Mr. Close became a partner with Kamal Adham, who in early 1979 left his post as head of the Saudi Arabian intelligence service, according to Americans doing business in Saudi Arabia. Another Saudi business partner of Mr. Close is Issan Kabbani, another former Saudi official.

Since 1978, a company in which Mr. Close and Mr. Kabbani are principals has been the Saudi Arabian representative for Cescio Chemicals International Inc., a Louisiana-based company that sells an oilfield drilling lubricant, according to Cescio officials.

Raymond G. Matlock, who spends considerable time in Saudi Arabia as owner of Cescio International, an affiliate of Cescio Chemicals, said Mr. Close had been hired because he enabled Cescio officials "to get in the front door" with Saudi officials. Mr. Matlock said that because Mr. Close had "gained the respect" of many top Saudi officials "he can do things with them" beyond the role of a normal representative.

Compensation Not Divulged

Cescio officials declined to divulge Mr. Close's compensation, but other Americans who do business in Saudi Arabia thought his fees were quite lucrative. They cited, for example, Mr. Close's quotation to an American company seeking to land a contract to manage an airport in Saudi Arabia: \$200,000 a year for 10 years to represent the company, plus an additional \$400,000 a year for the life of the contract should the company get the concession.

Several telephone calls were made to Mr. Close's listed number in Saudi Arabia, but no one answered the phone. State Department officials cited two other examples, in addition to that of Mr. Close, in which the current business activities of former C.I.A. station chiefs have raised concern in diplomatic circles.

One case involves Daniel C. Arnold, the former chief in Thailand. After leaving the agency in 1979, officials said, he went to work representing companies seeking to do business in Thailand. American officials involved in Thai affairs said they were concerned about Mr. Arnold's continued dealings with top-level Thai officials. Mr. Arnold apparently lives in the Washington area, but he does not have a listed telephone and could not be located.

A Filipino Connection

Another example involves Herbert W. Natzke, who retired in 1979 after serving as station chief in the Philippines. He went to work for Lucio Tan, a wealthy Philippine businessman involved in banking and trade, according to Government officials.

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State Department officials said Mr. Natzke's affiliation with Mr. Tan was perceived by the Filipinos as giving the Tan interests an indelible association with the United States. One result, they said, is that President Ferdinand E. Marcos thinks the C.I.A. wants to protect the Tan interests.

Mr. Natzke recently moved from the Philippines to California to represent Tan interests. Repeated calls were made to a telephone listed in his name, but no one answered.

Mr. Benson and Mr. Walters, two officials who dealt in secrecy in their intelligence careers, have found details about their business activities placed in the public record since they retired from the agency.

Mr. Benson said in an interview that he was hired in 1973, after leaving the Army, to head the Washington office of Pertamina, Indonesia's state-owned oil company. He approached General Ibnu Sutowo, then head of Pertamina, who, upon hiring Mr. Benson, told him, "We need an office in Washington, we need someone we know well, we need someone who knows Washington," Mr. Benson said.

In his more than nine years as a military attache in Indonesia, Mr. Benson became very close to the top Indonesian generals who, with covert American support, took power in 1965. He also served as the Pentagon's expert on Indonesian affairs. When asked if he got his private job as a result of his Government contacts, Mr. Benson said, "Absolutely, that's the only reason they hired me." He described his Indonesian dealings as proper.

Registered as an Agent

Mr. Benson said he registered as a foreign agent "four or five years ago" to be safe, since "it's sort of a gray area." Records on file with the Justice Department show that he registered as a foreign agent for Pertamina and an affiliate in December, 1980, and that an amended statement to "correct a deficiency" in the initial one was filed last July. Among the filings are a 1977 consulting contract with the Pertamina affiliate, and a 1980 letter showing Mr. Benson's pay of \$15,000 a month.

In September, 1980, two months before Mr. Benson registered as a foreign agent, an affidavit was filed in the United States Court of Appeals for the District of Columbia noting some of Mr. Benson's lobbying activities during the middle 1970's for Pertamina. The court case involved importation of liquefied natural gas from Indonesia, a matter in which Mr. Benson says he was actively involved.

Mr. Walters's private attempts to sell arms to Morocco came to light earlier this year, when he filed a disclosure statement in conjunction with his nomination for his State Department post.

John R. McLane, the president of Environmental Energy Systems Inc., the company that paid Mr. Walters \$300,000 for unsuccessful efforts to sell tanks to Morocco, said in an interview that the company hired Mr. Walters because of his access to important figures in Morocco.

"We went to him because he had the connections, he knew the King of Morocco," Mr. McLane said.

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Trip to Spain for C.I.A.

One of Mr. Walters's last missions in the C.I.A. was a trip in late 1975 to Spain, where in meetings with King Hassan II of Morocco and Spanish officials he convinced Spain to give up control of Western Sahara, a Spanish colony in Africa long sought by Morocco, according to Congressional sources.

When asked in 1979 by Africa News, an American newsletter on African affairs, about the secret 1975 talks, Mr. Walters reportedly declined to discuss the details, saying, "It would look like the King of Morocco and the King of Spain are pawns of the United States, and that wouldn't be in anybody's interest."

The State Department said Mr. Walters was out of the country. He did not respond to telephone messages left with his office here. Richard Helms, the former director of the C.I.A., said in an interview that the issue of revolving-door activities on the part of retired agents had not been a problem during his tenure. He added that it was "against the American tradition" to place prohibitions on the private business practices of former intelligence officers.

Contrast With Foreign Mores

Mr. Helms also contrasted what he called America's "ethnic" about conflicts of interest with foreign mores, which he said hold "the more conflict the better."

Mr. Helms now earns a living advising corporations about doing business overseas. The name of the company is Safeer, the Persian word for ambassador.

Other intelligence officials say that it is unfair to single out the intelligence community since other former Government employees, such as former ambassadors, also profit in private life from their Government experiences.

The opportunities for public discussion of conflicts involving former intelligence agents are few. Since the identities of C.I.A. agents, even after they retire, are not made public, it is often difficult to follow their entry into private life. Other former officials are subject to public scrutiny because their identities are not kept secret.

Congress is considering a bill that would inhibit still further public discussion of intelligence agents.

Various Statutes Apply

The revolving-door question, often an issue in discussions of the military-industrial complex, is governed by various Federal statutes, including criminal laws enacted in 1962 and more stringent laws passed in 1978 under the Ethics in Government Act. The C.I.A. guidelines on conflict of interest are identical to those in the 1978 act, C.I.A. officials said.

The conflict of interest laws, in general, prohibit or limit former Government employees from representing anyone trying to influence their former department or agency.

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J. Jackson Walter, director of the Office of Government Ethics, said a lawyer in the C.I.A. office of general counsel had told him that the agency had "never found a violation" of the ethics laws. But Mr. Walter said the agency lawyer told him the agency gives "daily advice" to former agents on revolving-door regulations.

Although the agency has undertaken a detailed review of its internal guidelines in the wake of disclosures about Mr. Wilson and Mr. Terpil, intelligence officials said it was unlikely that changes in the C.I.A. employment contract would result from that review.

A Glimpse at Iranian Dealings

The officials said, however, that the agency's review had led to consideration of adopting a code of ethics. Brief attention was drawn to the issue in 1975 when a subcommittee of the Senate Foreign Relations Committee disclosed the role of some former agents as brokers and middlemen in foreign military aircraft sales.

Committee documents showed how Kermit Roosevelt, a former C.I.A. official who personally arranged the 1953 coup that brought the Shah of Iran to power, used his C.I.A. connections on behalf of the Northrop Corporation in Iran and the Middle East.

Letters written by Mr. Roosevelt and released by the committee repeated references to "my friends in the C.I.A." who were keeping him apprised of Northrop's competition.

But the Senate Committee failed to make public all its files relating to the activities of former agents, according to former Senate aides, and no public action was taken to address the issue.

The House Select Committee on Intelligence, currently studying the Wilson-Terpil affair, has not yet looked into the general issue of conflicts of interest by former agents, according to a staff aide.

GRAPHIC: Illustrations: photo of Vernon Walters (page 42) photo of C.I.A. emblem (page 42) photo of Richard Helms (page 42) photo of C.I.A. headquarters in Langley Va. (page 42)

SUBJECT: INTELLIGENCE SERVICES; UNITED STATE INTERNATIONAL RELATIONS; FINANCES, PERSONAL; DISCLOSURE OF INFORMATION

The Washington Post

Washington Business

THE WEEK OF MONDAY, OCTOBER 8, 1984



Robert Altman Joins Ranks of 'Super Lawyers'

By Mark Paris

Washington Post Staff Writer

One wonders where Robert A. Altman finds the time.

Some days he spends as a Washington supervisor, representing clients such as IBM, General Foods and the drug industry before regulators and on Capitol Hill.

On other days he becomes president of First American Corp., the holding company for the second-largest group of banks in the Washington area, whose takeover he engineered for Mideastern investors a few years ago.

Still other days, Altman oversees his real estate investments, including the USA Today tower in Rosslyn, and as a top gun under construction.

And on weekends, he gets to California to spend time with his wife, television actress Lynda Carter.

Altman may not be as well known as Carter, TV's "Wonder Woman," or even as familiar as Clark Clifford and Paul Warnke, senior partners of the Connecticut Avenue law firm in which he is a partner.

But at 37, the diminutive Altman has become a big man in this town, where law, real estate and banking are among the most powerful of the power industries, and success in any one of them is enough to confer superstar clout.

How does he find the time? "Long hours," he says with a thin smile. "Very long hours."

Altman is that seemingly rare beast, a

Robert A. Altman, lawyer, president of First American Bank, co-owner of USA Today's buildings and husband of actress Lynda Carter.

Vital Signs Robust For Area Business

By Jerry Knight

Taking the pulse of the metropolitan Washington economy is usually as tricky as arm wrestling with an octopus.

It's hard to get a grip on a multi-apercepted amorphous organism of more than a million people for long enough to measure its unemployment rate, sample

COMMENTARY

its factory income, chart the growth of its gross local product and check the other vital signs of its economic health.

Even when you consult with the doctors of multicourse, the data they provide offer only an abundant measurement of local prosperity.

It's a challenge with many good a diagnosis of

MONDAY MORNING

Washington's economic health just by looking at the city around you.

The symptoms of a robust economy are everywhere.

Drive somewhere you haven't been for a while—out to Reston, up to Gaithersburg, down towards Waldorf. Count the construction cranes, the "Help Wanted" signs, the ice cream parlors or the pages in today's newspaper.

A windshield census or an eyeball balance sheet can tell you nearly as much as a chart of leading economic indicators or a quarterly financial statement about the health of Washington Business.

Just as political reporters have the ubiquitous cab drivers who provide instant insight

See MORNING, page 20

DeLoorean Broker's Deals Probed

By Mark Rosenblatt

Investment in The Washington Post

A federal grand jury and the federal judge presiding over two civil lawsuits are looking into the tangled affairs of a financier from the Virginia hunt country who once offered to help backstop the failing DeLoorean Motor Co.

Until two of her firms filed for reorganization in bankruptcy, Jeanne Anne Farman, 44, ran a group of companies out of an office in the Westgate Research Park at Tysons Corner. She lived on a \$600,000 farm in Prince William County, owned a stable of thoroughbreds and ran businesses that specialized in helping other companies obtain multimillion-dollar loans.

But legal proceedings involving Farman and her companies show that several of the loans she allegedly offered to arrange never were completed. Developers of a Foggy Bottom

apartment complex have won a \$2.5 million lawsuit against Farman and her companies for failing to provide a promised loan. A \$10 million deal with DeLoorean fell through on the same day he was arrested on cocaine conspiracy charges.

Now the developers who won the lawsuit contend money that could be paid to them has been transferred to a Cayman Islands bank account. Farman's creditors are trying to trace her other assets. FBI agents have been investigating Farman's business affairs in five states in connection with a Washington grand jury investigation. And the British government, in attempting to untangle DeLoorean's affairs, is looking into her abortive deal with DeLoorean.

Farman has arrested the developer — the

DC 000303



Altman has been called an "indefatigable, imaginative" opponent in the courtroom. Photo by Fred Aronson/The Washington Post



Nancy Carter, television's "Wonder Woman," married Altman last January. Photo by Harry Goldenstein/The Washington Post

Meet Wonder Woman's Man Superlawyer Robert Altman

ALTMAN, from page 1

Washington native. His father, trained as an attorney, has considerable real estate investments in the area, and his mother owns a local television production company.

Since he joined Clifford & Warnke out of George Washington University law school in 1971, Altman has developed a knack for winding up on the right case at the right time. He successfully defended embattled Bert Lance in 1977 against charges of financial impropriety; he overcame huge odds to win First American—then known as Financial General Bankshares—one of the most celebrated takeover battles ever; and under his stewardship, First American has become one of the nation's most aggressive and fastest-growing banking organizations.

"I think I have been most fortunate in the opportunities that have been presented to me," he says.

As a lawyer, Altman usually is hired to "work" Washington on behalf of corporate or international clients, an activity in which Clifford & Warnke, one of Washington's smaller (20 lawyers) big-name firms, specializes.

He won't name his clients, other than to say that many are prominent members of the Fortune 500, but he has appeared on behalf of JPM, Eastman Kodak, Philip Perichien and General Foods, among others. His services for them range from litigation to lobbying, although, he says of the latter, "not nearly as much as people generally perceive."

The kind of law Altman and his firm practice often goes on behind the scenes, and can rely on personal connections and contacts—the kind of close senior partners like Clark Clifford, old former secretary of Defense, and Paul Warnke, a former arms-control negotiator and Pentagon chief counsel, can provide. Yet Altman raves at the suggestion that he is some sort of Washington "fixer" for his corporate clients.

"I personally don't know of any matter that was 'fixed,'" he says. Rather, he says, his knowledge of how Washington works—and who works it—lets him give his clients "a judgment as to what you need in order to be successful. You know who you have to talk to," he says.

To represent a wide variety of clients with an equally broad set of interests requires that Altman and his colleagues maintain contacts and expertise in a large number of areas.

"We happen to believe that there is a real advantage to having a breadth of experience," Altman says. "There is a real value in having a perspective, so that as you look at a problem you can see that you're going to have a public relations problem here, you're going to have likely litigation—or at least litigation is one avenue of relief for you—here, we can move up to the Hill and attempt to do something there."

Such a practice can win a lawyer plenty of behind-the-scenes praise, but not much notoriety. Altman doesn't really seek publicity, but he got it when he took on Bert Lance as a client. Representing Lance catapulted Altman, then just 30, into the big time of Washington lawyers—the kind whose calls to the government always get returned.

Lance, director of the Office of Management and Budget in the Carter administration, came under fire in the summer of 1977 for alleged financial improprieties while pres-

ident of the National Bank of Georgia, summoned before a Senate committee questioning in mid-September, and then Clifford & Warnke to represent him. Altman died the bulk of the case.

"We knew that it was not going to be an easy case," Altman says. "The charges continued to accumulate, so that even while you were working on what you thought were the main issues for the hearing, the evening The Washington Star would carry a story of something new which came up, and then you'd read in The Post next day a lengthy account of new cases which had been brought the previous day, so that one day you'd have a charge of tax evasion, tax fraud—one day we had a charge of embezzlement—and all this was in addition to the basic subjects, what we had thought to be the subjects of the hearing."

The list of charges was pretty long by the time Lance testified. But Altman (30 years old when he calls a "fairly aggressive" case before the Senate committee) and his firm seemed to rally in Lance's favor. Lance was forced to resign, and he again indicated on 33 asserted counts of financial impropriety. Again, Altman defended, and Lance went free. 21 of the charges were dismissed, and Lance was cleared of the wound up with bungled loans, leaving Lance by several government agencies a failed to find anything conclusive up.

Lance, "That was a long haul for us," Altman says. "The Lance case established Altman as a force to reckon with in the Washington business arena—albeit quite by circumstance."

Once again, Lance was involved, but not in a hearing on Altman's participation. He had recommended to a friend who was a financial adviser to three Middle Eastern businessmen that they invest in Washington-based Financial General Bankshares, which owns banks in the District of Columbia, Virginia, Tennessee and New York. The investors, from Abu Dhabi, Saudi Arabia, Kuwait, quietly bought some stock in the company in early 1978—and all he had to lose.

Financial General's management, later troubled by internal dissension, charged Altman in federal district court that the investors were acting in concert without filing the required documents with the Securities and Exchange Commission.

The Middle Eastern investors turned Altman to defend them, a job that Altman's international practice firm, rather than his relationship with Lance, he says, got him had to check with Lance to make sure there was no conflict of interest in accepting the case.

He also had to check another possible conflict with his Arab clients: his religion. Altman is Jewish, a fact that made no difference to the investor group. "It's perfectly legitimate and it's well known to them," he says. "The matter of fact, I think they're a little surprised by it."

Faced with the suit, the three investors decided to seek a complete takeover of Financial General. "From a business standpoint, the investors concluded that their interest was only to

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BY NICHOLAS

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COLCHESTER



Mr. Agha Hameed Abedi, president of BCCI, 56, was born in India and educated in law and English literature at Lucknow University. He came to Pakistan from Bombay, India in 1946 and worked there until leaving to lead the setting up of the United Bank of Pakistan in 1958. He left UBP in 1973 because of the impending nationalisation of banks. His last job before he set up at the end of 1977.

Mr. Abedi says that he has no stake in BCCI and that he is not a "wealthy" man. His home is in Pakistan but he is constantly on the move supervising the rapid international expansion of his bank. In London, he has one office; in Lahore, he has two, as in Jordan, he has one, as in Dulwich."

Very Good

Mr. Abedi is aiming for a \$4bn bank with a 7 per cent ratio of capital to total liabilities, by 1980. He is adamant that he has the management talent to cope with this continued growth. He says BCCI has 50 senior executives with more than 25 years of banking experience, including two ex-central bank governors and the ex-chairman of the Pakistan banking council.

These executives are managed in a way that looks very strange to anybody used to the management structures of the West. The management system is known inside BCCI as The Concept, and the Concept is almost an article of faith. It states that the chief executive is a committee with no geographical location. He is the "joint personality" of representatives of various parts of the bank who obtain "unity of

Within these constraints by growing less fast. Mr. Abedi wanted to raise more capital to allow his expansion to go ahead. For two years B of A imposed a moratorium on the raising of new funds. Finally at the end of last year it gave the go ahead.

B of A did not subscribe for the new shares and thereby lowered its stake from 30 per cent to 20 per cent.

The U.S. Securities and Exchange Commission (SEC) alleged that Mr. Lance, BCCI and the four clients were acting together in a secret attempt to gain control of Financial General. The Lance/BCCI group allegedly admitted knowing this charge was groundless to a settlement under which they would make a tender offer of \$15 a share for all Financial General's stock.

The effect of all this, Mr. Abedi explains, is to bring forward U.S. plans that were originally only a long-term aim. He is not yet sure who will make the offer, but whoever makes it and if it succeeds, will be "a big deal."

As B of a breeze to disengage himself, Mr. Abedi was able to find more information on his next target—the U.S. He was introduced to Mr. Francis Shekelle, a lawyer, and he put him on the payroll of B.I.C. as an adviser. Mr. Abedi says that Mr. Lauder's father was a big guy with the money to do anything he wanted to do. He said that world was politically vulnerable.

While America—and a rapid expansion in Africa—take up

The "sustainable" instrument recommended by Mr. Lane was Finance at the Bank of England. The Bank of England raised bank rates to 10 per cent in 1992 to curb inflation. But Mr. Lane says that the Bank of England has dropped out of the effort to curb inflation, and that restraint is needed to bring down the rate of inflation.

thought - through constant communication. Mr. Abedi is theoretically part of a "joint personality" in this mystical sounding system. Yet he is visibly the architect and chief, hovering over it all.

His desk is in the "pole position" at the end of a large and immaculately appointed open

immaculately appointed open plan office in Leadenhall Street. This is not the head office because BCCI is domiciled in

cause BCCI is decentralised to the point of having no centre, but in effect it is from this floor

and from the Abu Dhabi office that the operation is run. On this floor work the experienced

backbone of BCCI's management. They are almost without

ment. They are, almost without exception, given the title "executive" none visibly higher or lower, and when they

higher or lower—and when they meet they do so at a perfectly round table that embodies their

The City is bound to remain sceptical and indeed there are

11. This round-table system of management may prove better

management may prove hard to sustain. In the minutes of a recent executive meeting of BCCI there is a section which

at BCCI there is a section which reads: "If the Concept has not worked we may consider replac-

ing it with the Concept of Control, Registration and Disciplines The present state of

management, which is informal, somewhat ad hoc and flexible in disciplines, has to be reviewed

to determine to what extent it has been conducive to fuller utilisation of human energy."

Mr. Adeshi has visionary aims for his bank and for the "mission" of his bank.

...ion" which can be achieved
... through the trusts that own the
... Casman company that controls

But Mr Yves Lamarque of Bank of America sees BCCI's growth in "more down-to-earth" terms.

1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 2679, 2680, 26

the mysteries behind Abedi's bank

S-78 10390

By NIGEL RANCE

Iqbaluddin Ahmed was sitting down at the ABCD meeting in 2-1-78 when the question hit him like a blow in the face: "Are you from the Embassy bank in the Middle East?" asked someone at the same table. That's typical of the remarks come-out, made about the not-so-bank of Credit and Commerce International, the institution that is the talking point at bankers' cocktail parties, the source of gossip at conferences, and the object of speculation in the first-class cabins of planes ferrying bankers out to the G-5. Ahmed, the chief executive of BCCI's merchant bank, should be used to such questions, for by now BCCI is well aware of its reputation.

That reputation is based largely on speculation: on speculation about its unusual management style; on speculation about its relative founder and president, Pakistani-born Agha Hassan Abedi; on speculation about its Middle East shareholders; on speculation about its links with Saudi Arabian businessman Dr Ghailth Pearson, son of an adviser to the late King Faisal; on speculation about its connections with Bert Lance; on speculation that Bank of America wished to divest its shareholding in the bank; and, above all, on speculation concerning its amazing growth.

Evermore, as passed on some of that speculation, in our Gulf Banking survey last August we first published a report that Bank of America was considering a withdrawal from BCCI by selling its 34% shareholding. Subsequently, a representative from BCCI, Dhanu Ravi, visited *Euromoney's* London headquarters to complain about what he termed the inaccuracy of the report. Ravi claimed that Bank of America planned to retain its shareholding in the bank, and that it was very happy to do so. Bank of America confirmed

that statement. Some months later, however, Bank of America issued a press notice, following a number of stories in the financial press, which said that it intended to divest itself of its interest in BCCI by 1980. Abedi said he had no financial involvement in any BCCI company.

What follows is an investigation into BCCI and into the truth behind the rumours as far as this can be ascertained. While researching the story we talked to many BCCI employees, including an interview that lasted several hours with Agha Hassan Abedi.

If Bank of Credit and Commerce International is an unusual bank, its founder and president is even more unusual. "Purity and charity is the key to our management at BCCI," said Abedi during a rare interview with us at the inn on the Park hotel in London.

In the course of that interview Abedi described BCCI's origins, his unique concept of management, its shareholders, the maze of holding companies and cross-shareholdings that control it, and his relationship with Bert Lance. The bank, claimed Abedi, had loaned Lance a total of \$3.6 million while the former US Budget Director liquidated his shareholdings in several US banks. "We were told that Lance wanted to sell his 60% stake in the National Bank of Georgia." As a result, Abedi claimed, he introduced Pearson, a close friend, to Lance who subsequently sold his 120,460 National Bank of Georgia shares to Pearson for \$2.4 million, or \$20 a share. Lance now works on a retainer for ICIC Business and Promotions, a Grand Cayman-based company that is part of the BCCI network (see chart of shareholders).

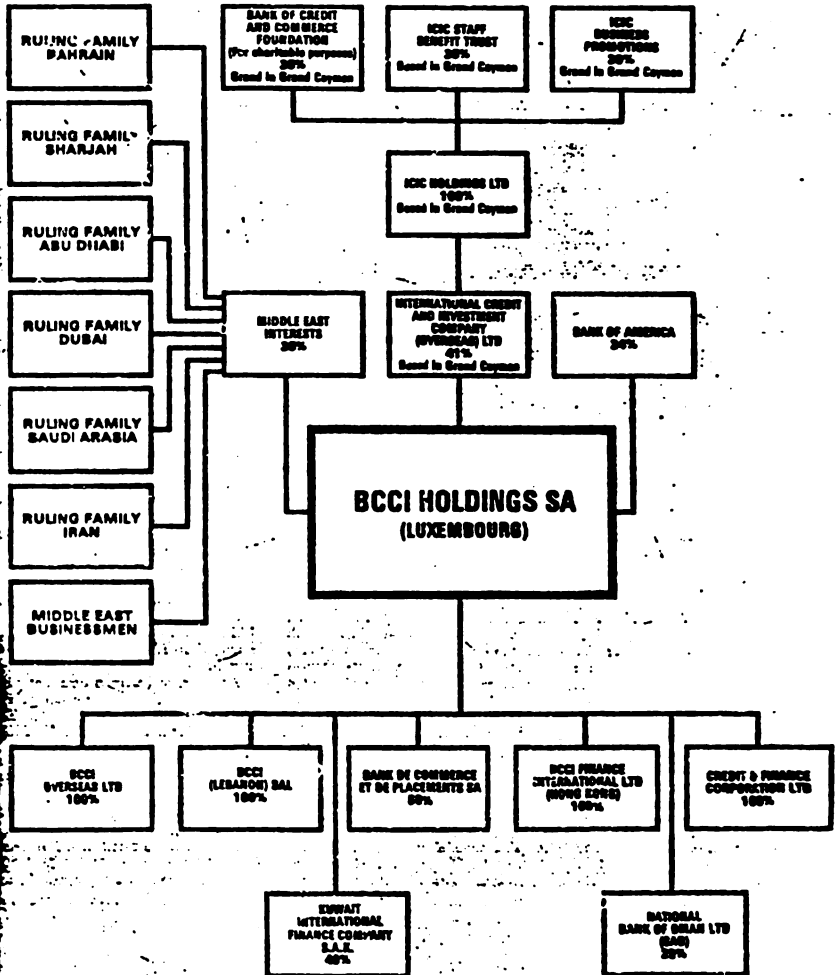
Abedi, 57, the son of a Lucknow landlord, played his master stroke when he foresaw the nationalization of banks in his native Pakistan and used his connections with some of the major ruling families of the Middle East to set up BCCI in 1972. The young Abedi graduated from Lucknow university with a degree in English literature and law, spent 12 years at Habib Bank before forming United Bank of Pakistan. He was president of United Bank for 13 years, and it was then that he made the Middle East connections that are so valuable to him today. He is, he claims, a close friend of Sheikh Zaid, president of the United Arab Emirates. Sheikh Zaid is said to have substantial financial interests in Pakistan. Abedi, in turn, acts as host to the sheikh when he visits Pakistan, accompanying him on shooting and hunting, and — a great love of the sheikh's — hawking expeditions.

BCCI's founder is a lover of Indian classical music and an avid reader of management books who shuns alcohol and publicity. While working in Karachi, for example, he was not a member of the city's smart watering spot that was frequented by ex-resident Shauzo and his entourage, the Sind Club, while most senior BCCI employees are members. But his Pakistani friends and employees have assumed an enormous importance in his business life: many of BCCI's senior managers are former United Bank employees, and Abedi continues to poach senior bankers from his native country. BCCI's staff includes, for example, a former governor of the Central Bank of Pakistan and a former governor of the central bank of Bangladesh. More recently, he hired Pakistan's World Bank representative, Iqbaluddin Ahmed, to run his merchant banking arm. With him, Ahmed brought another World Bank executive, Dr Peer Muth.

The bank, claimed Abedi, had loaned Lance a total of \$3.6 million while the former US Budget Director liquidated his shareholdings in several US banks

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UNRAVELLING BCCI'S SHAREHOLDERS





Aghe Hassan Abedi, BCCI president and founder.

His eagerness to hire experienced Pakistani bankers in one aspect of Abedi's management style. The way he runs the bank is even more unique. His headquarters are in Leadenhall Street in the City of London and there, when he's in town, Abedi sits in an open-plan office, a concept that is consciously or unconsciously based on that of Bank of America's founder president, Amadeo Peter Giannini who sat where he could see and be seen. His boardroom houses a custom-built circular table at which Abedi, deliberately, has no set place. The office is a profusion of flowers, and the decor reeks of the same smoked-glass opulence that characterizes the bank's branches that have been sprouting like spring flowers in the posher areas of London. No expense is spared: over the British Whitman holiday the air-conditioning was switched off during a heat wave. The flowers died but were immediately replaced.

BCCI employees do not have titles, apart from on the merchant banking side. Instead they have responsibilities. They are referred to as "executives". The general manager of the UK operations, Swaleh Naqvi, for example, describes himself as "executive in charge". This is the unorthodox style that does not create trust among BCCI's fellow bankers in London.

That unorthodox style, and the speed at which BCCI has expanded, is one of the great talking points in banking today.

It all began, said Abedi, during the interview, with his travels around the Middle East, his meetings with the ruling families and the problems in Pakistan combined to form the concept of a Pakistani-run bank with Middle East capital. The concept crystallized into a "bank in Luxembourg with the majority of the capital coming from our friends in the Middle East", but to add credibility and expertise, the bank needed a connection with a major international banking organization. Discussions began with American Express but came to nothing because, Abedi said, American Express wanted a quarter of the equity and a major say in the bank's management. "That was no good" said Abedi flatly.

"BCCI was conceived with two major factors in mind: we wanted a market place and a management capability. We knew that the market place initially was in the Middle East, and we knew that enough management capability would be available from United Bank after nationalization."

According to American Express all discussions with BCCI were done

through an intermediary who was a Middle East businessman. American Express have told us that to its knowledge no offer was made to BCCI.

So Bank of America was approached. That, in turn, was seeking a presence in the Middle East through local participation and, unlike American Express, it was prepared to inject capital without wanting to run the bank. "Bank of America agreed to become a shareholder, but we made it a condition that we would establish the management style" was how Abedi put it. A promotory agreement was signed during what Abedi described as a "historic hunch" in San Francisco in June 1972. The concept had become a reality, but it was a reality that Bank of America was apparently to regret later. Almost six years later B of A was to state that it had been satisfied with its shareholding in the bank, but that it had now established a presence of its own in the Middle East. Abedi, naturally enough, claimed that the relationship benefited both parties. "People will think that Bank of America's withdrawal shows that the relationship wasn't a good one," he said, "but we had a good relationship and both partners have benefited financially". Bank of America, he said, had done very well out of BCCI. "And if anything, the damaging publicity we got when Bank of America announced its intention was a test for BCCI. It hasn't done us any harm at all." Bank of America, however, were unable to comment.

But back in the days when the relationship was just beginning to blossom, the future looked less problematical in many ways. BCCI then stood on the threshold of the growth that is best exemplified in Table 1. That shows just how fast the expansion was: from 19 branches in 1973 to 146 branches by the end of last year, from assets of \$200 million in 1972 to assets of \$2.2 billion in 1977, and from pretax earnings of \$335,000 to \$25.9 million over the same short, hectic period.

Abedi concentrated on Britain and the Middle East, singling those out as the main potential growth markets. The growth of branch banking in Britain, in particular, was spectacular. An example: at the end of 1973 Britain hosted four of BCCI's characteristic smoked-glass branches with the now familiar BCCI logo prominently displayed. At the end of last year the number had risen to 45, some of them situated in the smartest areas of London where bureaux de change operations kicked in a major contribution

"People will think that Bank of America's withdrawal shows that the relationship wasn't a good one"

Table 1

A five year profile of BCCI

	Total of which UAE Othrs				Number	Assets	Growth	Capital	Growth	Deposits	Growth	Profit	Growth
	number	in	in	in	of	(\$000)	%	(\$000)	%	(\$000)	%	before Tax	(%)
	of branches	UK			countries								
1973	19	4	8	7	5	200,832	—	5,206	—	191,145	—	335	2.661
1974	27	7	15	5	7	610,167	203.8	11,104	113.3	581,048	204.0	2,918	2.022
1975	64	19	19	26	13	1,206,371	97.7	23,962	116.0	1,181,096	98.1	9,732	2.028
1976	108	29	28	51	21	1,656,439	37.3	50,070	108.8	1,506,030	30.8	20,012	3.117
1977	146	45	29	72	32	2,200,000	32.6	113,670	128.7	2,009,000	33.4	25,900	5.445

1. Basis of calculation: Capital fund comprising of paid up capital, subordinated loan, capital notes, reserves, retained earnings and minority interest.

to earnings, while others opened in northern industrial areas that contained substantial Pakistani populations. Surprisingly, on the figures supplied to us by BCCI (Table 2), the UK operation is not as profitable as the rest of BCCI's business. While the bank's UK assets of \$160 million represent more than 7% of BCCI's total balance sheet, UK profits contribute only 3% of total earnings. But London also serves as the bank's headquarters and is a favourite holiday place for many of BCCI's more important customers and shareholders. The sight of BCCI's limousines evoking the bank's friends at Heathrow airport, for example, is not at all uncommon.

Abdel, however, reacted strongly to the suggestion put to him during the interview that BCCI had become an ethnic bank in the UK, serving the Pakistani immigrant population and Middle East visitors. "We prefer," he said, "to be called a multinational operation." But "turning on the British population to BCCI is not easy and it will take a long time."

Abdel disputed that BCCI's growth, especially in the UK, has meant that it has become extended on the management side. "Our growth has been a balanced one in all directions." He believed that BCCI has adequate management capability, and said that 40% of BCCI's total global staff of 2,700 are not working to full capacity.

He has, however, called a halt to the bank's growth in the UK and that has been done with one main purpose in mind: to persuade the Bank of England to give it a full banking licence. It is said that BCCI has been on the waiting list for authorization longer than any other bank. It is also said that the Bank of England nearly granted it in 1976, but then drew back when it saw just how fast BCCI's expansion was progressing. "The Bank of England probably hasn't given permission because of the atmosphere surrounding the BCCI and the propaganda that has been spread about us," Abdel said, who referred to the long-established banks of the City as the "Club".

"It is not only the Bank of England that is against us, but the Club," he claimed. "After all, United Bank of Pakistan

got its full licence after just one year's operation in London." P. A. Jalil, however, that the bank was not in a hurry to achieve authorized status (which allows banks to deal in foreign exchange). "While we are waiting for it, we shall continue to increase our capital and improve our leverage position." In the meantime, BCCI in the UK is limited to taking foreign currency deposits of no more than \$75 million, while on sterling between the bank is limited only by the Bank of England's 12% minimum reserve ratio.

The global leverage position could certainly do with improving. Table 1 shows that the ratio of capital to liabilities (BCCI's own figures) actually fell during 1974 (not a great year for banking) but even now stands at less than 54%. This may be one of the factors that has deterred the Bank of England from granting it authorized status. Abdel certainly recognized the need to improve its gearing: "By 1980 we hope that our leverage will have improved to 70%," he said.

That growth in assets alarmed not only the Bank of England, it alarmed Bank of America as well, and is reported to be a major source of disagreement between the two, in spite of Abdel's denial. By 1976 these disagreements had resulted in B of A imposing a moratorium on the raising of new capital to finance BCCI's expansion, a moratorium that has since been lifted in line with B of A's decision to pull out.

Asset growth in the Middle East has also been phenomenal, particularly in the United Arab Emirates which ran into a banking crisis last year. BCCI has 11 branches in Abu Dhabi, three in Dubai and also spread through the other emirates; it was a prime target for immediate, but in our interview Abdel claimed that it had remained very liquid throughout the crisis, and that when two Bank of England officials had been called in to advise the UAE Currency Board, BCCI was pleased to open its books and discuss all. If it were to do that again the books would show that out of 114,000 accounts maintained at BCCI, around 20,000 are in the UAE. Some 25,000 are in the UK.

But it has run up against an apparent brick wall in Bahrain where it requested a commercial banking licence in 1973. The Bahrain Monetary Agency did not exist at the time: all requests had to be submitted to the Prime Minister. BCCI was turned down on the grounds that the number of commercial banks allowed in Bahrain was limited, but that when the policy was relaxed a licence would be issued. The bank is still waiting, although in the meantime it has been given an offshore-banking unit licence that it has still to take up. "Most OBU business we can do in Abu Dhabi and Dubai and through our subsidiary in Kuwait," concluded Sheikh Nayef.

Somewhat, BCCI appears to have an uneasy knack of making a name for

Table Two

Africa's contribution to profits

	Deposits		Assets		Pre-tax	
	(%)	(\$m)	(%)	(\$m)	(%)	(\$m)
Middle East	46	924.0	45	990.0	46	11.9
UK & Europe	23	442.0	27	594.0	16	4.1
of which UK	13	261.2	7	160.0	3	0.7
Other Europe	9	180.8	20	434.0	13	3.4
Africa	15	301.4	12	264.0	18	4.7
Far East, Ceylon &c.	17	341.6	16	352.0	20	5.2
	100.0	2,009.0	100.0	2,200.0	100.0	25.9

The African connection

One of Bank of Credit and Commerce International's most unusual relationships is in Swaziland, where BCCI is establishing a new joint venture bank, called the Swazi Nation Development Trust Fund, with the King of Swaziland, King Sobhuza II. The king, the world's longest reigning monarch, will not only own 45% of the bank, but he will deposit between \$20 and \$30 million during the first day's business to get it off to a flying start. The documentation forming the new bank was to be completed late last month. The bank will have a capital of only \$1 million.

Swaziland's major exports are sugar, peaches and pineapples. In turn, the king, who prorogued parliament five years ago and has ruled under a state of emergency ever since, controls export licenses. The new bank hopes to carve out a significant part of Swaziland's trade financing business, and to finance new building of sugar mills. It will also set up subsidiaries in nearby Lesotho and

Botswana.

Africa is central to Abedi's strategy. Already it makes a significant contribution to group earnings; last year, for example, it accounted for 18% of pretax earnings, or \$4.7 million. Abedi told us that he considered banking opportunities in Africa, partly because of the relative unsophistication of the existing banking system in some parts, and partly because of the comparatively higher spreads available. So BCCI is looking further afield at Nigeria and Malawi.

It already has six branches in Egypt, easily the most profitable of the African operations; it also has two branches in Kenya, and a single branch in each of the following: Ivory Coast, Sudan, Gabon, Morocco, Djibouti and Mauritius. That's not all: there are joint ventures in Ghana and Liberia. And in the Sudan another BCCI branch is due to open this month: unusual, because every other bank in the Sudan has been nationalized.

itself in whatever market it operates. Nowhere was this more apparent than in the US where it formed an association with one of the most controversial figures of all, Bart LANCE. We have already introduced LANCE to Pharos, and of the deal that resulted from that meeting. Just as intriguing was the deal that resulted from LANCE's recommendation that four of BCCI's clients — Sheikh Kamel Adham, in-chief of Saudi Arabian intelligence; Sheikh Sultan al Nahyan, crown prince of Abu Dhabi; Abdallah Darwish, adviser to the latter's family, and Farid Saad al Fuli, a Kuwaiti and a major shareholder with BCCI in Kuwait International Finance Company — buy into Financial General Bankshares, a bank holding company that has bank holidays in 14 states of the union. LANCE recommended to these four BCCI clients that they purchase 4.9% each of Financial General, just enough to keep them within the Section 13d SEC regulation prohibiting purchases of 5% or more without permission. That deal brought an SEC allegation that BCCI was acting in concert with LANCE and the four clients to covertly gain control of the bank holding company. But subsequently the allegation was dropped when

group gain control then BCCI would probably manage the US bank holding company.

BCCI stated to us that LANCE is paid a retainer by ICIC to seek out suitable investment opportunities in the US, but refused to state the size of that retainer. However, it disclosed that LANCE is also paid a commission for each deal that comes to fruition — presumably he is being paid a commission for the sale of the shares in Financial General. The \$3.6 million loan made to him by BCCI is still outstanding, the bank claimed, and that is to be repaid by him when the deal involving the sale of his stock in National Bank of Georgia is concluded. Abedi told us that he had first met LANCE in London soon after LANCE's resignation, and had there and then decided that LANCE had the

necessary credentials to work for BCCI.

The major shareholders at BCCI are one of the greatest points of contention. It's said that some of the most prominent Middle East rulers own stakes in the bank, although there are some that disbelieve this. BCCI provided a document with a complete list of its shareholders on the understanding that they were not to be published; we were obliged to accept that, but within that understanding we can confirm that the list includes members of the ruling families of Abu Dhabi, Dubai, Sharjah, Bahrain, Saudi Arabia and Iran. Our diagram shows the unique structure of the shareholdings. Many of them are men of untold wealth.

One of BCCI's most prominent Middle East shareholders hides behind the anonymity of two holding companies: Stock Holding Company SA and BCC Holding Company SA. Any company registered in Luxembourg does not, however, need to be informed of any changes in the shareholding of the company.

Bank of America's shareholding fell to 24% when it decided not to take up some of the \$10 million rights issue in December 1977. During the same month BCCI Holdings issued capital notes for \$20 million. According to BCCI notes worth \$2 million were placed through BCCI's associate, Kuwait International Finance Company (KIFCO). KIFCO approached two Kuwaiti based investment companies with a view to selling the BCCI paper. One did. The other was interested but out of liquid funds. As a result KIFCO lent the investment company \$1 million to buy some of the BCCI paper with a repurchase agreement to buy back the paper in six months time. One of BCCI's Middle East shareholders took a substantial part of the \$20 million issue for his own personal portfolio.

The most recent shareholder in BCCI is Dr Ghazi Pharos, a Saudi Arabian businessman who has been in the news recently for his deal with LANCE. Pharos is a possible buyer of Bank of America's stake in BCCI, valued by BCCI at \$18.7 million, at book value but at present he owns only 4.5%.

Pharos said, Middle East interests own 35% of BCCI, valued at \$27.3 million. The remaining 41% is held by a Cayman Islands-registered company called International Investment and Credit Overseas Ltd. In the past year, ICIC Overseas has become the largest

We can confirm that the list includes members of the ruling families of Abu Dhabi, Sharjah, Bahrain, Saudi Arabia and Iran. Many of them are men of untold wealth.

shareholder: through Abedi's direction, or so he said, Middle East shareholders sold part of their holdings to ICIC Overseas. The two major ruling family shareholders each held around a fifth of the shares when BCCI was founded six years ago. Their shareholdings have now been cut to less than 5%. Altogether there are 22 Middle East shareholders in BCCI, of which 17 are members of ruling families. Of the remaining five, one is a Kuwait-based company, and the rest are Lebanese businessmen, of whom Pharoan is the most prominent.

ICIC Overseas, which owns 41% of BCCI Holdings, was set up in April 1976 in the Cayman Islands. It now has assets of \$22 million. ICIC Overseas is, in turn, wholly owned by ICIC Holdings, which was formed at the same time. The latter is a joint stock company, which is in the process of being turned into three separate companies: 35% of ICIC Holdings is owned by Bank of Credit and Commerce Foundation with assets of \$7.7 million, 35% by ICIC Staff Benefit Trust with similar assets of \$7.7 million, and 30% by ICIC Business and Promotions, with assets of \$6.6 million. All three companies are incorporated in the Cayman Islands. BCC Foundation and the ICIC Staff Benefit Trust are both registered as trusts. ICIC Business Promotions is formed by guarantee. Each has four trustees and a board of directors

"We are quite serious about wanting to create a foundation for charitable purposes; foundations are generally created for business reasons, but ours is genuine and unique"

but will operate independently of each other.

BCCI's merchant banking activities are to be expanded, but slowly. Already BCCI Finance International in Hong Kong has three branches. It has participated in several Eurodollar financings. The subsidiary in Hong Kong also houses several numbered accounts that according to the report and accounts are not audited. The amount involved is \$56 million. The Credit and Finance Corporation, which is wholly owned by BCCI Holdings SA, is another merchant bank that will soon start operations in the Cayman Islands. It was originally planned for the company to be registered in London.

BCCI revolves around concepts. There is, for example, the BCCI management system which is actually called the Concept. That, in turn, is probably a

distillation of the ideas that Abedi culls from his management books, with a dash of eastern philosophy. Yet it is Abedi's concept of what he calls "above and below the line" that probably matters more to his shareholders. It boils down to this: Abedi's dream is to create a bank with assets of \$4 billion that will create profits (that's the above-the-line bit) which in turn will be paid into a foundation that will dispense charity (that's below the line). But who will the beneficiaries be? Abedi shied away from that question, and when pressed, said: "We are quite serious about wanting to create a foundation for charitable purposes; foundations are generally created for business reasons, but ours is genuine and unique." And so, at the end of it all, the purpose of the BCC Foundation remains a mystery. "There are certain values," said Abedi quietly, "to which we are dedicated." □

This announcement appears as a matter of record only

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April 1978

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London Bank Planning Takeover, FG Claims

By Rudolph A. Pyatt Jr.
Washington Star Staff Writer

A London-based bank is planning an eventual takeover of Financial General Bankshares Inc., on the assumption that a successful tender offer will be made for the Washington bank holding company, lawyers for Financial General claim.

The claim is contained in an affidavit filed in U.S. District Court here yesterday by attorneys for Financial General.

The affidavit was filed in conjunction with a motion asking the court to compel giant Bank of America to turn over certain documents to Financial General.

The bank holding company contends that the documents held by Bank of America are critical to Financial General's pending lawsuit in which it has accused several defendants of an illegal takeover attempt.

Among those which Financial General named as defendants in the suit it filed in February are Bank of Credit and Commerce International, a Luxembourg corporation with principal offices in London and controlled by Middle Eastern interests.

BANK OF AMERICA, the country's biggest bank, owns a 16 percent interest in BCCI. At the end of last year its interest in BCCI was slightly higher, at 24 percent.

The motion seeks to have Bank of America return to Financial General certain documents which were turned over to the Washington company earlier this month in connection with depositions that were taken from two of Bank of America's officers in London. The documents purportedly contain damaging information about the operation and financial condition of BCCI.

In court papers filed yesterday,

Financial General said that its attorneys had agreed to a stipulation that Bank of America would provide copies of the original documents, including a credit examination report on BCCI. However, a Bank of America official refused to comply with the promise to produce the copies, according to the motion and affidavit filed by Financial General.

THE MOTION ALSO asks that Bank of America be held in contempt and that it be made to pay Financial General costs and attorneys' fees in connection with the action.

See **BANKSHARES, A-17**

DAINKSPAKES

Continued From A-14

A Bank of America official reached in San Francisco yesterday said: "We were aware that the motion would be filed and we will be filing our own motion and responding to this motion in the near future."

In his affidavit, Douglas M. Kraus, an attorney for Financial General, says he was advised that Robert A. Altman, a Washington attorney who represents BCCI, had written a letter "threatening Bank of America with liability . . . if (Bank of America) permitted public disclosure of the documents. Bank of America took the position that it would only return the documents to FG if ordered to do so by a United States court," Kraus says in his affidavit.

Altman was out of the city yesterday and could not be reached for comment.

KRAUS MAINTAINS that although he did not have an opportunity to review the documents in question, an associate directed his attention to a two-page summary which allegedly shows that:

- BCCI's loan loss-reserves of approximately \$3 million were inadequate and should be increased to \$17 million.
- BCCI "had engaged in the practice of making substantial loans to what the report termed 'insiders'."
- BCCI's real estate loan portfolio was unsatisfactory.

In addition, says Kraus, one of the documents contained a statement to the effect that Bank of America should have one of its officers present at BCCI "at all times." Indeed, a Bank of America official testified in deposition that an officer has in fact, been installed at BCCI since late 1975, full time, and that his salary is reimbursed to BCCI by Bank of America, according to the Kraus affidavit.

At another point, Kraus says that a review of the Bank of America documents shows that BCCI or its subsidiaries or affiliates have made substantial loans to three of the four Middle Eastern defendants in the Financial General suit claiming a conspiracy to take it over. Moreover, according to the Kraus affidavit, one of those defendants — Faisal Saud Al Fulaij — received a \$5 million loan from a BCCI subsidiary to purchase

his shares of Financial General stock.

FINANCIAL GENERAL'S shareholders "are entitled to know that Bank of America — the largest banking institution in the United States — has concluded that BCCI is engaged in banking practices that fail to meet Bank of America's standards and/or which might be considered to be unsafe and unsound in comparison to prevailing American banking standards," the bank holding company contends in the affidavit.

That contention — that shareholders are entitled to know more about groups who may gain control of the company — has been made repeatedly by Financial General as it proceeds at length to obtain depositions from principals named in the civil action that has dragged on for seven months.

"Disclosure of this information is especially important, since the facts developed to date strongly suggest that BCCI will effectively control the operations of FG if the forthcoming tender offer by the Middle Eastern defendants is successful," insists Kraus.

Middle Eastern defendants in the civil action have already served notice that a formal tender offer will be made for Financial General stock. That disclosure was made following a consent agreement resulting from a Securities and Exchange Commission action charging several defendants, including Bert Lance, BCCI and the Middle Eastern principals of violating the Securities Act in purchasing FG stock.

COURT PAPERS filed yesterday disclosed for the first time that Financial General believes that the forthcoming tender offer for shares will be made by Credit and Commerce American Investment, B.V., a Netherlands corporation that is supposedly owned and controlled by Credit and Commerce American Holdings, N.V., a Netherlands Antilles corporation.

Documents filed yesterday also claim that discovery actions show that Agha Hasan Abedi, BCCI's president, met with several advisers in London recently to discuss, among other things, "who should become the president and chief executive officer of FG in the event that a tender offer is successful. Thus, it is apparent that BCCI would not only manage the operations of FG but is also actively engaged . . . in selecting the management team that would run FG if the tender offer succeeds."

Financial General argues that BCCI's objections to Bank of America's production of the documents in question "are nothing more than an improper attempt to interfere with FG's discovery rights."



WHITE PAPER ON

THE CONDUCT OF THE GENERAL ELECTIONS IN MARCH 1977

GOVERNMENT OF PAKISTAN
FAWALPINDI, JULY 1978

The papers relating to this inquiry were retrieved from the Prime Minister's House only in May, 1978. In the following month the Federal Investigation Agency was directed to reopen the inquiry. The results are still awaited. The ramifications of the deal are many excluding the question of the surcharge deposits and the interest charges thereon.

The Party Funds

The main account of the PPP was maintained in the Habib Bank Limited, Cantt. Branch, Kashmir Road, Rawalpindi. The account number is 22830. The account was maintained in the name of the Chairman PPP and was operated by Mr. Zulfikar Ali Bhutto himself.

Annexure 249 is a signed statement by the Senior Manager of the concerned bank, which shows the month-wise amount available in this account from 1st July, 1976, to 6th July, 1977. The position for the calendar years 1976 and 1977 emerges as follows :—

Year					Deposits	Withdrawals
1976	..	..	..	..	18,95,401.54	10,14,384.00
1977	..	..	..	..	59,66,525.75	6.89.890.90
Total					78,61,927.29	17,04,274.90

A perusal of the account shows that hardly seven or eight withdrawals were made from the account during the two calendar years mentioned above. Among the major withdrawals are two made in favour of Mr. Nasir Ali Rizvi, Secretary General, PPP. A sum of Rs. 2,00,000 was withdrawn in his favour on October 21, 1976 and another sum of Rs. 2,95,206 on January 28, 1977. Another major amount of Rs. 3,48,800 was withdrawn in favour of Mr. Hamid Jalal (Additional Secretary, Information) on 1st June, 1977.

The only other significant withdrawal which was made during the period under review was Rs. 5,60,230 in favour of the Chairman, Evacuee Trust Board. It would appear that this amount related to the purchase of a plot on Lawrence Road, Lahore, for the purpose of constructing the party headquarters.

According to the bank statement, the balance in this account on January 1, 1977 was Rs. 8,84,017. During the months of January and February, 1977, the balance steadily mounted up and reached a peak of Rs. 55,22,616/14 on February 1, 1977. Most of the money came by way of deposits of Rs. 1,000 each from the applicants for the party tickets for the National Assembly, and Rs. 500 each from those who were desirous of contesting for the Provincial Assembly on behalf of the PPP. This was a legitimate source of party funds but the most astonishing part of the story is that the amount thus collected was never utilised for election purposes. As stated earlier, only seven or eight withdrawals were made from this account. The rest of the money i.e. about Rs. 54

lacs was lying as fixed deposit with the bank. Annexure 250 is one sheet of the bank statement which shows a transfer of Rs. 51,44,000 to the fixed deposit account on February 14, 1977.

The only possible inference can be that apart from the provincial party funds, Mr. Z. A. Bhutto relied mainly on the secret service funds, disbursed by Mr. Afzal Said Khan and his section officer, for election purposes. The disbursement of the secret funds has been discussed earlier in this chapter. The payments made to the NWFP Chief Minister and other party leaders, for example, were from these funds. This was, of course, apart from the misuse of State resources like transport, media, telephones etc.

The other large source of funds was the money brought in by Agha Hasan Abdi. This was disbursed by Begum Bhutto as disclosed by Mr. Afzal Said Khan and indirectly confirmed in the note (Annexure 17) of Mr. Rafi Raza of October 9, 1976. Part of this money may have been diverted to the provincial party funds. Contributions from industrialists and businessmen also were collected.

To sum up, about two or three crores of rupees were brought in by Agha Hasan Abdi. The diversion of Rs. 1.92 crores from the secret funds stands confirmed. The expenditure, judged by the Punjab figures, does not quite add up to the collections which are on the cards. There must be substantial balances still floating around in cash or in hidden accounts.

The other account which has been examined in some detail seems to belong to the Punjab Provincial P.P. which was operated by the Secretary to the Chief Minister. The account was maintained by the Allied Bank of Pakistan, WAPDA House Branch, Lahore. Eight sheets of the bank account can be seen at Annexure 251 to 228.

This bank statement covers the period January 21, 1977, to July 5, 1977—the election campaign period and after. The statement opens with a cash deposit of Rs. 15 lac on June 21, 1977. There are only four subsequent accretions to this account as detailed below :—

Amount					Date
Rs.	58,500	(by transfer from S.B.A/C No. 1363)	..	..	15-2-1977
Rs.	15,00,000	(cash)	..	..	15-2-1977
Rs.	14,95,000	(cash)	..	..	26-2-1977
Rs.	5,00,000	(by transfer)	..	..	23-5-1977

It will thus be seen that out of a total amount of Rs. 50,53,500 deposited (including the initial cash deposit of Rs. 15 lacs) in this account, all but a meagre amount of Rs. 5,58,000 was deposited in cash. The total amount utilised during the crucial election period was Rs. 45,53,500.

out of this account. The list of persons who were given money out of this fund can be seen in the bank statement itself. Notable political persons were the Secretary General of the PPP, Shaikh Rashid, Dr. Mubashir Hasan, and more significantly, Rao Khurshid Ali Khan, who used to be identified as a PPP "rebel." What takes the cake is that three Deputy Commissioners of Multan, Dera Ghazi Khan, and Muzaffargarh have also been paid certain amounts. No better proof could be provided to show how the district administration became a tool of the ruling party.

Similar party accounts must have been maintained at the other three provincial headquarters. There are clues to other accounts/funds as well which are being identified and have yet to be investigated.

PNA Funds

How the PNA fought the general elections or raised the necessary funds is not the subject matter of this White Paper which is basically confined to the conduct of the general elections—a task shared by the ruling party and the Election Commission. Mr. Bhutto, however, did express his opinion on the source of the PNA funds. In fairness to him, this must be put on record.

Addressing the joint session of the National Assembly and the Senate on April 28, 1977, he observed :

"Is it a secret that in the past few months, foreign currency has flooded Pakistan; so much of it has come that I can find no parallel for this influx. The rate of the dollar in Karachi, as a result, has gone down to seven rupees, to six rupees. The money is being used to bribe people to do various things; they are being bribed to go to jail, they are being bribed to give *azaans* (the Muslim call to prayer), many postmen, milkmen and meter-readers are being bribed to distribute anti-PPP literature....."

"Dollars have been dished about. My party members have been bringing this to my notice. But I did not rush out to protest....."

Another reference in the official papers to the dollar influx is to be found in the minutes of the daily meetings of the then Information Minister, Mr. Tahir Mohammad Khan, with media chiefs. The minutes of the meeting held on April 27, 1977, refer to a directive to the PPP to circulate a news-story that the dollar was selling at a cheaper rate at Quetta and Peshawar. The idea perhaps was to prepare the ground for Mr. Bhutto's charge. The charge was levelled but Mr. Bhutto preferred to cite the Karachi market.

In his oath-taking speech in the newly "elected" National Assembly on March 28, 1977, Mr. Bhutto, however, had spoken in a slightly different vein. In that speech he had said :

"I shall, if provoked and if the context is relevant, quote chapter and verse how they claimed in their inner council that their strength, from their resources and finances came from far beyond the oceans."

Was it right for the Opposition members to behave so irresponsibly as to claim that they were bound to win in the election because their resources came from far beyond the frontiers of Pakistan? . . .

... I would not like to believe the claims made by the Opposition in this regard; they seem to be frivolous, immature and irresponsible, because, as you know, our relations with all countries of the world are excellent."

From the PPP platform in subsequent speeches the charge continued to reverberate that the PNA had received foreign assistance. The figure of Rs. 25 crore was mentioned. It was even suggested that the Pakistan currency had disappeared from the Gulf market. If it did, it might have had something to do, apart from the doings of the PNA, with the travels of Agha Hasan Abdi, loaded as he used to be with bagfuls of money.

Mr. Bhutto, for his part, never quoted the promised "chapter and verse" to stick the charge on the PNA. He never produced any other evidence while he remained in power, or afterwards. Although original letters are being produced before the Supreme Court by his lawyers, no documents pertaining to the foreign funds, allegedly received by the PNA, have so far come to light.

The records retrieved from the Prime Minister's Secretariat do contain references to internal financing of the PNA. A source report (Annexure 259), sent by Rao Rashid to former Prime Minister vide his letter (Annexure 260) dated April 12, stated :

"Among these who have contributed large sums of money to the PNA fund in Lahore are : Minno Shahzada, Nasim Sehgal, Fazal Din and Sons, Sheikh Salim Ali (of Din Taxis)

"The largest contribution to the PNA agitation fund is reported to have been made by the Gujranwala traders. . . . Among the several persons named was one 'Haji Black' whose nephew, Aziz Ansari (now in jail on charges of attempt to murder and other offences) was politically most active. . . . He should not be released as long as the agitation continues.

"The Income Tax Department, the Excise and Taxation Department, etc., may be asked to take care of these industrialists so that they be engaged elsewhere and cease taking interest in the agitation. The Commerce Ministry may also be asked to blacklist these persons for the time being and not to issue any import-export licences to them until the agitation ends, so that they may give more attention to their business problems and less to the political agitation."

In Some Arab States Helped in Plane Sales

An Envoy and a Saudi Aide
Had a Part in Egypt Deal;
Firm Denies Any Payoffs

SEC vs. State Department

By JERRY LANDAUER

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON - In the lucrative Middle East aircraft market, Boeing Co.'s dominance stands out like the Pyramids of Egypt - or so it seems at times to Boeing's chief competitors.

For example:

In the winter of 1975, executives of McDonnell Douglas Corp. believed they had scored a business coup. McDonnell Douglas had just received a letter of intent from Egyptair, the Egyptian government airline, to buy a fleet of six jetliners. Egyptair had even sent a small down payment.

Yet the Egyptian government withheld approval for the big order. Within a month Egyptair rescinded the commitment to McDonnell Douglas and switched the jetliner business to Boeing - after Boeing had swiftly mobilized a secret network of power brokers that few other American exporters can match.

Such events have led to an almost-three-year investigation by the Securities and Exchange Commission of Boeing's overseas commission payments. But the company stoutly denies that it paid any bribes to foreign government officials, and the SEC hasn't produced evidence to contradict that contention.

Keeping the Names Secret

Meantime, Boeing has managed to keep the names of its Mideast supersalesmen from public view. This has been accomplished with significant help from the State Department, which entered a court fight between the SEC and Boeing to argue that disclosure of Boeing's "highly placed" consultants abroad could harm U.S. foreign-policy interests. Nonetheless, through sources in and out of government, it is possible to reveal a glimpse of Boeing's well-connected allies in some Arab governments.

To win the Egyptian order, for example, Boeing called up its biggest gun. He is Mahdi Tajir, ambassador to London and Paris from the United Arab Emirates; this is a federation of seven sheikdoms in the Persian Gulf that includes vastly wealthy Abu Dhabi. Ambassador Tajir is a friend of the ruler of Abu Dhabi, Sheik Zayed bin Sultan al-Nahyan, who devotes part of his oil revenues to the cause of Arab solidarity. Encouraged by the ambassador, Sheik Zayed agreed to advance Egypt up to \$90 million, according to U.S. government agencies. That sum was far more than enough to buy

Next, James McDivitt, Boeing's vice president for international sales in Beirut, called Kamal Adham into the fray. Mr. Adham, who is related by marriage to the royal family of Saudi Arabia, then headed the Saudi foreign-intelligence service. He was the late King Faisal's designated contact man with the U.S. Central Intelligence Agency.

Millions in Commissions

Mr. Adham is especially close to President Anwar Sadat of Egypt, a country that requires Saudi subsidies to keep going. Acting on Boeing's behalf, U.S. agencies say, Mr. Adham intervened at high levels of the Egyptian government to make sure that the sheik's money was used to buy Boeing planes.

So Boeing was in - although at a price. Over the years, the company has paid many millions of dollars in commissions to Mr. Adham and to Ambassador Tajir, the friend of the openhanded sheik.

Boeing's executives believe, and have often said, that the company has won a majority share of the world market for commercial aircraft by offering superior products and better service. Yet Boeing's Mideast connections have also helped and not just in Egypt.

Succor for the Syrians

In 1974, the sheik of Abu Dhabi agreed to advance the government of Syria more than \$100 million to help the Syrians recover from losses sustained in the Yom Kippur war against Israel.

The sheik's \$100 million came as Syrian Arab Airlines was deciding what kind of jetliners to acquire. Among the major competitors were Boeing, McDonnell Douglas and Lockheed Corp. Lockheed was thought to have the inside track. But, as in the Egyptair deal, Boeing again prevailed, mostly because none of Boeing's competitors had equal access to Ambassador Tajir's timely assistance or, through him, to Sheik Zayed's financing.

First, the sheik's \$100 million was placed in an interest-bearing Swiss account for many months. Then it was used by the Syrian government to buy two Boeing special-performance 747s plus three advanced 777s. The interest on the sheik's money, \$4 million or more, flowed into a secret account at Banque de Gestion Financiere in Zurich. It is believed that men who had steered Syria's business to Boeing shared in the proceeds.

For some reason, though, Sheik Zayed became tightfisted in late 1976. Ambassador Tajir had arranged another huge advance from Abu Dhabi, in excess of \$100 million, to King Hussein of Jordan, for the purchase of two Boeing 747s. Yet, even as the big jets were being assembled in Seattle, the sheik balked. Eventually, though, he heeded King Hussein's pleas and provided Jordan \$30 million. The remaining costs, more than \$70 million, had to be financed by Jordan, in part with a credit from the U.S. Export-Import Bank.

Before the quadrupling of oil prices era
Please Turn to Page 31 Column 1

Continued From First Page

bled Ambassador Tajir to unzip the sheik's bulging purse. Boeing's Middle East sales efforts were aided by other Mideast financiers. One was Roger Tamraz, a Harvard-educated financial whiz who formerly was chairman of a Beirut subsidiary of Kidder Peabody & Co.

Mr. Tamraz earned large commissions from Boeing for assisting with Mideast aircraft sales. For example, as chairman of the Kidder Peabody subsidiary, in 1972 he arranged the first significant commercial loans to Egyptair—\$55 million to buy four Boeing 707s.

In late 1976, after inquiries by the SEC's enforcement division, Kidder Peabody investigated suspicions that Mr. Tamraz might have instructed Boeing to funnel under-the-table payments to political personalities in the Middle East. But an internal investigation failed to turn up evidence of wrongdoing. (Mr. Tamraz had resigned from Kidder Peabody in 1974.)

Boeing also received unusual help from the U.S. embassy in Beirut in 1968 in a pivotal sale that helped establish Boeing's strong position in the swiftly growing Middle East market. On that occasion, Boeing was competing against British Aircraft Corp. for sales in Lebanon. At a critical point, Mr. McDivitt was away pursuing aircraft deals in Turkey. So, diplomats report, the U.S. embassy in Beirut made a commitment on Boeing's behalf to pay two influential Lebanese businessmen for persuading Middle East Airlines to delay a purchase decision until Congress passed the then-pending Export Expansion Act.

Passage of that law, which loosened U.S. credit terms, enabled the Export-Import Bank to match Britain's favorable financing offer. Later, Boeing appointed the two Lebanese businessmen as consultants and paid them probably \$1 million, according to one U.S. diplomat in the Mideast.

"Occasionally we seek and receive advice from U.S. embassy staffs in various parts of the world to help us market our products," a Boeing executive says, speaking generally. "But the support we receive is no greater than would be extended to any other American firm whose sales help the nation's balance-of-payments problems." Boeing also contends that the company's identification with questionable sales activities abroad since the government began investigating "has been seriously overblown."

During the SEC's long investigation of Boeing's overseas payments, the company has quietly changed its Middle East sales arrangements. Now, for the first time, Boeing isn't selling aircraft directly to the ultimate customer. Instead, it is selling planes to a distributorship, Overseas International Distributors Co.; it was organized in Europe by Mr. McDivitt, the former Boeing vice president who helped engineer Egyptair's choice of Boeing over McDonnell Douglas in 1973. In essence, Mr. McDivitt buys the aircraft from Boeing, after obtaining orders for them in the Middle East.

Last Oct. 15, copies of purchase agreements show, the new firm bought two 737s from Boeing. On the same day, it resold the planes to Saudi Arabian Airlines Corp. The distributor has also purchased from Boeing, and immediately resold, a 747 equipped with elaborate custom-made interiors, for use by

Boeing issued press releases announcing those orders. But the announcements refrained from saying that the aircraft were sold to Mr. McDivitt's distributorship for resale to Saudi Arabia. For example, the press release on the two 737s said only that "two more 737 twin jets have been ordered by Saudi Arabian Airlines for delivery later this year."

"The SEC and the Justice Department are monitoring recently organized distributorship arrangements such as Mr. McDivitt's. The purpose is to make sure that exporters aren't setting up sham sales organizations abroad to shield themselves against the tough-sounding but vaguely worded foreign-bribery law enacted by Congress last December. Under that statute, an executive could be sent to jail if he is found guilty of knowing, or "having reason to know," that bribes were paid to promote his company's foreign sales."

Mr. McDivitt's Overseas International Distributors is registered in the Netherlands, primarily for tax purposes, and operates from Geneva. It is backed by a group of non-Americans who clearly have influence. Boeing says the company doesn't know who they are, and Mr. McDivitt won't identify them. But Overseas International's

impressive sales record certainly suggests, and high U.S. government officials believe, that he is working with at least some of the supersalesmen who helped Boeing in the past.

The Battle Over Confidentiality

Boeing contends that the names of these operatives constitute highly sensitive proprietary information, and the company has been battling with the SEC for nearly three years to protect this information against competitors.

All along, too, Boeing has consistently asserted that the \$70 million it paid in sales commissions, on gross foreign orders of \$3.3 billion from 1970 to 1975, was legitimate. "We are one of the very few firms which has contended it hasn't made any illegal overseas payments," Boeing has said. "We refuse to concede that any of our commission payments were illegal."

The State Department also wants to avoid publicizing details of Boeing's sales activities because identifying the company's network of overseas agents, the department says, "could reasonably be expected to cause damage to the foreign relations of the United States."

Late last year, the department impounded a federal court of appeals to seal a list of 18 "highly placed" Boeing consultants. The department contended that some names listed in response to an SEC subpoena "are those of officials of foreign governments or of persons closely associated with them." Boeing acknowledges that it paid fees to employees of foreign governments in several instances; these don't constitute payoffs, the company asserts, because the employees weren't in position to influence aircraft purchases.

Publicizing the names of Boeing's consultants before proof of any wrongdoing would be unfair and "should be avoided for foreign-policy reasons," the State Department urged, and the appeals court upheld that position.

But further court conflicts could lie ahead. Though the SEC's long inquiry hasn't uncovered solid evidence to support suspicions of bribery, the commission staff has indicated that some court action affecting Boeing sales practices is possible. The company says it hopes to settle any SEC suit without lengthy litigation.

FUAD ABU-IZZEDDIN & Co.
CERTIFIED & PUBLIC ACCOUNTANTS

FUAD ABU-IZZEDDIN :
M.S.A. F.C.C.A. (LONDON)
FUAD ABU-IZZEDDIN :
M.S.A. C.P.A. (NEW YORK)

LEBANON
BEIRUT - P. O. BOX 1242 - TEL. 232124
TELE. FUADIN. BEIRUT
SAUDI ARABIA
JEDDAH - P. O. BOX 202 TEL. 232020
TELE. FUADIN JEDDAH
ATAD - P. O. BOX 472 - TEL. 10000
TELE. FUADIN. ATAD

Jeddah, June 19 th 1978

جدة في ١٩/٦/١٩٧٨

CERTIFICATE

To whom it may concern
We, the undersigned,
do hereby certify that the estimate
of the net worth properties
investments of H.E. Kamal
Abu-Izzeddin at June 15th 1978, is
U.S. Dollars 134.000.000.- as
follows:-

	U.S.Dollars
Buildings	
in Arabia	100.000.000
Outside	8.000.000
Others	26.000.000
Total	134.000.000
Millions	
	134

FUAD ABU-IZZEDDIN

Accountant

شهادة

الى من يهمه الأمر

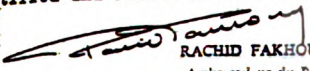
نحن الموقعين أدنى مسؤولية علينا فأننا نشهد أن صافي
القيمة التقديرية لممتلكات واستثمارات معالي الشيخ
كمال أبوهم في ١٥/٦/١٩٧٨ تبلغ ١٣٤ مليون
دولار أمريكي هيته كالتالي :-

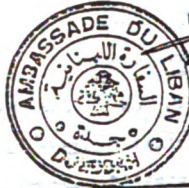
النوع	دولار أمريكي
أراضي ومباني بالمملكة العربية	١٠٠٠٠٠٠٠
المعمورة (مساكن)	
صافي وممتلكات بالخارج	٨٠٠٠٠٠٠
استثمارات	٢٦٠٠٠٠٠٠
مئة وأربعة وثلاثين مليون	١٣٤٠٠٠٠٠٠
دولار أمريكي	

د. فؤاد أبو عزالدين
محاسب قانوني

N° :
Date :

We certify on the signature
of Habib Aziz MAMARI authorized
by legal power to sign on behalf
of Fouad Abu Izzedin and Co; cer-
tified and Public Accountants.


RACHID FAKHOURY
Ambassadeur du Liban



نصادق على صحة توقيع السيد
حبيب عزيز معماري اللبناني المذيع
المأثنا من مكتب نواب ابو عز الدين
محاسب قانوني بموجب وكالة شرعية
تم الاطلاع عليها

رشيد فاخوري
ير لسان لدى المملكة العربية السعودية

السفارة اللبنانية بعثة غير
مسؤولة عن محتويات هذه الوثيقة

استولى الرسم البالغة قيمته سبعة وثمانون ريال دون الصفاق
اي ما يعادل خمسة قوايع كتمليها لتفادها وذلك بموجب ايمصال
رقم ٧٨١٦/١٩ تاريخ ١٩٥٠/١٢/١٩



وقد تم تزويد هذه الوثيقة عن محتويات الوثيقة
بمقتضى قرار من المجلس التنفيذي
أوتومنت ١٩٨٧/١٥ في
تاريخ ١٩٨٧/١٥
مكتب وزارة الخارجية



INFORMATION STATEMENT

OF

KAMAL ADHAM

Business Address: P.O. Box 1150
Jeddah, Saudi Arabia

Citizenship: Saudi Arabia

Position(s) and/or office(s) currently held (or to be held)
with CCAH and/or CCAI: None

Total number of shares of Common Stock of CCAH which are
now (or it is contemplated will be) owned, beneficially and
of record:

19,020 shares (19.02%)*

* Certain of these shares are subject to an agreement,
dated July 25, 1980, among Messrs. Adham, Fulaij, and
Symington, a copy of which is attached as Exhibit H to
Annex A (the "Symington Agreement").

Allied Arab Bank Limited

Cunard House
88 Leadenhall Street
London EC3A 3DR
Telephone 01-283 9111
Telex 886959
Telegraph Arabal London EC3

Our ref:- FX/FF

19th June, 1978

H.E. Sheikh Kamal Adham,
77, Eaton Square,
London, S.W.1.


Your Excellency,

We are pleased to confirm the following balances as at 19th June, 1978 of amounts placed with us by you on call and on fixed terms:

1. US\$514,680.29 on call presently at 6 3/4% per annum (Statement attached)
2. US\$1,000.000 fixed from 5.12.77 to 5.12.78 at 6 7/8% per annum
3. US\$5,000.000 fixed from 12.4.78 to 12.4.79 at 7 3/8% per annum.
4. US\$3,000.000 fixed from 1.6.78 to 1.6.79 at 7 3/4% per annum.

May we take this opportunity to assure you of our very best attention at all times.

Yours faithfully,
For Allied Arab Bank Limited.


F.C.J. Fernando


E.H.S. Khoo.

Allied Arab Bank Limited

Granite House
37-101 Cannon Street
London EC4N 5AD
Telephone 31-283 3111
Telex 8813401 8813402
Telegrams Arasol London EC4

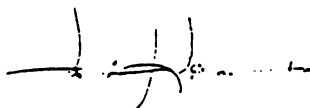
31st October, 1980

TO WHOM IT MAY CONCERN

We hereby confirm that the following balances were held as at 30th April, 1980 in this Bank in the name of H. E. Sheikh Kamal Adham:

US Dollar Current account	\$	38.-	Credit
US Dollar Call Deposit account	\$	2,511,316.75	"
US Dollar Fixed Deposit	\$13,000,000.-	"	
DM 7 Days Notice Deposit	DM	313,614.16	"

for ALLIED ARAB BANK LIMITED



F. C. J. FERNANDO
Senior Manager



E. H. S. KHOO



Allied Arab Bank Limited

Granite House
 67-101 Cannon Street
 London EC4N 6AD
 Telephone 01-253 9111
 Telex 8813401 8813402
 Telegraph Arabal London EC4

22nd April, 1981

Mr. Robert Altman
 Clifford & Warnke
 815 Connecticut Avenue
 Washington D.C. 20006
 U.S.A.

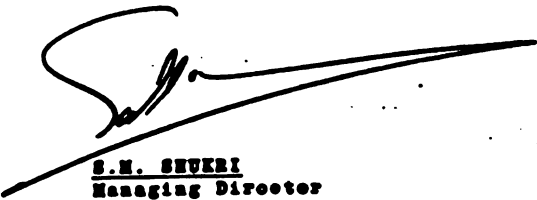
Dear Sir,

We understand that you require a bank reference for His Excellency Sheikh Kamal Adham and it gives us great pleasure to advise you that we have had dealings with this gentleman for several years and have found this relationship to be entirely satisfactory.

His Excellency Sheikh Kamal Adham is one of the most prominent citizens of Saudi Arabia and he is highly regarded in business and financial circles. He has substantial financial resources at his disposal including investments in real estate, banking and trading and industrial activities in Saudi Arabia and abroad.

He is known to have the capacity to make substantial financial commitments and enjoys the reputation of meeting such commitments.

Yours faithfully,



S.M. SHUKRI
 Managing Director
 & Chief Executive

VICE-CHAIRMAN

BARCLAYS BANK LIMITED
54 LOMBARD STREET
LONDON. EC3P 3AH

22nd April 1981

Mr. Robert Altman,
Clifford & Warnke,
815 Connecticut Avenue,
WASHINGTON D.C. 20006,
U.S.A.

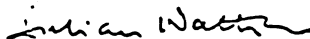
Dear Sir,

We understand that you require a bank reference for His Excellency Sheikh Kamal Adham.

We are pleased to advise you that H.E. Sheikh Kamal Adham is one of the most prominent citizens in Saudi Arabia. He is highly regarded and enjoys a first class reputation in business and financial circles.

Sheikh Kamal has important financial resources at his disposal and possesses very substantial investments in Saudi Arabia and abroad, in real estate, banking, and in trading and industrial companies. There is no doubt that he has the capacity to make substantial financial commitments.

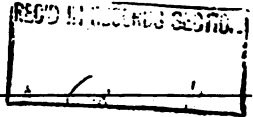
Yours faithfully,



J.P.G. WATHEN


 DIVISION OF BANKING
 SUPERVISORY

MAR 13 1981


 Comptroller of the Currency
 Administrator of National Banks

Washington, D.C. 20219

March 12, 1981

 Board of Governors of the
 Federal Reserve System
 Washington, D.C. 20551

Dear Board Members:

This is in response to a letter of November 28, 1980, from the Federal Reserve Bank of Richmond requesting the views and recommendation of this Office on the application of Credit and Commerce American Holdings, N.V., Netherlands Antilles, and Credit and Commerce American Investment, B.V., Netherlands, for prior approval to become bank holding companies. Holding company status would be achieved through the acquisition of up to 100 percent of the regular common stock of Financial General Bankshares, Inc., Washington, D.C., a registered bank holding company incorporated in the Commonwealth of Virginia.

Our analysis of this matter has focused principally upon information contained in the application, the confidential supplement to the application and facts gathered as a result of our direct supervisory authority over seven of Financial General's subsidiary banks. In addition, on December 11, 1980, a meeting was held, at their request, with counsel representing the proposed investors group. That meeting provided useful clarification of the group's post-acquisition plans regarding Financial General.

The current application is an update and resubmission of a similar application filed with the Federal Reserve Bank of Richmond in October, 1978. In a letter dated December 26, 1978, in response to a request for comment, this Office advised the Board that additional information considered pertinent to the application was required before an informed recommendation could be made. Since the current proposed transaction involves the same principal investors, our prior concerns continue to be relevant. The status of the five major items listed in our December, 1978 letter, (a copy of which is attached) is discussed below in light of the information submitted with the Federal Reserve Bank of Richmond's November 28, 1980, request and other information available to this Office as a result of its supervisory responsibilities:

- (1) Detailed biographical and business experience background information on the proposed new senior management of Financial General was not submitted in either application. At the December 11, 1980 meeting, counsel for the investors group acknowledged the importance of strong management. They indicated that, prior to final Board action on this application, the candidate selected to become the chief executive officer of Financial General by the representatives of the investors group would be submitted to the Board for consideration. They also

R 01766

 BY MAIL
 Sharon Shanks

indicated that the investors group would be prepared to submit to the Board a comprehensive operating plan for Financial General and would be willing to discuss with the agencies those plans in relation to the holding company system's future operations. Satisfactory accomplishment of these commitments will minimize uncertainty and concern regarding the future direction of Financial General under the proposed new ownership.

- (2) The October, 1978, application did not provide complete information on the sources of the funds needed for the acquisition. Additional detail was included in the current application, especially with respect to the actual amount of personal funds that will be contributed toward the acquisition by each investor. We have been informed by counsel that none of the investors are borrowing to finance their respective equity contributions. Although a definite loan commitment has not yet been obtained for funding the residual balance of the total acquisition cost, we were informed by counsel that negotiations were proceeding toward obtaining the necessary financing. Before taking final action on this application, the Board may wish to obtain all pertinent facts regarding the funding arrangements for the loan. Particular attention should be given to terms, backgrounds of the lender and broker, if such services are utilized, and any relationship the lender or broker may have with members of the investing group. The overall financial strength of the investors and the potential earning capacity of the Financial General organization do not suggest that there will be significant problems with the arrangement of a viable financing package.

In this connection, we note that in the October, 1978, application a relationship between the investors group and the Bank of Credit and Commerce International (BCCI) was outlined. Members of the proposed investors group for Credit and Commerce American Holdings, N.V., and Credit and Commerce American Investment, B.V., also hold an interest in BCCI. It has now been represented to us that BCCI will have no involvement with the management and other affairs of Financial General nor will BCCI be involved in the financing arrangements, if any are required, regarding this proposal. This commitment is critical, both now and in the future, since such a relationship with another financial institution would be a significant factor in appraising this application. This is especially important in light of the overlapping ownership which will exist between Credit and Commerce American Holdings, N.V., Credit and Commerce American Investment, B.V., and BCCI. Moreover, any enhanced direct or indirect affiliation or relationship between BCCI and Financial General would take on even greater significance in light of the fact that BCCI is not subject to regulation and supervision on a consolidated basis by a single bank supervisory authority.

- (3) Our December, 1978, letter expressed concern regarding the possible need for an additional injection of equity capital into several of the banks within the Financial General system. Responding to that concern, applicants have provided for an equity capital increase of \$12 million at the consummation of the acquisition and have indicated

R 01767

- 3 -

their commitment to inject additional capital funds as needed. This injection, and adherence to the capital plan submitted by applicants, should be sufficient to preserve adequate equity capital positions in the nationally-chartered subsidiary banks.

- (4) The original application provided no financial information regarding the investors. Since the applicants are new entities formed solely to facilitate this acquisition, the financial ability of the members of the investing group was and remains extremely important. While detailed balance sheets and income statements, most of which were certified by public accountants, were provided in the confidential portion of the current application on all the private citizen and corporate investors, conventional financial data has not been made available on certain of the investors. Applicants assert that the data is unavailable due to local custom and practice. In response to the agencies' concerns, however, the applicants have provided estimates of these investors' personal net worths, which appear adequate.

Our additional request concerning information regarding the identities of proposed minority investors was adequately answered by the submission of detailed biographical information on each proposed investor associated with the group.

- (5) Analysis of the October, 1978, application did not indicate whether the investors would receive remuneration in forms other than common stock ownership, such as management fees or commissions. It has since been represented that the investors will receive nothing other than common stock in return for their equity contributions to the applicants.

Accordingly, assuming that the investors group's proposed new chief executive officer and operating plans for Financial General are satisfactory to the Board and that the Board is satisfied that the financial strength of those investors whose financial disclosures are less than conventional is satisfactory, the concerns we expressed in our December, 1978, letter have been addressed.

Very truly yours,



C. F. Muckenfuss III
Senior Deputy Comptroller for Policy

11 02768

BANK OF CREDIT AND COMMERCE INTERNATIONAL

SWK 1274 ANONYMUS
NEW YORK REPRESENTATIVE OFFICE 375 PARK AVENUE NEW YORK NY 10157

KKE/gsl
October 14, 1982

Mr. Kemal Shoaib
Central Planning Division
BCCI London

Dear Mr. Shoaib,

RE: MONTHLY PERFORMANCE REPORT FOR THE MONTH OF SEPT 1982

Enclosed is the report of certain activities of the Representative Office for September 1982.

Notable exceptions not included in the report are as follows :-

1. Attending the IMF Conference held in Toronto.
2. Advising First American Bank in the acquisition of space for their New York Bank.
3. Arranging for the interview of Mr. Abedi with Mr. David Mizrahi of the Middle East Report for articles to appear in the World Press and Institutional Investor in October.

Yours truly,


KHUSRO KARAMAT ELLEY

Enclosures.

DC 004830

BANK OF CREDIT AND COMMERCE INTERNATIONAL

SOCIÉTÉ ANONYME

NEW YORK REPRESENTATIVE OFFICE 375 PARK AVENUE NEW YORK NY 10152

Mr. Swaleh Naqvi
C S O
BCCI London

KKE/gsl
December 13, 1982

Dear Mr. Naqvi,

Re: First American Bank New York

A meeting was held between Mr. Feghali, myself and Mr. Robert Altman in New York office on December 10th at which the following subjects were covered.

- 1) Subletting of space 350 Park Avenue.
- 2) Renovation of space and possible acquisition of furniture from Manufacturers Hanover.
- 3) Selection of Board Directors.
- 4) Recruitment of Key Staff .
- 5) Selection of Auditors.
- 6) Selections of Lawyers.
- 7) Selection of Data Processing Equipment.
- 8) Compensation package including fringe benefits.
- 9) Projections for first years operations.
- 10) Coordination with Holding Company and Share Holders.

This is for your information.

Yours sincerely,


KHUSRO KARAMAT ELLEY

Why is he meeting with Elley on this?

DC 004631

BANK OF CREDIT AND COMMERCE INTERNATIONAL

SOCIÉTÉ ANONYME

NEW YORK REPRESENTATIVE OFFICE 375 PARK AVENUE NEW YORK NY 10152

Mr. Swaleh Naqvi
C S O
Bank of Credit & Commerce Intl
London

KKE/gsl
December 23, 1982

Dear Mr. Naqvi,

Re: Board of Directors, First American Bank of New York

I am enclosing for you the particulars of an individual who I've known for the last four or five years and who I consider to be eminently suitable to be a member of the Board of Directors of the First American Bank of New York.

Mr. Richard M. Paget is President of a very prestigious management consulting firm. He is on the Board of a number of companies including the Washington Post. My relationship with him are fairly close and I feel we could not only use his name but also his contacts which are at very high levels. Mr. Paget is 69 years old. Recently he has also been awarded the U.S. Navy Civilian Service Medal and has agreed to become Chairman of the American Friends of the Australian National Gallery Foundation.

I would like you and Mr. Abedi to meet him on your next visit.

Yours truly,


KHUSHRO KARAMAT ELLEY

Enclosures:

- for St. Paul

100 LEADENHALL STREET LONDON EC3A 3AD

DATE September 27, 1985

FROM Central Office Division

TO The Manager
BCCI
Los Angeles AgencySUBJECT MR K.K. ELLEY - HOUSE LOAN ACCOUNT

It has been agreed to transfer the House Loan Account of Mr K.K. Elley - from BCCI Luxembourg to BCCI Los Angeles Agency. You are requested to open a new House Loan Account in the above name and remit US\$292,037.51, value date 30th September 1985, to BCCI Luxembourg for the credit of account no. 11002716 (House Loan Account of Mr K.K. Elley).

The details of this loan will be forwarded to you shortly. This transaction has the approval of Mr Kemal Shoaib.

Regards,


MOHAMMAD AZMATULLAH

DC 010833

1st AMERICAN
FIRST AMERICAN BANK OF NEW YORK

KHUSRO KARAMAT ELLEY
Executive Vice President

Ms. Beth

January 31, 1989

Mr. Saeed Siddiqui
General Manager
Bank of Credit & Commerce
International
501 West 6th Street
Los Angeles, CA 90014

Re: Loan Payment-February

Dear Mr. Siddiqui:

Enclosed please find my check (no. 604) in the amount of \$3,000 (Three Thousand Dollars), representing payment of interest and principal (account #'s 163, 174 and 185) on the mortgage of my house at One Scarsdale Farm Road, Scarsdale, New York.

Thank you.

Sincerely,

Khusro K. Elley

Khusro K. Elley

KKE:pc
Encl.

Minutes of U.S. Marketing MeetingHeld on April 24, 1985 in New York

The following attended:

1. Mr. Aijaz Afridi
2. Mr. Tariq Jamil
3. Mr. Khushro Karamat Elley
4. Mr. Amjad Awan
5. Mr. Raja Allahdad
6. Mr. Dilip Munshi
7. Mr. Shafiqur Rehman Khan
8. Mr. Sultan Mohiuddin
9. Mr. Musarrat Rizvi
10. Mr. Hasan Parvez

Mr. Louis Saubolle, Mr. S.M. Shafi and Mr. Sani Ahmed could not attend the meeting because of their other engagements.

Matters DiscussedPurpose of the Meeting

Mr. Aijaz Afridi opened the meeting and emphasized that the purpose of the meeting was to coordinate the efforts of different locations of BCC and other institutions so that the President's desire to have a totality in approach is achieved. It is a great challenge that the Group faces in the present and future U.S. operations and this is only by the joint efforts and coordination that we could be able to successfully meet this challenge.

Mr. Tariq Jamil described it as very timely meeting and he mentioned of our obligation to succeed and that it is only possible if it's done collectively. Mr. Shafiqur Rehman described this first meeting as the initiation of our efforts to move into the future of BCC in U.S.A. in a calculated and planned way with the uniformity of approach and totality in operational objectives. It is in totality in operations that success lies and an individual or an entity operating in isolation can never grow. The future objectives and greater interests are more important than the present achievements which would have been possible by our individual or isolated approaches. It is through the meetings of this nature that the information will flow, assistance will be provided and the collective view on the U.S. operations will be presented to the C.S.O. so that it may assist them in carving out the policies on growth, expansion, credits and personnel matters.

C 0000050

Marketing

Mr. Alijz Afridi opened the discussion on marketing by referring to the concept of clear perception and clean instinct and defined clear perception as, "Capacity for comprehension, building a mental picture and then trying this to clear instinct - which is feeling all enveloped by the grand vision of what BCC shall be". He said that our major task in the U.S. should be to build market share. BCC had been a success in Third World and now we are embarked on establishing an equally successful business in the most competitive country in the world. He requested the members to work together to overwhelm the U.S. market and act in a unified manner and be supportive to each other.

Mr. Tariq Jamil described the U.S. market as information driven and information prone. There is a need to update our knowledge of marketing and be fully informed as to the needs of the customer. Historically we have not made calculated approach to the local indigenous market and have kept depending on the traditional sources of funds. The banking industry is undergoing tremendous changes and this is in the fold of this change that the success rests. The change always creates opportunities.

Mr. Sakhia advised that we should concentrate on increasing the customers deposit base. As our operations are new and we are trying to build up a bridge between BCC and the prospective market in South America and Caribbean, it is imperative that the customer should be introduced to BCC by every possible effort even if at times we have to attract them by offering better than market rate of interest. Once the relationship are developed the required adjustments in the composition of such deposits could be made. He mentioned that our greatest asset are the people. He suggested that we should set up a coordination desk at every center so that the information is passed on to each other on clients and business whenever there is a movement of these two factors from one place to another.

0 0000001

- 3 -

National Bank of Georgia

To update each member of the operations of different units it was agreed to discuss briefly the size and volume of each location's business. Mr. Tariq Jamil presented the following report on NBC: (As on 31/12/84)

Deposits	-	996 Million
Assets	-	1303 Million
Profits	-	10.4 Million
Advances	-	742 Million

Nature of Business

- A. Retail and Consumer.
- B. Mid-Size Market (Commercial) Profitable and Relationship Oriented.
- C. Trustee Business.
- D. Bankers to Government Agencies.
- E. Small to Mid-Size Corporate Sector.
- F. Wholesale banking division established to address large corporate sector.

To increase the profitability by growth the following actions have been taken:

- A. Expansion - obtaining charter.
- B. Added more people to marketing.
- C. Decentralizing marketing.
- D. Expenses control.

He mentioned that consumer business is more profitable than commercial business.

BCC Canada

Mr. Allahdad mentioned that it is difficult to operate on the same lines as NBC has been doing because of the difference in operational situation and credit policies for BCC Canada and that of NBC. BCC Canada cannot enter into:

- A. Consumer Loans
- B. Commercial Loans
- C. Credit Card Operations

C 0000052

He was not also happy with the capability of BCC computer facilities to meet the needs of the consumer in the local market place. He mentioned that till 1981, BCC had no acceptability in the local market and the situation has changed totally now and their CD's have an excellent listing. Their customer deposits are around \$200 million, out of which 55% are corporate funds and 45% from the retail sector. The loan portfolio is around \$90 million. Mr. Tariq Jamil discussed with him the possibilities of customer CD's for smaller amounts on the lines of NBC and requested Mr. Raja to explore the probability in the future. Mr. Allahdad mentioned that the reason of low profitability is lesser thrust in the consumer market as compared to more resourceful banks and mainly depending on corporate sector that offers very thin margins on the deals and deposits. In the interest of profitability the capitalisation costs have been kept very low that are negating the efforts to expand.

New York Agency

Mr. Rehman apprised the members of the present situation of the Agency and the process through which it has passed during the last one year. Because of its inability to open customer deposit accounts much could not be done in this sector and most of the time was consumed in setting up the office and systems so that it could be ready to accommodate all business that has to come.

In march, 1985 after the passage of New York State Omnibus Banking Bill the Agency has been authorized to accept all kinds of non-resident/non U.S. citizen deposits of all denominations. The initial work has been completed on the printing of account opening forms etc..., and after the concentrated marketing efforts positive results as expected. On the business side there has been an increase at an accelerated pace and the take off situation is very near. The New York Agency is fully automated and is member of S.W.I.F.T. and associate member of New York Clearing House. It has the operational capability to handle all kinds and volume of international business.

C 0000053

Miami

Mr. Sakhia informed that the Miami Agency stands in third position among the foreign agencies in Miami. The Caribbean Region has contributed 13.5 % to the growth of total deposits to the Group during 1984. BCC has all the acceptance of the local financial community. Mr. Sakhia suggested that they should have a joint approach in handling the U.S. business and that a consolidated and unified presentation should be made to C.S.O. to understand our operational problems and that a coordination team should be formed to collect information on the movement of the existing clients and the prospective clients.

Latin American Region

Mr. Musarrat Rizvi informed that their region has generated 200 Million dollars of deposits out of which 80 Million dollars has been placed in other BCC units. The projected figure for 1985 is 800 Million dollars out of which 150 Million are expected to be placed with other offices of BCC during 1985. Their operation in Peru and Argentina will start this year and it is expected that the Latin American Region will give a profit of 10 Million in 1985. He assured that every possible effort will be done to assist all the centers in their growth.

San Francisco

Because of the nature of operations San Francisco Agency had mainly been catering for the Chinese businesses. Mr. Mohiuddin recently traveled in the Middle East and was successful in generating substantial amounts of deposits that has been placed with the Agency. He was confident that all efforts will continue to increase the size and effectiveness of their office.

Los Angeles

Mr. Munshi informed that his market is predominantly the ethnic community for retail deposits. Like San Francisco they have to depend on deposits from Hong Kong, Canada and Middle East. He had poor response from most American companies that mainly deal with other U.S. Banks and he consequently concentrated on inter-bank money market. He was of the opinion that in the interest of profitability the loan portfolio is to be increased. In order to have an entry in High network Individuals sector, they are planning to open an office in Beverlyhills very shortly.

- 6 -

First American Bank
of New York

Mr. Elley gave a background of the history of FAB Group, especially New York, describing the role of the investors and how the emphasis was on developing New York. He described that in addition to providing a range of full services from New York, the main focus would be on creating a powerful International Division and very strong Money Market and F.X. Operations, since these are two areas which had not been available in the FAB Group. He reported that the Bank in New York was fully operational and offered in the International Area, Correspondent Banking Services, Trade Finance and Private Banking. Additionally, they were doing Domestic Banking through a network of 44 Branches, which were engaged in all the retail services from Mortgages to Auto Loans. A corporate Division looked after the Middle Market and the larger companies, while the Treasury area was now very active in Money Market and Foreign Exchange Markets. FABNY is also a member of CHIPS and SWIFT, and had started handling the accounts of a number of BCC Branches.

Partly as a result of a number of acquisitions made in the previous year, the Bank has now achieved a size of \$800 million in assets and has a capital of \$100 million. It was expected that by the end of 1985, Assets would reach \$1 billion in New York.

They were presently facing the following problems:

1. New York City overheads were high and the dilemma was how to be in profit from year one.
2. Because of its acquisition programme, the Bank was currently a combination of 3 Banks, and a lot of Management time was being spent to form them into one Bank.
3. Sophisticated automation and systems had been put in place. This initially created teething problems, which are now almost resolved, but they had nevertheless taken up considerable time.
4. They were having to work very hard in creating a joint personality of the Senior Management.

C 0000055

the question of Mr. Jamil on the application of funds Mr. Elley explained different outlets and also agreed with Mr. Jamil that he would do a research on the processing of Cash Letters of Savings and Loans Associations, Thrifts and Credit Unions that has been ignored by money center banks.

Washington Representative Office

Mr. Amjad Awan was requested to provide the timely information on domestic and international deals. Mr. Jamil described Washington as a seat of decision making on major policies on trade and banking business. Mr. Awan assured that they are gearing up to meet the increasing requirements and expectations of assistance of BCC Group.

Conclusion

Mr. Elley concluded that in America we are sitting on 7 billion dollar assets and this is just the beginning. There is much to do and inspite of diversity of operations as different agencies and banks we have to find a common denominator. The U.S. Team should play an important role in identifying the products in the market and also to improve the resources and also set up an overall direction.

Mr. Sakha expressed that it is a "unique experience" the U.S. operations have been started by a team of younger and energetic individuals. He suggested that these meetings should be a continuing process and while we meet next time we should come up with recommendations and proposals on what we could do for each other.

It was agreed by consensus that instead of isolated approaches to C.S.O. to present our problems a joint approach should be made that would give a clear prospective on the needs and requirements in the U.S. market..

The participants unanimously agreed to nominate Mr. Shafiqur Rehman Khan as coordinator of these meetings. The next venue of the meeting was decided to be in Miami on June 1, and specific items for the Agenda to be advised to Mr. Shafiqur Rehman for circulation.

C 0000056



PLEASE TRANSMIT THE FOLLOWING
TELEX MESSAGE

1976.38 1ST/VN

2247
76

MESSAGE No. MIA/

TELEX No

DATE 5/4/86 TIME

TEST No.

TO: MR. ROBERT ALLMAN
PRESIDENT
FIRST AMERICAN CORPORATION
WASHINGTON, D.C.

AMOUNT

VALUE

FROM: A.R. SAKHIA

IT IS MY PLEASURE TO INFORM YOU THAT BCC BOCA RATON
HAS ARRANGED FOR FIRST AMERICAN NEW YORK A CUSTOMER
DEPOSIT OF US\$ 4,200,000 FOR 6 MONTHS AT SLIGHTLY
BELOW MARKET RATES. THIS IS IN ADDITION TO DEPOSIT
OF \$5 MILLION ARRANGED EARLIER.

WE HOPE WE WILL HAVE MANY MORE FRUITFUL RELATIONSHIPS.

REGARDS,

A.R. SAKHIA

CC: KBNAL

FROM
BANCRECOM MIAMI

NOT TO BE TRANSMITTED

Authorized Signature

Authorized Signature

Date

CHARGES RECOVERED FROM CLIENT YES/NO
DEBIT

C 000:85.



Third meeting of the Americas Coordinating Committee of Bank of Credit and Commerce International was held at New York on July 22, 1985. Following were present:

S. M. SHAFI	-	CHAIRMAN	T. JAMIL
AIJAZ AFRIDI			SHAFIQUR RAHMAN
AMJAD AMAN			ABDUR R. SAKHIA
FEROZ DEAN	-	(DIR.)	ANIS ZULEVI

Mr. Sani Ahmad, Mr. K. Kelley, Mr. A. D. Raja, Mr. Soubole could not attend and were excused.

It was discussed that if permanent members could not attend an alternate member must attend. Meetings of this committee are going to play an important role and this committee is in the long run will be the managing Committee of Americas.

Minutes of the last meeting were discussed. Typing errors pointed out to be corrected and minutes were adopted.

Points arising from the previous meeting were raised.

1. Names of Officers handling Latin America in First American Bank to be given by Mr. Afridi to Mr. Shafi.
2. All business passed on by BCC to FABNY may please be reported to Mr. Afridi.
3. Asif Mujtalia was named co-ordinator of business with N.B.G. Mr. M. H. Zubairi to be co-ordinator in Banco Mercantil.
4. It was suggested that co-ordinators should meet soon.



- 2 -

5. Credits-Chairman pointed out that no Comprehensive proposals were received by the Secretary from various members. It was requested that proposal may please be received by 1st week of August.
6. Computer-Chairman confirmed that all points raised in the minutes about computerization were indeed discussed in the previous meeting. It was also decided in that meeting to receive suggestions from all units as to study what other banks were doing, what services various units would like to offer and what computer facilities will be required to provide this service. It was discussed that market is changing. Banks come out with different products everytime. We can not compete without support of the Computer Division nor can we wait. It is a dilemma. We should bring this to the notice of London.

It was agreed that all units please communicate with this committee to communicate with C.S.O.

RETURNS No action has so far been taken and number of returns continues to increase. List of returns to be compiled and sent to C.S.O. to study possible duplication.

C 0006142



APPLICATION FOR GREEN CARDS

Mr. Shoatb's letter was discussed. It was felt that no hard and fast guideline could be developed, however following points must be observed.

1. It will not be automatic right of the staff.
2. Only International staff will be considered.
3. Cost will be borne by officer.
4. Application would be considered in the 3rd year of posting in the U.S.
5. It will not mean that officers services are not transferable from the U.S.
6. Sponsoring such a request will not make obtaining of Work Permit difficult.
7. In all cases it will be done upon recommendation of Regional General Manager.

VISIT OF PRESIDENT

Impending visit of Agha Saheb was discussed. It was agreed that List of Participants will be as per Agha Saheb's approval. It was felt that it may be suggested to Agha Saheb to include the following:

1. All members of all R. Mc's.
2. Members of this co-ordinating Committee and all members.
3. All reference desk officers.

C 0000143



- 4 -

It was also suggested by members from Washington that all units contacting official agencies in Washington may inform or enclose copy to Washington Representative Office.

It was discussed that the various dealing rooms within this area may try to increase business with each other and help support each other. It was agreed to have meetings of Dealers in Americas soon.

Meeting ended with a vote of Thanks to the Chairman and to Mr. S. Rahman for hosting the meeting.

A.R. Sakha
SECRETARY
AMERICAS COORDINATING COMMITTEE

S.M. Shafi
CHAIRMAN
AMERICAS COORDINATING COMMITTEE

C 0000144

PRESIDENT'S MEETING WITH FAR EAST REGION
SENIOR EXECUTIVES IN HONGKONG 23.4.87 (4:15 P.M.)

The fact that I am sitting before you addressing you itself indicates the importance of this phenomena.

I have requested some of the other colleagues who are not directly concerned with this subject, to join this meeting, with a view to letting them know what is the importance of this programme - the process of this phenomena.

If I was to describe or convey to you (if I am capable of doing that) the importance of the meaning of this, new concept in the Bank, - the effort that we are launching - I can say it in a few simple words: -

For me this is the event in importance only one event that happened in September 1972, when this Bank came into being. If I were to be honest with you I think you would agree to that but it is just as important as that.

This Bank has become a significant banking institution in the committee of banks internationally. You are now with the First American Group of banks, at the moment, over \$ 27 billion in assets and we will be \$ 30 billion by the end of this year. We are now being recognised in the brotherhood of international banks as an important factor to the banking system of the world! This is not being said by me but I'm repeating the words of many senior bankers, regulators and auditing firms.

It was a vision - in 1972, come true in 1987.

You know our definition of vision !

Vision is not a vision unless it has a built-up power for translating itself, - otherwise it is imagination - it is a fantasy.

A new vision is (now) born of no less importance and this is EMP.

23 April 87
 President's
 meeting with
 Far East
 Region

COPIED AND SERIALIZED
 AT THE
 FEDERAL RESERVE BOARD

BOARD OF GOVERNORS
 FEDERAL RESERVE SYSTEM
 EXHIBIT

3447

11A

ALTMAN DEPOSITION
6/23/88
VIRGINIA BANKSHARES CASE¹⁰

1 MR. MERNICK: And I take it you are not
2 asserting any privilege?

3 MR. CAWLEY: I am directing that -- it has
4 gone beyond the scope of any discoverable evidence that
5 I can possibly conceive of, and it is just trying to
6 satisfy some idle curiosity, which he doesn't need to
7 answer.

8 MR. STUMP: On behalf of the directors, I
9 associate myself with the objection. I of course do not
10 have power to direct Mr. Altman one way or another, but
11 I certainly object to this as intended to insert heat
12 rather than light into the case.

13 BY MR. MERNICK: (Resuming)

14 Q. Are you going to adhere to your counsel's
15 instructions not to answer that question?

16 A. I am.

17 Q. Mr. Altman, does Sheik Kamal Adham own more
18 than 50 percent of the stock of CCAH?

19 (Witness confers with counsel.)

20 MR. CAWLEY: I'm also going to direct him not
21 to answer what percentage of stock Mr. Adham owns in
22 CCAH.

1 BY MR. MERNICK: (Resuming)

2 Q. Mr. Altman, do you have occasion -- strike
3 that.

4 May I safely assume for the balance of this
5 deposition that if your counsel instructs you not to
6 answer a question you in fact will adhere to that
7 instruction and will not answer the question?

8 A. That is a valid assumption.

9 Q. Mr. Altman, are there occasions on which you
10 communicate with one or more of the investors of CCAH?

11 A. Yes.

12 Q. Is there any particular investor with whom you
13 communicate on a regular basis, as opposed to the other
14 investors?

15 A. No.

16 Q. Do you communicate with all of them with equal
17 frequency?

18 A. No.

19 Q. Is there an investor with whom you communicate
20 with greater frequency than with the others?

21 A. There is no particular pattern to it.

22 Sometimes some of the investors call me or at times I

1 will contact one of them. At times I will contact all
2 of them.

3 Q. Is it your testimony, then, that you on those
4 occasions when you contact one, as opposed to all, of
5 them, contact them with equal frequency, one as opposed
6 to the other?

7 A. No.

8 Q. Is there one whom you contact more regularly
9 than the others or more frequently than the others?

10 A. Well, I would be speculating because I don't
11 know the number of times I have talked to any particular
12 investor. I believe over the years I would have talked
13 to Sheikh Kamal Adham more frequently than other
14 investors, but it is just a guess.

15 Q. And you indicated a moment ago that there are
16 investors who contact you or initiate contact with you?

17 A. Yes.

18 Q. Is there an individual investor who initiates
19 contact with you more frequently than the other
20 individual investors do?

21 A. I don't think there is any particular
22 pattern.



FIRST AMERICAN BANKSHARES, INC.

CLARK M. CLIFFORD
Chairman of the Board

October 16, 1990

Mr. Faisal Saud al Fulaij
London, England

Dear Mr. Fulaij:

In accordance with our letter dated August 8, 1990, this is to confirm that a meeting with the shareholders of Credit and Commerce American Holdings, N.V. to discuss important developments at First American Bankshares in the United States will be held on Tuesday, October 23, 1990, at 2:00 p.m. at The Claridge Hotel, Brook Street, Mayfair, London, England W1.

Each shareholder is cordially invited to attend the meeting or designate a representative to attend on his behalf. If you are unable to attend and do not wish to send a representative, we would be pleased to provide you with a written report regarding the discussions at the meeting. Please check with the manager at The Claridge Hotel on October 23 to obtain the room location of our meeting.

For your information, we also enclose a copy of our letter dated October 9, 1990 to H.E. Sheikh Kamal Adham, a principal shareholder, addressing the critically important capital needs of the Company at this time.

We hope you or a representative will be able to attend this important meeting on October 23. We will be available to continue our discussion on October 24 as needed. For planning purposes, we would appreciate it if you would notify us this week by telefax (202/659-0065) if you plan to attend.

Cordially yours,

Clark M. Clifford
Clark M. Clifford

Enclosure

15th and H Streets NW Washington, DC 20005 (202) 383-1400

2192

Private Department
for H.M. SHAHEH SAIED BEN SULTAN AL NANYAN
P. O. Box 77 - Olda Dhaki R. d. G.

رئيس الجمهورية



الدائرة الخاصة
مكتب سمو الشيخ زايد بن سلطان آل نهيان
م. ب. : ٧٧ - بوخيبي

2

MEMORANDUM

Date : 27 October 1990
To : H.E. The Chairman
From : Asique Azad
Subject : First American Bankshares

As instructed by Your Excellency, I attended the shareholders meeting of First American in London on 23/24 October 1990.

The meeting was attended by Mr. Clark M. Clifford and Mr. Robert Altman from First American. The shareholders or their representatives present were H.E. Kamel Adham, Mr. Gauhari, Mr. Faisal Al - Futajj and myself.

The meeting was opened by Mr. Clifford who gave a background of First American and its progress to - date.

It was pointed out by Mr. Clifford that the contact maintained by First American and its shareholders were through Mr. Aga Hassan Abedi, who acted as a liaison between both parties and this was the first time that an attempt was made to contact the shareholders directly.

The main focus of the meeting was on the issue of certain requirement of First American, which are as follows:

- 1) An *immediate* requirement of a bridge loan of U.S.\$30 myn at market rates.
- 2) An offering of U.S.\$ 125 myn 9 % cumulative perpetual preferred stock.

1) The problem facing the bank which is of a very immediate and urgent nature is the requirement of U.S. \$ 30 myn. The Fed has been reviewing the loan portfolio of First American and have asked the bank to provide against some of their non

Page 1

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FD.00635

Private Department

H.E. SHAHEH SAIED BIN SULTAN AL NANYAN

D. O. Box 77 - Abu Dhabi U. A. E.



الدائرة الخاصة

مكتب السيد الشيخ راشد بن سلطان آل نهيان

ص.ب : ٧٧ - أبوظبي

-performing loans . The majority of these loans are in the real estate / real estate related sector of the market . As a result of providing for these loans , First American is in danger of violating net worth covenants in loan agreements that it has signed . Violation of these loan covenants can result in a call for immediate payment of \$ 105 myn from the lenders .

The First American officers have stated that it is of vital importance that this requirement is met by the 31st Oct. 1990 .

I , including the other shareholders present pointed out that the period of notice provided was not sufficient to even look into this matter in depth , leave aside providing the funds that they are asking for . The bank officers pointed out that they themselves were not made aware of this till very recently and that they have come to us as soon as they had reviewed the situation themselves .

Mr. Clifford explained how the bank had received offers for purchase of the bank at over \$ 1 Byn and feels that over time the value will well exceed that . At the present time however , due to the slowdown in the economy in general and especially in the banking sector such a move would yield no results .

It has to be borne in mind here that what is at stake here is a substantial investment in the part of the shareholders . The other more significant and important fact is that one cannot afford to get on the wrong side of the regulatory authorities in the United States . The banking industry in general is undergoing a microscopic review due to the S & L situation and the regulatory authorities are bearing down on the banks as a matter of policy .

If we were to provide the funds that are required , it should be in a pro rata basis including all the other shareholders . In the absence of an updated shareholders list alongwith percentage holding of each I am unable to state the impact this will have on the shareholders .

2)The other point that was raised was the issuance of \$ 125 of 9 % cumulative perpetual preferred stock . Such shares of preferred stock will be convertible into shares of the Company's common stock at any time at 75 % of the book value of the Company's common shares on September 30 , 1990 .

The proceeds of the offering will be used to repay the \$30 myn short-term loan mentioned above . In addition to this , the offering would provide additional capital funding to First American and it's subsidiary banks .

A detailed explanation was provided as to the Federal Reserve and other regulatory

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FD . 00636

Private Department

H.E. SHAHEH SAIED BEN SULTAN AL NABYAK

P. O. Box 77 - c/o Abu Dhabi R. of L.



الدائرة الخاصة

لصاحب السمو الشيخ زايد بن سلطان آل نهيان

ص.ب : ٧٧ - أبوظبي

authorities emphasis on the adequacy of bank and bank holding company capital ratios .

A set of alternatives were discussed which included the following :

- Maintain status quo.
- Grow in all existing markets through acquisitions .
- Sell the company .
- Restructure and focus on core franchisees .

The above alternatives were discussed in details including the merits and demerits of each . I shall not go into the details as a handout has been provided covering the same .

The matter of the \$ 30 myn short term loan remains . I told the bank executives that I shall brief the relevant authorities on this and get back to them . I was also approached by the other shareholders present and requested to come up with some solution . To this end Mr. Gauhar who I understand also represents the interests of H.E. Kameel Adham, has come to Abu Dhabi to talk to the shareholders or to the appropriate person who will decide on this matter to come to an agreement which would satisfy all the shareholders .

In conclusion I would like to state that it is of utmost importance that we deal with this matter very carefully and urgently as the U S regulatory authorities will not be flexible if any problems were to arise . The bank itself is unique and would be very profitable to it's shareholders but more involvement will be required .

I request Your Excellency to look into this matter and await further instructions .

Respectfully,

ATIQUE AZAD.

المندوب الخاص لسمو رئيس الدولة
مكتب رئيس الدولة
تاريخ الوثيقة: 28/1/1990 رقم الوثيقة: 119
رقم الملف: 14-000/...

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FD-00537



BCC ANNUAL CONFERENCE VIENNA 1984

(26TH - 27TH FEBRUARY)

LIST OF PARTICIPANTS

HILTON/
INTERCO:

BOARD OF DIRECTORS

ABEDI, Agha Hasan	-	President	-
AL-MAZRUI, Ghanim Faris	-	Director	I
CHUBCHIN, P.C.	-	Director	I
VAN QENEN, J.D.	-	Director	I

GUESTS

Attock Oil

AMINUDDIN, Usman			I
BAQI, M.A.			I
CHAUDHRI, Amjad			I
KHAN, Afzal			I
LODHI, T.A.T.			I
SALIM, M.			I

Auditors

FEAR, Richard	-	Price Waterhouse	I
HARRIS, R.	-	Price Waterhouse	I
HAY, K.	-	Ernst & Whinney	I
HEATH, R.	-	Ernst & Whinney	I
STONE, T.	-	Ernst & Whinney	I

BCC Foundation

ALI, Abid			I
SAEED, Afzal			I

Credit & Commerce Insurance

BHIMJEE, R.			I
HASAN, Nawab			I
KHAN, Aziz			I
WALAJAHI, S.A.			I

Cromwell Hospital

KHAN, Amanullah (Dr)			I
NIZAMI, Asghar (Dr)			I

Health

HAMEED, K. (Dr) 1

International Travel Corporation

ANWER, Saghir 1

Khalij Commercial Bank

RAZA, Ahmed 1

National Bank of Georgia

BATASTINI, W.W. 1
 CARLSON, R.P.M. 1
 CATER, Vince 1
 FREEMAN, Guy 1
 HARREL, Richard 1
 JAMIL, Tariq 1
 KENEMAN, Richard C. 1
 MUJTABA, Asif 1
 PLOMGREN, Theodor 1
 RAZA, Mehdi 1
 WALKER, James 1

Special Invitees

AFRIDI, Aijaz 1
 - AHMED, M.M. 1
 AL TAYER, Obaid Humaid 1
 ALI, Majid 1
 ALTMANN, R. 1
 ELLEY, K.K. 1
 FREEMANTLE, Anthony 1
 - KHAN, Ikramullah 1
 PROF A MONEIM EL-MELIGI 1
 RICHTER, Bruno 1
 STEVENS, R. 1

Third World Foundation

GAUHAR, Altaf 1
 GAUHAR, Humayun 1

AFFILIATES

Ahmed Bin Oboud - Jeddah

HASAN, Asrar 1

BCC Emirates - Abu Dhabi

ALLARAKHIA, Mahmood S. 1
 ASIF, Kh. Mohammed
 GHANI, S. Saeedul

BCC Emirates - Abu Dhabi (cont'd)

GILANI, S. Jawaid	I
HANNANI, Ghulam	I
HASAN, Raza	I
IQBAL, Zafar	I
JAVED, Mansoor Ahmed	I
KHAN, Javed Ali	I
KHAN, Naeem	I
KHAN, Rashidul Hasan	I
KHAN, Shamsuz Zaman	I
KHURSHID, Mohsin	I
KIRMANI, S. Saeeduddin Ahmed	I
MINHAS, Jamshaid Akhtar	I
QURESHI, Ziaullah	I
RASHEED, Kh. Toseef	I
SHEIKH, Ajmal	I
SHER, Anwar Qayum	I
SIDDIQI, Aqeel	I
TAHIR, Bashir A.	I

BCCI - Lebanon

FAYYAZ, S.M.	I
RAJI, Assaad Abi	I

BCCI (Nigeria) Ltd.

AHMED, Alhaji A.	I
ANKA, S.S.	I
BHATHENA, M.D.	I
KARKERA, D.S.	I
KRISHNAMURTHY, T.N.	I
MADOJEMU, J.O.	I
MALIK, Ghazanfar Ali	I
OGUNDA, B.O.	I
OGUNMOKUN, W.O.	I
RAZA, S. Qaiser	I
SACHEDINA, S.M.	I
SATUR, R.J.	I

BCP - Switzerland

CHAUWDHRY, Aziz Ullah	I
HASSAN, N.	I
SPOERRI, W.	I

Ital Finance - Italy

HAQ, Shauket	H
LUIZ, Kevin	H

LATIN AMERICA

Regional Office

AKBAR, S.M.	I
HASAN, Bande	I
RIZVI, S.M.H.	I
SHAFI, S.M.	I

Brazil

PRUD'HOMME, Eric	I
------------------	---

Colombia

BILGRAMI, Akbar	I
ZARATE, Eduardo	I

Grand Cayman

HASSAN, Sharaful	I
------------------	---

Uruguay

SHABBIR, S.A.	I
---------------	---

Venezuela

ANEZ, Luis E. (Dr)	I
--------------------	---

NEW YORK

ALAM, Khurshid	I
HELMY, Abol	I
JHALA, K.G.S.	I
KHAN, Shafiqur Rehman	I
LODHI, Amer	I
SHARIH, Khalid	I

WASHINGTON

AHMED, Sani	I
→ CALVO, A. (Dr)	I

WESTERN AMERICA & PACIFIC

Regional Office

O'BRIEN, Patrick	I
SAUBOLLE, Louis E.	I

San Francisco BCC (HK) Ltd

MOHIUDDIN, Sultan	
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ANNUAL
CONFERENCE
LUXEMBOURG
1986

MAY 2ND & 3RD 1986

LIST OF PARTICIPANTS

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

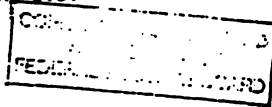
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BOARD OF DIRECTORS

ABEDI, Agha Hasan
AL-MAZRUI, Ghanim Faris
HARTMANN, Dr. Alfred
KANDIAH, Peter
LAMARCHE, Y.C.
TWITCHIN, P.C.
VAN OENEN, J.D.

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ADVISORS

PIRBHAI, M.R.
YUNUS, Dr. M.

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AUDITORS

COWAN, Christopher
HARRIS, Richard
HAY, Ken
STONE, T.

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GUESTS

AFRIDI, Aijaz
ALTMAN, Robert
BATISTINI, W.W.
CARLSON, R.P.M.
ELLEY, K.K.

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100 LEADENHALL STREET LONDON EC3A 3AD

DATE 23 December 1986

FROM Saleem Malik
CSO Legal Division

TO Mr Swaleh Naqvi

SUBJECT \$140 MILLION LOAN TO DR PHARAON
OPTION AGREEMENT & RELATED DOCUMENTS

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EX-108T

AD 185

I visited Washington from 18-20 December and had meetings with Mr Altman, Mr Leshar and lawyers from the law firm of Millbank Tweed (who are advising Mr Altman on New York Laws).

The Option Agreement and Pledge Agreement were signed on 18 December 1986 and CCAH remitted the Option Price.

After consultation with Mr. Altman and Millbank Tweed, they advised that the Loan Agreement and Pledge Agreement be signed and dated in mid-January or early February 1987, as by then a reasonable period will have elapsed since signing the Option and the "integrated transaction" argument would not be successful. Accordingly, we hope to return to New York next year and have the Loan and Pledge Agreements executed, tentatively a closing date of January 22, 1987 has been set.

The executed Option and Pledge Agreements should now be forwarded to Dr. Pharaon; please advise how you wish this to be done, personally or by courier, or should we wait until the Loan and Pledge have been executed, when all the agreements can be handed over at one time?

As regards BCCI SA London holding the Pledged Shares, after long discussion, Millbank Tweed advised that a supplement to the Pledge Agreements will not be needed. BCCI SA NY Agency can simply request London to hold the shares to their order with notice to CCAH of such fact. However, Millbank Tweed are still of the view that the Shares may be better protected in New York; they will advise us if they can provide us conclusive opinion to this effect. For the moment, they have no major legal objections to London holding the Pledge Shares.

Additionally, Mr Altman has executed a Subordination Agreement which BCCI (O) Ltd has yet to execute. Mr Altman, has requested that the Subordination should be executed as a matter of urgency. (A photocopy is enclosed).

I should be happy to discuss any of the above points at your convenience.

Respectful regards,

Saleem Malik

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BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

AD 379

PLEDGE AGREEMENT

Dated as of December 18, 1986

from

DR. GHAITH R. PHARAON,
INTEREDec (GEORGIA) LIMITED,
INTEREDec (GEORGIA) N.V.,

and

NBG FINANCIAL CORPORATION

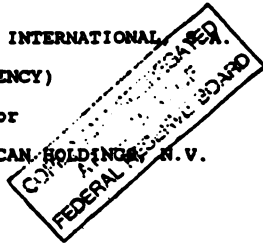
to

BANK OF CREDIT AND COMMERCE INTERNATIONAL,

(NEW YORK AGENCY)

as agent for

CREDIT AND COMMERCE AMERICAN HOLDINGS N.V.



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THIS AGREEMENT dated as of December 12, 1986 from DR. GHAITH R. PHARAON, a citizen and resident of the Kingdom of Saudi Arabia ("Dr. Pharaon"), INTERDEC (GEORGIA) LIMITED ("Interdec (Ltd.)"), a Bahamas corporation, INTERDEC (GEORGIA) N.V. ("Interdec (N.V.)"), a Netherlands Antilles corporation, and HBG Financial Corporation ("Company"), a Georgia corporation, to BANK OF CREDIT AND COMMERCE INTERNATIONAL, S.A. (NEW YORK AGENCY) (the "Pledge Agent"), acting on behalf of CREDIT AND COMMERCE AMERICAN HOLDINGS, N.V. ("CCAH").

Dr. Pharaon and Interdec (N.V.) have entered into an Option Agreement dated as of December 12, 1986 (as in effect at any time, the "Option Agreement") with CCAH pursuant to which CCAH has been granted an option (the "Option") to acquire all the outstanding common stock of Company, a registered bank holding company under the Bank Holding Company Act of 1956. In consideration thereof and in order to induce CCAH to enter the Option Agreement and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby agree for the benefit of CCAH as follows:

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SECTION 1. Definitions.

Terms defined in the Option Agreement and not otherwise defined herein shall have, as used herein, the respective meanings provided for therein. The following additional terms, as used herein, shall have the following respective meanings:

"Collateral" means the shares and all other property of any nature stated to be assigned as collateral security under Section 2.A herein.

"Default" means any Event of Default, or any event or condition which would constitute an Event of Default without giving effect to any provisions for the giving of notice or lapse of time.

"Event of Default" means any one or more of the following events or conditions:

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(a) Dr. Pharaon and Interdec (N.V.) shall fail to repay the Option Fee on the Expiration Date, unless Notice of Exercise has previously been given, or to make payment of the Cancellation Price on the Cancellation Date or the Termination Date, as the case may be, or shall default in the payment or performance when due of any other Obligations;

(b) Any representation, warranty or certification made in this Agreement, the Option Agreement or in any document furnished in connection herewith or therewith by Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall prove to have been false or misleading as of the time made or furnished in any materially adverse respect;

(c) Any of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian or trustee or the liquidation of Interdec (Ltd.), Interdec (N.V.) or Company or of all or a substantial part of the property of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, as the case may be; (ii) make a general assignment for the benefit of the creditors of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, as the case may be; (iii) commence a voluntary case under the U.S. Bankruptcy Code (as now or hereafter in effect); (iv) file a petition, make application or otherwise commence proceedings seeking to take advantage of any other law of any jurisdiction relating to bankruptcy, insolvency, reorganization, suspension of payments, moratorium, winding-up, or composition or readjustment of debts; (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition or application filed against Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, as the case may be, in an involuntary case or proceeding under the U.S. Bankruptcy Code or any other law of any jurisdiction relating to bankruptcy, insolvency, reorganization, suspension of payments, moratorium, winding-up, or composition or readjustment of debts; or (vi) take any action for the purpose of effecting any of the foregoing;

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(d) A proceeding or case shall be commenced, without the application or consent of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, in any court of competent jurisdiction, seeking (i) liquidation, reorganization, dissolution or winding-up, or the composition or readjustment of debts of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, as the case may be; (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of Interdec (Ltd.), Interdec (N.V.) or Company or of all or any substantial part of any of the assets of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, as the case may be; or (iii) similar relief in respect of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company under any law of any jurisdiction relating to bankruptcy, insolvency, reorganization, suspension of payments, moratorium, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of thirty (30) days; or an order for relief against Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall be entered in an involuntary case under the U.S. Bankruptcy Code;

(e) Any shares of the capital stock of National Bank of Georgia ("Bank") (a national banking association organized under United States federal law), Company, Interdec (N.V.) or Interdec (Ltd.) shall at any time become subject to any lien or be sold, assigned or otherwise transferred (or become subject to any agreement of sale, assignment or transfer), except (i) pursuant to this Pledge Agreement, (ii) in the case of the shares of Company, pursuant to the Option, (iii) in the case of Bank shares, with respect to the sale of directors' qualifying shares, or (iv) with the prior written consent of CCAH;

(f) Any of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall default in the performance or observance of any covenant, condition or undertaking contained in this Pledge Agreement or the Option Agreement; or

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(g) Any of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall default in the payment when due, by acceleration or otherwise, of any amount in respect of any indebtedness or obligation secured, directly or indirectly, by the Collateral, and such default shall continue beyond the applicable grace period, if any, specified in the note, agreement or other instrument relating to such debt, or any other event shall occur under any note, agreement or other instrument by which any such debt is evidenced or under which any such obligation is created which entitles the holder of such debt to cause such debt to become due prior to its stated maturity or payment date, and such default shall not be cured within the applicable grace period, if any, specified in such note, agreement or other instrument.

"Obligations" means any and all obligations (now existing or hereafter arising) of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company under this Agreement or under the Option Agreement.

SECTION 2. Collateral.

A. Pledge. As collateral security for the full and punctual payment and performance when due (whether or stated maturity, by acceleration or otherwise) of the Obligations, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby pledge, assign, hypothecate, transfer and deliver to and with the Pledge Agent and for the benefit of CCAH, and Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company grant to the Pledge Agent for the benefit of CCAH, a first lien and a prior perfected security interest in, (i) all shares of the capital stock of Interdec (Ltd.), Interdec (N.V.), Company and Bank, respectively, whether now owned or hereafter acquired, directly or indirectly, and (ii) any cash dividends or other cash payments, additional shares or securities or other property at any time receivable or otherwise distributable in respect of, in exchange for, or in substitution of, any and all such capital stock, together with all of the proceeds of any thereof.

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B. Delivery. The certificates evidencing the shares pledged under Section 2.A herein shall be delivered to the Pledge Agent, duly endorsed in blank or with executed stock powers in blank annexed to each certificate. If any shares, securities, or other property required to be pledged under Section 2.A herein are hereafter received by Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, such party agrees forthwith to transfer and deliver to the Pledge Agent such shares, securities or other property so received (with appropriate endorsements, if any, and together with the certificates for any such shares and securities duly endorsed in blank), all of which thereafter shall be held by the Pledge Agent, pursuant to the terms of this Agreement, as part of the Collateral. If any Event of Default shall occur and be continuing, any cash payments received by Dr. Pharaon, Interdec (Ltd.) or Interdec (N.V.) in respect of, in exchange for or in substitution of all or any portion of the shares pledged hereunder shall be received in trust for the benefit of CCAH, shall be segregated from other funds of Dr. Pharaon, Interdec (Ltd.) or Interdec (N.V.), as the case may be, and shall, without the necessity of any demand by the Pledge Agent, be paid over to the Pledge Agent and thereafter shall be held by the Pledge Agent pursuant to the terms of this Agreement in a separate cash collateral account.

C. All Shares to be Pledged. Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company will cause the shares pledged hereunder to constitute at all times not less than 100% of the total number of shares then outstanding (including treasury shares but excluding directors' qualifying shares) of the capital stock of Interdec (Ltd.), Interdec (N.V.), Company and Bank, and will not permit Interdec (Ltd.), Interdec (N.V.), Company or Bank to issue or have outstanding any shares of any other class of its capital stock or to have outstanding any subscription warrants, rights or options to acquire any shares of any class of its capital stock, other than the Option, or as consented to in writing by CCAH.

D. Registration In Pledge Agent's Name, Etc. The Pledge Agent shall have the right (in its sole discretion) (i) to hold any certificates representing the Collateral in its own name, or in the name of Dr. Pharaon, Interdec

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(Ltd.), Interdec (N.V.) or Company endorsed or assigned in blank or in favor of the Pledge Agent, (ii) to have the Collateral or any part thereof registered in the name of the Pledge Agent or in the name or names of the Pledge Agent's nominees, or (iii) to exchange, at any time and from time to time, the certificates delivered hereby for certificates for smaller or larger denominations for any purpose consistent with the Pledge Agent's performance under this Agreement.

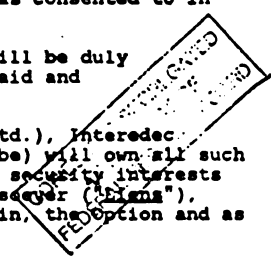
SECTION 3. Representations and Warranties. Each of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company represents and warrants, jointly and severally, to CCAH as follows:

(i) Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company are and will be the legal and equitable owner of the shares of stock of Interdec (Ltd.), Interdec (N.V.), Company and Bank, respectively, pledged hereunder and will not make any assignment, pledge, mortgage, hypothecation or transfer of any thereof or of any part thereof, except the pledge provided for herein, the Option or as consented to in writing by CCAH.

(ii) All such shares are and will be duly authorized, validly issued, fully paid and nonassessable.

(iii) Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company (as the case may be) will own all such shares free and clear of all liens, security interests and encumbrances of any nature whatsoever ("liens"), except the pledge provided for herein, the Option and as consented to in writing by CCAH.

(iv) Except for directors' qualifying shares, Company directly owns all of the shares of capital stock of Bank, which constitutes the entire outstanding stock of every class and kind of Bank, there being outstanding no options, warrants, subscription agreements, convertible instruments or other rights to acquire any shares of any class of said capital stock.



(v) The execution, delivery and performance by Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company of this Pledge Agreement have been duly authorized and do not and will not (a) require any consent or approval (other than such consents and approvals that have been obtained and remain in full force and effect), (b) violate any provision of the organic documents of Interdec (Ltd.), Interdec (N.V.), Company or Bank, or any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, (c) result in a breach of or constitute a default under such organic documents, or any indenture or loan or credit agreement or other material agreement, lease or instrument to which Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company is a party or by which he or it or his or its properties may be bound or affected, or (d) result in, or require, the creation or imposition of any Lien (other than the pledge provided for herein), upon or with respect to any of the property now owned or hereafter acquired by Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company. This Pledge Agreement is the legal, valid and binding obligation of each of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company, enforceable against each of them in accordance with the terms herein.

SECTION 4. Further Assurances. (a) Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company jointly and severally agree that from time to time, at their expense, they will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary, or that the Pledge Agent may reasonably request, in order to perfect and protect the assignment, pledge and security interest granted or purported to be granted hereby or to enable the Pledge Agent to exercise and enforce the rights and remedies provided hereunder with respect to any Collateral. Without limiting the generality of the foregoing, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company jointly and severally will: (i) if any Collateral shall be evidenced by a promissory note or other instrument, deliver and pledge to the Pledge Agent hereunder such note or instrument duly endorsed and accompanied by

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duly executed instruments of transfer or assignment, all in form and substance satisfactory to the Pledge Agent; (ii) execute and file such financing or continuation statements, or amendments thereto, and such other instruments, endorsements or notices, as may be necessary, or as the Pledge Agent may reasonably request, in order to perfect and preserve the assignment, pledge and security interest granted or purported to be granted hereby; (iii) will defend the Collateral against any and all Liens howsoever arising (not including the security interest created by this Agreement), prior to or equal to the security interest created hereby; and (iv) if deemed necessary by the Pledge Agent to effect a sale of all or any portion of the shares pledged hereunder, register, at the expense of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company, such shares under the Securities Act of 1933 and/or the applicable Blue Sky laws of any state or other jurisdiction as may be requested by the Pledge Agent.

(b) Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby authorize the Pledge Agent to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Collateral without the signature of any of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company where permitted by law. Copies of any such statement or amendment thereto shall promptly be delivered to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, as the case may be, but failure to make such delivery shall not affect the validity thereof.

SECTION 5. Exercise of Option. Upon payment of the Exercise Price to the Pledge Agent, the Pledge Agent shall deliver to CCAE all certificates evidencing the shares of Company and Bank pledged hereunder duly endorsed in blank or with executed stock powers in blank annexed to each such certificate, and release from the Lien established herein the remainder of the Collateral. Such delivery of the shares of Company and Bank shall operate to divest all right, title, interest, claim and demand, either at law or in equity, of any party to this Agreement (other than the distributee) in and to the shares of Company and Bank and shall be a perpetual bar both at law and in equity against

COPIES TO BE DELIVERED TO CCAE AT NEW YORK, N.Y. BY 12:00 P.M. JANUARY 1, 1934.

[Handwritten signatures and initials]

(b) The Pledge Agent shall execute and deliver to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company (as the case may be) or cause to be executed and delivered to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company (as the case may be) all such proxies, powers of attorney, dividend or other orders, and all such instruments, without recourse, as Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company may reasonably request for the purpose of enabling Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company to exercise the rights and powers that he or it is entitled to exercise pursuant to the preceding provisions of this Section 6.A.

8. Rights Upon Occurrence of Event of Default.

Etc. As a supplement to the rights under other provisions of this Agreement, if any Event of Default shall have occurred, then so long as the same shall continue, and whether or not CCAH exercises any right, or seeks or pursues any other relief or remedy, available to it under applicable laws or the Option Agreement:

(i) The Pledge Agent, or its nominee or nominees, shall forthwith, without further act by any party, have the sole and exclusive right to exercise all voting, consensual and other powers of ownership pertaining to the shares pledged hereunder and shall exercise such powers in such manner as the Pledge Agent, in its sole discretion, shall determine to be necessary, appropriate or advisable, and, if the Pledge Agent shall so request, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company agree to execute and deliver to the Pledge Agent such other and additional powers, authorizations, proxies, dividends and other orders, and such other documents, as the Pledge Agent may request to secure to the Pledge Agent the rights, powers and authorities intended to be conferred upon the Pledge Agent by this Section 6.B; and

(ii) All dividends and other distributions on or constituting any of the Collateral shall be paid directly to the Pledge Agent and retained by it as part of the Collateral, subject to the terms of this Agreement, and, if the Pledge Agent shall so request, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and

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Company agree to execute and deliver to the Pledge Agent appropriate additional dividend, distribution and other orders and documents to that end.

SECTION 7. Pledge Agent Appointed Attorney-in-Fact. Each of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby irrevocably appoints the Pledge Agent as their attorney-in-fact (which appointment as attorney-in-fact shall be coupled with an interest), with full authority in the place and stead of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company (as the case may be) and in the name of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company (as the case may be) or otherwise, from time to time in the Pledge Agent's discretion to take any action and to execute any instrument that the Pledge Agent may deem necessary or advisable to accomplish the purposes of this Agreement (the Pledge Agent not being obligated to do any of the foregoing), including, to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in connection with the Collateral, to receive, endorse, and collect any drafts or other instruments, documents and chattel paper in connection therewith, and to file any claims or take any action or institute any proceedings that the Pledge Agent may deem necessary or desirable for the collection thereof to enforce compliance with the terms and conditions thereof.

SECTION 8. Pledge Agent's Duties. The powers conferred on the Pledge Agent hereunder shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its actual possession, the accounting for moneys actually received by it hereunder, and the delivery to CCAH in accordance with the terms of Section 5 herein of the shares of Company and Bank pledged hereunder, the Pledge Agent shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve any rights pertaining to any Collateral.

SECTION 9. Rights and Remedies. (a) If any Event of Default shall have occurred and be continuing, all payments received by Dr. Pharaon, Interdec (Ltd.),

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(b) If any Event of Default shall have occurred and be continuing, then, in addition to any other rights and remedies provided for herein or that may otherwise be available, the Pledge Agent may without any further demand, advertisement or notice (except as expressly provided for below in this subsection (b)), exercise all the rights and remedies of a secured party under the applicable Uniform Commercial Code (whether or not said Code applies to the affected Collateral), and in addition: (i) may apply the moneys, if any, then held by it as part of the Collateral, for the purposes and in the order provided in Section 10 herein and (ii) if there shall be no such moneys or the moneys so applied shall be insufficient to satisfy in full all Obligations, may sell the Collateral, or any part thereof, as hereinafter provided. The Collateral may be sold in one or more sales, at public or private sale, conducted by any officer or agent of, an auctioneer or attorney for, the Pledge Agent, at the Pledge Agent's place of business or elsewhere, for cash, upon credit or for other property, for immediate or future delivery, and at such price or prices and on such terms as the Pledge Agent shall, in its sole and absolute discretion, deem appropriate. The Pledge Agent or CCAH, subject, however, to receipt of any necessary regulatory approval, may be the purchaser of any or all of the Collateral so sold at a public sale and thereafter hold the same, absolutely, free from any right or claim of whatsoever kind and the obligations of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company to such purchaser may be applied as a credit against the purchase price. The Pledge Agent may, in its sole discretion, at any such sale restrict the prospective bidders or purchasers as to their number, nature of business and investment intention, including a requirement that the prospective bidders or purchasers represent and agree, to the satisfaction of the Pledge Agent, that they are purchasing the Collateral for their own account, for investment, and

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not with a view to the distribution or resale of any thereof. Upon any such sale the Pledge Agent shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each purchaser (including CCAH) at any such sale shall hold the Collateral so sold, absolutely free from any claim or right of whatsoever kind, including any equity or right of redemption, of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, and Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby specifically waive, to the full extent they may lawfully do so, all rights of redemption, stay or appraisal that they have or may have under any rule of law or statute now existing or hereafter adopted. The Pledge Agent shall give Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company at least ten (10) days' notice (which Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company agree is reasonable notification within the meaning of § 9-504(3) of the Uniform Commercial Code) of any such public or private sale. Such notice, in case of public sale, shall state the time and place fixed for such sale. Any such public sale shall be held at such time or times within ordinary business hours as the Pledge Agent shall fix in the notice of such sale. At any such sale the Collateral may be sold in one lot as an entirety or in separate parcels. The Pledge Agent shall not be obligated to make any sale pursuant to any such notice. The Pledge Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for such sale, and any such sale may be made at any time or place to which the same may be so adjourned without further notice or publication. In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by the Pledge Agent until the full selling price is paid by the purchaser thereof, but the Pledge Agent shall not incur any liability in case of the failure of such purchaser to take up and pay for the Collateral so sold, and, in case of any such failure, such Collateral may again be sold pursuant to the provisions herein;

(c) Instead of exercising the power of sale provided in Section 9(b) herein, the Pledge Agent may proceed by a suit or suits at law or in equity to foreclose the assignment, pledge and security interest under this

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(d) The Pledge Agent as attorney-in-fact pursuant to Section 7 herein may, in the name and stead of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company, make and execute all conveyances, assignments and transfers of the Collateral sold pursuant to Section 9(b) or Section 9(c) herein, and Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby ratify and confirm all that the Pledge Agent, as said attorney-in-fact, shall do by virtue hereof. Nevertheless, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company shall, if so requested by the Pledge Agent, ratify and confirm any sale or sales by executing and delivering to the Pledge Agent, or to such purchaser or purchasers, all such instruments as may, in the judgment of the Pledge Agent, be advisable for the purpose;

(e) The receipt of the Pledge Agent for the purchase money paid at any such sale made by it shall be a sufficient discharge therefor to any purchaser of the Collateral, or any portion thereof, sold as aforesaid; and no such purchaser (or the representatives or assigns of such purchaser), after paying such purchase money and receiving such receipt, shall be bound to see to the application of such purchase money or any part thereof or in any manner whatsoever be answerable for any loss, misapplication or nonapplication of any such purchase money, or any part thereof, or be bound to inquire as to the authorization, necessity, expediency or regularity of any such sale; and

(f) The Pledge Agent shall incur no liability as a result of the manner of sale of the Collateral, or any part thereof, at any private sale conducted in a commercially reasonable manner. Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby waive, to the full extent permitted by applicable law, any claims against the Pledge Agent arising by reason of the fact that the price at which the Collateral, or any part thereof, may have been sold at a private sale was less than the price that might have been obtained at a public sale or was less than the aggregate amount of the Obligations, even if the Pledge Agent accepts the first offer received that the Pledge Agent in good faith

Handwritten initials: *AK*

deems to be commercially reasonable under the circumstances and does not offer the Collateral to more than one offeree. To the extent permitted by law, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company shall have the burden of proving that any such sale of the Collateral was conducted in a commercially unreasonable manner.

SECTION 10. Application of Proceeds. If an Event of Default shall have occurred and be continuing, all proceeds of any sale or enforcement of the Pledge Agent's rights in respect of the Collateral, and all moneys then held by the Pledge Agent as Collateral, shall be applied as follows:

(a) first to the payment of all costs and expenses of such sale or enforcement including reasonable compensation to the Pledge Agent and its agents and counsel;

(b) then to the payment in full of the Obligations, provided, however, that if at the time of such distribution the Obligations are not due, then the Pledge Agent shall hold all proceeds and moneys remaining after the payment of costs and expenses provided for by Section 10(a) herein until the Obligations are due and owing;

(c) then to the satisfaction in full of any and all indebtedness secured by any other pledge of the Collateral consented to by CCAH, provided that, if such indebtedness is not then due, then the remaining proceeds shall be held by the Pledge Agent until such indebtedness shall become due and owing; and

(d) any surplus remaining shall be paid to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company or to whosoever may be lawfully entitled to receive the same.

SECTION 11. Consents by Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company. (a) Each of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company hereby consents that, without notice to it:

[Handwritten signatures and initials]
K, J, BMB, @

(i) at any time or from time to time, the time for performance of or compliance with any provision of the Option Agreement by Dr. Pharaon or Interdec (N.V.) may be extended or such performance or compliance may be waived by CCAH;

(ii) any of the acts permitted in the Option Agreement may be done;

(iii) the Option Agreement may from time to time be amended by Dr. Pharaon and Interdec (N.V.) and CCAH for the purpose of adding any provisions thereto or changing in any manner the rights of CCAH or of Dr. Pharaon and Interdec (N.V.) thereunder; and

(iv) any collateral security (including the Collateral) for all or any part of the Obligations may be exchanged, surrendered or otherwise dealt with and CCAH's interest therein may be released and may or may not be perfected, all as CCAH in its sole discretion may determine;

all without affecting the liability of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company hereunder.

(b) Each of Interdec (Ltd.) and Company hereby consents to the jurisdiction of the courts to the full extent provided with respect to Dr. Pharaon and Interdec (N.V.) in Section 19 of the Option Agreement, hereby appoints the Process Agent referred to therein as its agent for the purposes contemplated by said Section, and otherwise makes the same agreements as Dr. Pharaon and Interdec (N.V.) under said Section.

SECTION 12. Amendments, Etc. No amendment or waiver of any provision of this Pledge Agreement nor consent to any departure by Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company herefrom shall in any event be effective unless the same shall be in writing and signed by the Pledge Agent, and then such waiver or consent shall be effective only in the specific instance and for the specified purpose for which given.

H *Q* *R* *B* *B* *B*

SECTION 13. Addresses for Notices. All notices and other communications hereunder shall be given in accordance with Section 20 of the Option Agreement. Such notices shall be sent to the following addresses. If to Dr. Pharaon, Interdec (N.V.) or to CCAH, to the respective addresses specified in Section 20 of the Option Agreement. If to the Pledge Agent, at: 320 Park Avenue, New York, New York 10022, Attention: Manager; Cable: 2-5-55. If to Interdec (Ltd.), at 2-5-55, Attention: Manager; Cable: 2-5-55. If to Company, at 2000 Riveredge Parkway, Atlanta, Georgia 30328, Attention: Treasurer; Cable: 859958, Answer Back: NATL BKGA.

SECTION 14. Continuing Assignment, Pledge and Security Interest. This Agreement shall create a continuing assignment, pledge and security interest in the Collateral and shall (i) remain in full force and effect for the benefit of CCAH until the earlier of exercise of the Option or satisfaction in full of the Obligations, (ii) be jointly and severally binding upon Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company and their respective successors and assigns and (iii) inure, together with the rights and remedies of CCAH hereunder, to the benefit of CCAH and its successors, transferees and assigns.

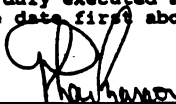
Upon the earlier of (i) payment of the Exercise Price to the Pledge Agent and delivery to CCAH in accordance with Section 5 hereof of the shares of Company and Bank pledged hereunder, or (ii) satisfaction in full of the Obligations, the assignment, pledge and security interest granted hereby to the Pledge Agent on behalf of CCAH shall terminate and the Pledge Agent will, at the expense of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, deliver to Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company such documents as Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company shall reasonably request to evidence such termination.

SECTION 15. Governing Law; Terms. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York. Unless otherwise defined herein or in the Option Agreement, terms used in Article 9 of the Uniform Commercial Code in the State of New York are used herein as therein defined.

SECTION 16. Headings. Headings used in this Agreement are for convenience of reference only and do not constitute part of this Agreement for any purpose.


SECTION 17. Severability. The parties hereto agree, to the fullest extent that they may effectively do so under applicable law, that in the event that one or more of the provisions hereof is held to be invalid, illegal or unenforceable in any respect in any jurisdiction, (a) the remaining provisions hereof shall not be affected or impaired and shall remain in full force and effect and shall be liberally construed in favor of CCAH in order to carry out the intention of the parties hereto as nearly as may be possible, and (b) such invalid, illegal or unenforceable provisions shall not be affected or impaired in any other jurisdiction.

IN WITNESS WHEREOF, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company have duly executed and delivered this Agreement as of the date first above written.


 Dr. Ghait R. Pharaon

INTERDEC (GEORGIA) LIMITED

[Seal]

By 
 Managing Director

INTERDEC (GEORGIA) N.V.

[Seal]

By 
 Managing Director

NBC FINANCIAL CORPORATION

[Seal]

By: Bice W. Batastun
Title:

Accepted:

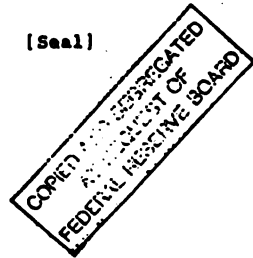
Bank of Credit and Commerce International, S.A.
(New York Agency)

By: [Signature] / [Signature] [Seal]
Title: MANAGER OFFICER

Credit and Commerce
American Holdings, N.V.

By: [Signature]
Title: Managing Director

[Seal]



PLEDGE AGREEMENT
CERTIFICATE OF WITNESS

The undersigned, Sharon Malik, DOES HEREBY CERTIFY that on the 16th day of December in the year 1986, Dr. Ghaith R. Pharaon, personally known to me to be the person whose name is subscribed to the attached Pledge Agreement, dated as of December 16th, 1986, individually and as Managing Director of Interdec (Georgia) Ltd. and Interdec (Georgia) N.V., personally appeared before me and executed and delivered such instrument and acknowledged to me that, being informed of the contents thereof, he executed and delivered the same, voluntarily in his individual capacity and in his capacity as Managing Director of Interdec (Georgia) Ltd. and Interdec (Georgia) N.V., for the purposes therein stated.

IN WITNESS WHEREOF, I have hereunto set my hand this 16th day of December, 1986.

Sharon Malik

DISTRICT OF COLUMBIA) ss:

On this 16th day of December in the year 1986, before me Clara E. Baluk, a Notary Public in and for said District of Columbia, personally appeared Sharon Malik, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the above Certificate of Witness, who executed and delivered such certificate and affirmed to me under the penalty of perjury that the facts certified to therein were true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year this 16th day of December, 1986.

Clara E. Baluk
Notary Public

[Notarial Seal]

My commission expires:

September 30, 1988

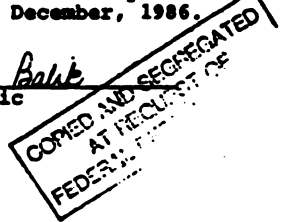
7133

DISTRICT OF COLUMBIA) ss:

On this 16th day of December in the year 1986, before me Clara E. Baluk, a Notary Public in and for said District of Columbia, personally appeared William W. Batastini, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the attached Pledge Agreement, dated as of December 18, 1986, as the Treasurer of NMG Financial Corporation, one of the companies that executed and delivered such instrument, and acknowledged to me that, being informed of the contents thereof, he executed and delivered the same, voluntarily in his capacity as such, for the purposes therein stated, on behalf of NMG Financial Corporation as the free act and deed of such company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal this 16th day of December, 1986.

Clara E. Baluk
Notary Public



[Notarial Seal]

My commission expires:

Commission Expires September 20, 1988

7734

COUNTY
CITY OF NEW YORK)
STATE OF NEW YORK) ss:

On this 18th day of December in the year 1986, before me DAVID S. FRIEDMAN, a Notary Public in and for said District 14th of New York of Columbia, personally appeared ALAN J. JACO and A. SARIS S. D. GUN, personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons whose names are subscribed to the attached Pledge Agreement, dated as of December 18, 1986, as an officer and an officer of Bank of Credit and Commerce International, S.A., one of the companies that executed and delivered such instrument, and acknowledged to me that, being informed of the contents thereof, they executed and delivered the same, voluntarily in their capacity as such, for the purposes therein stated, on behalf of Bank of Credit and Commerce International, S.A. as the free act and deed of such company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal this 18th day of December, 1986.

David S. Friedman
Notary Public

[Notarial Seal]

My commission expires:

DAVID S. FRIEDMAN
Notary Public, State of New York
14th District
Qualified to Notary Public
Commission Expires: 12/18/87

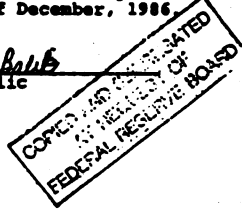
7735

DISTRICT OF COLUMBIA) ss:

On this 15th day of December in the year 1986, before me Clara E. Balis, a Notary Public in and for said District of Columbia, personally appeared Robert A. Altman, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the attached Pledge Agreement, dated as of December 18, 1986, as a Managing Director of Credit and Commerce American Holdings, N.V., one of the companies that executed and delivered such instrument, and acknowledged to me that, being informed of the contents thereof, he executed and delivered the same, voluntarily in his capacity as such, for the purposes therein stated, on behalf of Credit and Commerce American Holdings, N.V. as the free act and deed of such company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal this 15th day of December, 1986.

Clara E. Balis
Notary Public



[Notarial Seal]

My commission expires:

Continued Until September 20, 1988

7736

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

380

SUBORDINATION AGREEMENT, dated as of December 18, 1986, made by Bank of Credit and Commerce International S.A. ("BCCI") in favor of Credit and Commerce American Holdings, N.V. ("CCAH"). RBA

PRELIMINARY STATEMENTS:

(1) Dr. Ghaith R. Pharaon ("Dr. Pharaon") and Interdec (Georgia) N.V. ("Interdec (N.V.)") have granted to CCAH an option (the "Option") to acquire the shares of NBG Financial Corporation ("Company") by agreement dated as of December 18, 1986 (as in effect at any time, the "Option Agreement") (all obligations, now existing or hereafter arising, of Dr. Pharaon or Interdec (N.V.) under the Option Agreement being hereinafter referred to as the "Option Obligations"). To secure to CCAH the prompt payment and performance of the Option Obligations, Dr. Pharaon, Interdec (Georgia) Limited ("Interdec (Ltd.)"), Interdec (N.V.) and Company have executed a Pledge Agreement dated as of December 18, 1986 (as in effect at any time the "CCAH Pledge") in favor of CCAH, and delivered to the Pledge Agent referred to therein the shares of Interdec (Ltd.), Interdec (N.V.), Company and the National Bank of Georgia ("NBG"), respectively. RBA

(2) Dr. Pharaon, on his own behalf and on behalf of certain related entities, has borrowed from BCCI and availed of certain outstanding credit lines and facilities evidenced by promissory notes of Dr. Pharaon and secured by a Memorandum of Deposit dated January 1, 1985. BCCI also may provide Dr. Pharaon additional credit and banking facilities and accommodations, secured by a pledge from Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company to BCCI of the shares of Interdec (Ltd.), Interdec (N.V.), Company and NBG, respectively. RBA

(3) The terms of the CCAH Pledge prohibit Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) and Company from continuing in effect the Memorandum of Deposit or making an additional pledge of the shares of Interdec (Ltd.), Interdec (N.V.), Company or Bank absent the consent of CCAH. CCAH is willing to consent to the continuing effect of the Memorandum of Deposit and a further pledge of the shares of Interdec (Ltd.), Interdec (N.V.), Company and NBG to BCCI provided that BCCI subordinate any and all RBA

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obligations, now existing or hereafter arising, including interest accruing thereon subsequent to any insolvency or similar proceeding, of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company to BCCI (the "Subordinated Debt") to the prior payment and performance of the Option Obligations.

Unless otherwise defined herein, terms defined in the Option or the CCAH Pledge shall have herein the meanings provided therein.

NOW, THEREFORE, in consideration of the premises and in order to provide for the subordination required by CCAH, BCCI hereby agrees for the benefit of CCAH as follows:

SECTION 1. Agreement to Subordinate. BCCI agrees that the Subordinated Debt (including any lien securing all or any thereof) is and shall be subordinate, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment and performance in full of the Option Obligations.

SECTION 2. Loan Limitation. BCCI agrees that, so long as the Option remains outstanding and any of the Option Obligations remain unpaid, the aggregate outstanding amount of the Subordinated Debt secured by the shares of Interdec (Ltd.), Interdec (N.V.), Company or MBG shall not exceed \$140,000,000.00.

SECTION 3. No Payment on or Enforcement of the Subordinated Debt. BCCI agrees not to ask, demand, sue for, take or receive from Dr. Pharaon or Interdec (N.V.), directly or indirectly, in cash or other property or by set-off or in any other manner (including, without limitation, from or by way of collateral), payment in respect of any of the Subordinated Debt, or enforce any rights or exercise any remedies in respect of the Subordinated Debt, unless and until the Option Obligations shall have been paid in full; provided, however, that BCCI may receive and Dr. Pharaon may make payments of principal and interest on the Subordinated Debt, if at the time of making of any such payment and immediately after giving effect thereto, no event of default under the Option Agreement or CCAH Pledge and no event that, with the giving of notice or the lapse of time, or both, would become an event of default thereunder, shall have

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occurred and be continuing. For the purposes of this Agreement, the Option Obligations shall not be deemed to have been paid in full until the Option shall have been exercised, cancelled or terminated in accordance with its terms, the Option Obligations have been paid in full and the CCAH Pledge shall have terminated in accordance with its terms.

SECTION 4. In Furtherance of Subordination. BCCI agrees as follows:

(a) Upon any distribution of all or any of the assets of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company to creditors of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company upon the dissolution, winding up, liquidation, arrangement, reorganization, adjustment, protection, relief or composition of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company or his or its debts, whether in any bankruptcy, insolvency, arrangement, reorganization, receivership, relief or similar proceedings or upon an assignment for the benefits of creditors or any other marshalling of the assets and liabilities of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company, or otherwise, any payment or distribution of any kind (whether in cash, property or securities) that otherwise would be payable or deliverable upon or with respect to the Subordinated Debt shall be paid or delivered directly to CCAH for application to the Option Obligations until the Option Obligations shall have been paid in full.

(b) If any proceeding referred to in subsection (a) above is commenced by or against Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company,

(i) CCAH is hereby irrevocably authorized and empowered (in its own name or, after 5 days notice to BCCI, in the name of BCCI or otherwise), but shall have no obligation, to demand, sue for, collect and receive every payment or distribution referred to in subsection (a) above and give acquittance therefor and to file claims and proofs of claim and take such other action (including enforcing any security interest or other lien securing payment of the Subordinated Debt) as it may deem necessary or advisable for the exercise or

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enforcement of any of its rights or interests hereunder; and

(ii) BCCI shall duly and promptly take such action as CCAH may request (A) to execute and deliver to CCAH such powers of attorney, assignments or other instruments as it may request in order to enable it to enforce any and all claims with respect to, and any security interests and other liens securing payment of, the Subordinated Debt, and (B) to collect and receive any and all payments or distributions that may be payable or deliverable upon or with respect to the Subordinated Debt.

(c) All payments or distributions upon or with respect to the Subordinated Debt that are received by BCCI contrary to the provisions of this Agreement shall be received in trust for the benefit of CCAH, shall be segregated from other funds and property held by BCCI and shall be forthwith paid over to CCAH in the same form as so received (with any necessary endorsements).

(d) Upon payment of the Exercise Price to the Pledge Agent, BCCI shall release the shares of Company and NBG from the lien of the pledge securing the Loan Obligations and shall execute such releases or other documents as CCAH may deem desirable to evidence such release.

SECTION 5. Rights of Subrogation. BCCI agrees that no payment or distribution to CCAH pursuant to the provisions of this Agreement shall entitle BCCI to exercise any rights of subrogation in respect thereof until the Option Obligations shall have been paid in full.

SECTION 6. Option Obligations Hereunder Not Affected. All rights and interests of CCAH hereunder, and all agreements and obligations of BCCI under this Agreement, shall remain in full force and effect irrespective of:

(i) any lack of validity or enforceability of the Option Agreement, the CCAH Pledge or any other agreement or instrument relating thereto;

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(ii) any amendment or waiver of or any consent to departure from the Option Agreement or the CCAH Pledge;

(iii) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any guaranty, for all or any of the Option Obligations; or

(iv) any other circumstances that might otherwise constitute a defense available to, or a discharge of, Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company in respect of the Option Obligations or BCCI in respect of this Agreement.

This Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Option Obligations is received or must otherwise be returned by CCAH upon the insolvency, bankruptcy or reorganization of Dr. Pharaon, Interdec (Ltd.), Interdec (N.V.) or Company or otherwise, all as though such payment had not been made.

SECTION 7. Waiver. BCCI hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Option Obligations and this Agreement and any requirement that CCAH protect, secure, perfect or insure any security interest or lien or any property subject to the Option Agreement or the CCAH Pledge or exhaust any right or take any action against Dr. Pharaon or any other person or entity or any collateral.

SECTION 8. Addresses for Notices. All notices and other communications provided for hereunder shall be in writing and, if to BCCI, mailed or delivered to it, at the address shown below, if to CCAH, mailed or delivered to the address specified in the Option Agreement or as to each party at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this Section. All such demands, notices and other communications shall, when mailed or telegraphed, be effective when deposited in the mails or

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delivered to the telegraph company, as the case may be, addressed as aforesaid.

SECTION 9. No Waiver: Remedies. No failure on the part of CCAH to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 10. Continuing Agreement. This Agreement is a continuing agreement and shall remain in full force and effect until the Option Obligations shall have been paid in full. The terms of the CCAH Pledge provide that upon payment in full of the Option Obligations, the CCAH Pledge shall terminate and the shares of Interdec (Ltd.), Interdec (N.V.), Company and NEB shall be released from the lien established by the CCAH Pledge. CCAH shall provide such documents evidencing such termination and release as BCCI may reasonably request.

SECTION 11. Miscellaneous. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York and shall be binding upon the respective successors and assigns of the parties hereto. This Agreement may not be amended unless such amendment is in writing and signed by BCCI and CCAH.

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IN WITNESS WHEREOF, BCCI has duly executed as an instrument under seal and delivered this Agreement as of the date first above written.

BANK OF CREDIT AND COMMERCE
INTERNATIONAL S.A.

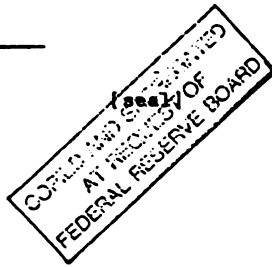
[seal]

By: _____
Title: _____

Address for notices: _____

CREDIT AND COMMERCE AMERICAN
HOLDINGS, N.V.

By: Robert L. Altman
Title: Managing Director



MEMORANDUM

MAY 8 1986

TO: Robert A. Altman

FROM: A. Vincent Scoffone *AS*

SUBJECT: Acquisition of NBG

DATE: May 7, 1986

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

AD 169

You have asked me to analyze the potential acquisition of the National Bank of Georgia ("NBG").

Value of NBG

At March 31, 1986, NBG's total stockholders' equity was \$93.9 million. For purposes of determining a fair value of NBG, I have assumed that NBG's tangible net worth is equal to its stated book value. NBG does report \$27,000 in intangible assets but that amount is insignificant. The investment portfolio at year-end 1985 reflects appreciation of approximately \$3 million. Offsetting this could be potential losses in the loan portfolio stemming from nearly \$23 million in non-performing loans and other real estate.

Potential Purchase Price

The latest information we have in books reflects that in the past twelve months 183 deals nationwide have been announced with 41% for stock and 63 for cash. The median purchase price to book value was 1.62x and the median purchase price to earnings was 12.56x. For NBG, this would put the purchase price at \$152 million as a multiple of book and \$181 million as a multiple of 1st quarter 1986 annualized earnings.

NBG may be a unique situation because of its location in Atlanta, Georgia and therefore a premium over the median purchase price may be appropriate. In reviewing sales of banks in Georgia, Florida and South Carolina, a median purchase price of 2.11x book value was determined. Once again the premium over the nationwide median purchase price is the result of these banks being located in the Southeast region of the United States.

2/6
17
It is my opinion that a fair purchase price for NBG would approximate 2.25x book value. This would yield a purchase price of \$211 million. This would represent a multiple of 16.3x 1st quarter 1986 annualized earnings.

Structure of Transaction

First American Bankshares, Inc. ("FABI") is prevented from acquiring NBG because of Georgia law requiring an out-of-state acquiror having 80% of its deposit base located in the Southeast Region, as defined. First American does not meet the deposit test because of its banks located in New York, Maryland and Washington, D.C.

105

It is my understanding that a least 25% of the purchase price would be funded by borrowed funds and that the remaining 75% would be funded through equity capital. I have looked at the possibility of setting up a foreign or domestic company to make the acquisition. Such a company would be considered a bank holding company and as such would have to make application to the Federal Reserve for approval.

In reviewing the financial aspects of the transaction, I have determined that this company would have difficulty in getting an application approved from two aspects. First, this company's potential cash flow from dividends from NHC and tax benefits derived from its tax operating losses would not be sufficient to fund the acquisition debt on a current basis. Secondly, at a purchase price of 2.25x book, significant goodwill would be generated. In viewing the capital adequacy of this company, the Federal Reserve would offset the goodwill against the equity capital, leaving this company in a poor capital adequacy position. I do not believe that setting up a shell bank holding company is the appropriate way to proceed.

A better way to proceed would be to have one or more of our foreign investors, individually or as a group agree to acquire NHC. Depending upon how the group is structured, Comptroller of the Currency and/or Federal Reserve approval would be necessary.

Economic Aspects of the Transaction

At a potential purchase price of \$211 million, the bank could be structured with cash of \$160 million and \$51 million of CCAN stock. **COPY AND SEGREGATED AT THE REQUEST OF FEDERAL RESERVE BOARD**

The \$160 million in cash would come from two sources - 1) \$100 million from investors own capital and 2) \$60 million from a third party lender known to the investors such as BCCI or BAIL.

The \$51 million in CCAN stock would represent approximately 7,700 shares valued at approximately \$6,600 per share or approximately 4.3% of outstanding shares.

Summary

In summary, this transaction would be highly beneficial to the present owner of NHC. The bank would be sold at a significant premium over both the national and local median sales prices. The seller would realize 75% of the proceeds in cash with the remaining 25% in stock of a company that has appreciated in value significantly in the past four years and whose potential for further appreciation is unlimited based upon the location of the assets of the company.

7917

National Bank of Georgia
Acquisition Alternative

PHASE I

104

1. One to four foreign Investors or more agree to acquire National Bank of Georgia ("NMG") individually or acting as a Group.
2. Regulatory approval will have to be obtained from either the Comptroller of the Currency or the Federal Reserve Board.
3. Consideration to be paid by the Investors for NMG will consist of the following:
 - * \$160 million in cash, plus, if necessary
 - * \$30 - \$60 million in CCAN stock now owned by the Investors - stock and amount subject to negotiation with Seller (CCAN stock valued at 3 times book*)
4. Source of funds will be from the following:
 - * \$100 million from Investors own capital
 - * \$60 million from third party lender BCG or BAII could be lender
 - * Such CCAN stock currently owned by Investors as needed
5. Result of transaction:
 - * Investors own 100% of NMG
 - * Seller of NMG owns approximately 5.0% of CCAN, if CCAN stock becomes part of purchase price

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FEDERAL RESERVE BOARD

* It is noted that NCMBS is currently trading at nearly 2 times book and could value its stock higher in negotiations with the Seller. A three times multiple for CCAN equals NMG's multiple in their deal and is not unreasonable.

National Bank of Georgia
Acquisition Alternative

102

PHASE 2

1. Best effort is made to persuade Federal Reserve or change Georgia law to allow CCAH to acquire NBG. (Estimated time to succeed - 1 year)
2. Investors then contribute 100% of NBG stock - valued at 3 times book* - in exchange for approximately 15,000 shares of CCAH and CCAH assumes \$60 million debt.
3. CCAH records the stock of NBG on its books at underlying net assets.
4. CCAH contributes its 100% ownership in NBG down through the chain of companies to FABI and FABI assumes the debt of CCAH.
5. FABI records the 100% ownership in NBG at underlying net assets, assumes the \$60 million in CCAH debt and records the difference as a capital contribution.
6. Result of transaction:
 - * FABI owns 100% of NBG being valued at underlying net assets.
 - * FABI's capital is increased by the difference between the underlying net assets of NBG and the assumption of the \$60 million debt (approximately \$25+ million).
 - * FABI's long-term debt is increased by \$60 million.
 - * FABI's cash flow is sufficient to fund the acquisition debt.
 - * FABI has acceptable debt/equity and capital/asset ratios following the acquisition of NBG by CCAH.
 - * CCAH ownership by NBG seller is reduced to approximately 4.0%.

* including increase in NBG value during the year.

National Bank of Georgia
10 Year Projections
(\$ in millions)

102

	Average Assets ¹	Net Income ²	Average Capital ³	Dividends ⁴
1985	\$1,409.0	\$11.058	\$85.7	\$ -
1986	1,620.0	14.580	97.2	3.1
1987	1,863.0	16.767	111.8	2.2
1988	2,143.0	19.287	128.6	2.5
1989	2,464.0	22.176	147.8	3.0
1990	2,834.0	25.506	170.0	3.5
1991	3,259.0	29.331	195.5	3.8
1992	3,748.0	33.732	224.4	4.3
1993	4,310.0	38.790	255.4	5.1
1994	4,957.0	44.610	292.4	5.8
1995	5,700.0	51.300	342.0	6.7
1996	6,555.0	58.995	393.3	7.7

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FEDERAL RESERVE BOARD

¹ 15% Compound Growth

² 0.9% Return on Assets

³ 6% Gross Capital to Asset Ratio

⁴ Amount to maintain 6% Capital Ratio

7920

National Bank of Georgia
Acquisition Debt
(\$ in millions)

(b)

	Debt Outstanding ¹	Interest ²	Principal ³	Total Debt Service
1986	\$60.0	\$6.0	\$ -	\$ 6.0
1987	60.0	6.0	-	6.0
1988	60.0	6.0	-	6.0
1989	60.0	6.0	-	6.0
1990	54.0	5.4	6.0	11.4
1991	48.0	4.8	6.0	10.8
1992	40.0	4.0	8.0	12.0
1993	32.0		8.0	11.2
1994	22.0		10.0	12.2
1995	12.0		10.0	11.2
1996	-	-	12.0	12.0

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¹ Assumed takedown at 1/1/86.

² Average interest rate over life of debt fixed at 10%.

³ Principal payments begin in 4th year and escalate.

National Bank of Georgia
Cash Flow Related to Acquisition
(\$ in millions)

(a)

	Dividends ¹	Tax Benefits ²	Total Cash Inflow	Debt Service ³	Net Cash Flow
1986	\$ 3.1*	\$2.8	\$ 5.9	\$ 6.0	\$-0.1
1987	2.2	2.8	5.0	6.0	-1.0
1988	2.5	2.8	5.3	6.0	-0.7
1989	3.0	2.8	5.8	6.0	-0.2
1990	3.3	2.5	5.8	11.4	-5.6
1991	3.8	2.2	6.0	10.8	-4.8
1992	4.3	1.8	6.1	12.0	-5.9
1993	5.1	1.5	6.6	11.2	-4.6
1994	5.8	1.0	6.8	12.2	-5.4
1995	6.7	0.3	7.0	11.2	-3.9
1996	7.7		7.7	12.0	-4.3

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 FEDERAL RESERVE BOARD

¹ Dividends from NBG based upon 15% asset growth, 0.9% return on assets, and adjusted to maintain 6X capital ratio.

² 46% of interest expense.

³ Principal and interest payments (at 10%) on \$60 million debt - first 4 years interest only.

* Dividends can not be paid in 1986 without incurring 30% withholding tax. Investors would have to service debt for first year until CCAN acquires NBG.

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IN WITNESS WHEREOF, BCCI has duly executed as an instrument under seal and delivered this Agreement as of the date first above written.

BANK OF CREDIT AND COMMERCE
INTERNATIONAL S.A.

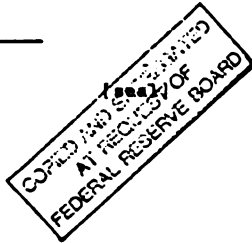
[seal]

By: _____
Title: _____

Address for notices: _____

CREDIT AND COMMERCE AMERICAN
HOLDINGS, N.V.

By: Robert L. Altman
Title: Managing Director



7790

CABLE CLINEY
TELEX 240000 CLEV

TELEPHONE
1000 000-000

Clifford & Warnke
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D. C. 20006

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EDH:BT

AP 191

ROBERT A. ALTMAN

May 8, 1986

DIRECT LINE 10001000-003

Mr. Swaleh Naqvi
Bank of Credit and Commerce
International
100 Leadenhall Street
London, England EC3A 3AD

Dear Mr. Naqvi:

I am enclosing the memoranda concerning the acquisition of the National Bank of Georgia that we discussed in Luxembourg. Several points should be noted:

1. The memoranda consider a possible payment by the investors of 50-60 million dollars of their CCAH stock in addition to cash. It is hoped that in negotiations a payment involving CCAH stock would not be necessary. Any such payment that is required would have to come from the stock currently held by the investors since CCAH itself is not now acquiring the Company. When the investors subsequently contribute the NBG stock to CCAH, and receive additional shares of the Company, it will - depending on valuations - effectively dilute the initial ownership position of Dr. Pharaon in CCAH.

2. In discussions with Dr. Pharaon, it should be noted that significant tax advantages would appear to accrue to him by reason of the sale to the investors rather than a sale to NCNB.

3. In an analysis prepared by Mr. Scoffone, Senior Vice President and Treasurer of First American Bankshares, NBG financial statements as of March 31, 1986 were used which disclose stockholders' equity of 93.9 million. This figure is, of course, higher than the year-end numbers on which we had been relying, and which Dr. Pharaon had mentioned.

4. In making our analysis, certain assumptions were necessary. These have generally been explained in footnotes in the documents.

7x31

Mr. Swaleh Maqvi
May 8, 1986
Page 2

5. The transaction we structured contemplates \$60 million in debt. It would be appropriate if BCCI itself wished to consider being a lender.

6. Our review makes clear that the creation of a separate company to acquire NBG until CCAH is able to own it would raise significant financial problems. Were our investor(s) to purchase the bank individually or as a group, we could avoid these problems, including the creation of significant goodwill on the books of the bank.

7. It is hoped that negotiations would produce a deal for \$160 - \$175 million in cash, with no stock. Mr. Scoffone provides information concerning various other bank sales, but it is clear that we are nearing the point at which this purchase is too expensive. And, we have never seen a written bid from NCNB.

We understand that NCNB has leaked news of their NBG acquisition, and several brokers are aware of it. It becomes increasingly important to conclude this matter one way or the other as soon as possible.

If you have any questions, please call me. I trust you will forward this information to Mr. Abedi.

Sincerely,



Robert A. Altman

Enclosures

7. 19

CABLE GRUPEY
TELEX 240000 GLEY

23

TELEPHONE
(202) 620-4200

*Clifford & Harbo
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D.C. 20006*

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

196

September 4, 1986

VIA COURIER

Mr. Swaleh Naqvi
Bank of Credit and Commerce
International
100 Leadenhall Street
London, England EC3A 3AD

Re: Option to Acquire NBG Financial Corporation

Dear Mr. Naqvi:

I enclose the following documents for your review in connection with the proposed option to acquire NBG Financial Corporation (NMG Financial) and the loan by BCCI to Dr. Pharaon:

1. Option Agreement;
2. Loan Agreement;
3. Pledge Agreement;
4. Subordination Agreement; and
5. Unconditional Guaranty.

The main features of these documents are summarized in Attachment A. They assume that there is no debt secured by the National Bank of Georgia (NBG) shares except as may be later authorized with respect to the BCCI loan to Dr. Pharaon.

In addition, I enclose a "back-up" option which would also be executed by Dr. Pharaon and Interdec (Georgia) N.V. whereby one or more of the individual shareholders of CCAH would be in a position to acquire NBGFC at the same purchase

Mr. Swaleh Maqvi
 September 4, 1986
 Page Two

price in the event that CCAM is legally unable to do so within the 18-month period available under the main option.

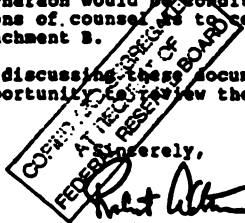
In addition to the documents accompanying this letter, payment of the option fee by CCAM and execution of the BCCI loan agreement with Dr. Pharaon would be conditioned upon receipt of routine opinions of counsel as to certain general matters set forth on Attachment B.

I look forward to discussing these documents with you after you have had an opportunity to review them.

Sincerely,


 Robert A. Altman

Enclosures



ALTMAN DEPOSITION

6/23/78

43

VIRGINIA BANK SHIR

1 A. I don't recall.

2 Q. What was the amount of the second rights
3 offering with respect to the National Bank of Georgia
4 that you indicated took place approximately a year
5 later?

6 A. I believe it was approximately \$150 million.
7 But again, I don't recall exactly.

8 Q. And were all of the funds raised in that
9 rights offering devoted to the acquisition of the
10 National Bank of Georgia?

11 A. I don't believe that they all were, no.

12 Q. Do you recall what portion of them were not so
13 devoted?

14 A. Well, the cost of the National Bank of Georgia
15 transaction was approximately \$255 million. Whatever
16 was raised in addition to that was used for working
17 capital of the company or to meet regulatory
18 requirements.

19 And there was no relationship between the
20 excess amounts and any other particular transaction. We
21 just made a rights offering anticipating the need for
22 continued working capital because primarily of the

100 LEADENHALL STREET LONDON EC3A 3AD

DATE 14 January 1986

FROM Shahid Jamil

TO Mr Agha Hasan Abedi

The President, BCC

cc Mr S Naqvi

SUBJECT VALUATION OF CCAN SHARES

INTRODUCTION

In recent years, the banking industry in the USA has virtually led all other industries in the number of mergers and acquisitions. Most banks are beginning to seek economies of scale which are being forced upon them by nonbanking financial institutions and interest rate deregulation. In this context, the heightened bank merger and takeover activity can be seen as one response to these earning pressures as individual banks now seek to tap new and relatively attractive markets, to develop larger customer bases over which to spread fixed costs, to maximise opportunities to price on a value added basis and to support development of new technologies.

MAJOR INVESTMENT VALUATION FACTORS

- 1 Given the initiative of individual states in passing interstate banking legislation and the sanctioning of this process by the judiciary system, the nature of current merger activity is shifting in favour of interstate combinations. At present, 27 states have passed some form of legislation with several other states currently considering the issue. Looking ahead, merger activity is likely to increase both in numbers of transactions and in size of average deal. While some of the most visible mergers to date have occurred in the South-East and New England (whose states were early in passing reciprocal interstate legislation) it is probable that other regions of the country will have significant mergers of their own.
- 2 Merger activity is likely to continue to be dominated by transactions made between regional banks. At the same time, interstate legislation has been enacted by an increasing number of states. Interstate merger activity is no longer a sole prerogative for the states in the South-East and New England. Regional banks with strong franchises in their home states can be expected to seek entry into new markets aggressively. Indeed, given a relative scarcity of attractive potential combinations in most states, there has been a strong incentive for banks interested in making acquisitions to move quickly to reach understandings.
- 3 Considering the growing scarcity of suitable banks for acquisition, the fast pace of recent merger agreements and the acquisition premiums which have continued to grow higher (premiums of better than two times book value have been quite common) many investors in acquired institutions continue to be rewarded handsomely.

- 2 -

- 4 The rising trend in premiums paid relative to book values of acquired institutions have increased noticeably over the last three years (1983/4/5) and particularly in the first three quarters of 1985 compared to earlier periods. The efficiency of the market in discounting potential takeovers has made it increasingly difficult for future acquirers to profit from possible future mergers. Increasingly high premiums over book value will be commanded by medium sized institutions with strong market franchises, good asset quality and superior records of profitability.

SPECIAL ADVANTAGES APPLICABLE TO FIRST AMERICAN BANKSHARES

- 1 In addition to the applicable factors listed above, First American Bankshares has banks in 5 states (including DC) where each bank has a network of branches covering its respective state. It is the only multistate bank holding company in the USA which has full service commercial operations in both New York and the nation's capital. It owns and operates a network of 212 branches of First American Banks in New York, Maryland, Virginia, Washington DC and Tennessee.
- 2 First American Banks are also uniquely positioned to take advantage of the compact between 13 SouthEastern states, half of which have passed interstate banking legislation and the others are considering the same. On this basis, First American Banks will have the legal right to expand by setting up or acquiring banks in a growing number of neighbouring states.
- 3 Many US money centre banks, particularly those from New York, who have so far been largely excluded from interstate banking are very keen to buy First American Bankshares because of its rare and unique franchise of having banks in 5 states and the possibility of these banks, in turn, gaining access to other states. Many New York Banks are particularly keen to enter the Washington DC market because of the large US Government business and foreign government embassy business and related spinoffs which are presently handled by some Washington DC banks.

BASIS OF VALUATION OF CCAM SHARES

- 1 In order to gauge the rising trend in premiums paid relative to book value, we give overleaf data on many selected commercial bank mergers over the past three years, 1983/4/5. This data is useful in drawing conclusions regarding the premiums paid by domestic acquirers for banks which have a presence in one state only.

5733

- 3 -

<u>Banks Acquired 100%</u>	<u>Announcement Date</u>	<u>Times Book Value</u>
1983		
Bank of Commerce	04.01.83	1.62
Peachtree Bancshares Inc	19.04.83	2.12
Ellis Banking Corp	16.08.83	1.79
First Bankshares Corp of South Carolina	02.09.83	1.78
Florida Coast Banks Inc	19.09.83	1.79
Florida Coast Banks Inc	29.09.83	1.99
Southwest Florida Banks Inc	26.10.83	1.79
1984		
First National Bank & Trust - Kearney (NJ)	14.02.84	2.10
Florida Coast Banks Inc	14.03.84	2.05
Citizens Trust Co (VA)	11.04.84	2.48
Georgia Bancshares Inc	11.05.84	2.70
Trust Company of Georgia	29.06.84	2.07
NBC Bancshares Inc (LA)	29.08.84	2.12
Centran Corp (OR)	24.09.84	2.58
1985		
First Atlanta Corp (GA)	17.06.85	2.26
DC Nat'l Bancorp Inc (DC)	01.07.85	2.79
Bankers Trust of S. Carolina	03.07.85	2.37
Union Trust Bancorp (VA)	16.07.85	2.49
Arizona Bancwest Corp (AZ)	29.08.85	2.64
United Bancorp of Arizona(AZ)	05.09.85	2.66
Citizens & Southern Corp(SC)	17.09.85	2.53

- 2 In view of the fact that First American Bankshares can also be acquired by another foreign bank holding company and has an existing interstate presence in 5 states and is also uniquely positioned to expand into other neighbouring states, it would be appropriate to conservatively value this in the middle of the above spectrum of banks acquired by domestic acquirers in 1985 which would be around 2.50 times latest twelve months book value.
- 3 In conclusion, the rising profitability trend of First American Bankshares over the past 3 years since its acquisition by Middle East investors in 1982, may well enable them to receive a higher premium than 2.50 times book value from interested buyers.

Shahid Jamil

Shahid Jamil

737



BANK OF CREDIT AND COMMERCE INTERNATIONAL
 SOCIETE ANONYME
 100 LEADENHALL STREET LONDON EC3A 3AD

19

16 May 1988

Mr. Robert A. Altman
 Clifford & Warnke
 815 Connecticut Avenue
 Washington D.C. 20006
 U.S.A

Dear Mr Altman

Pursuant to our telefax message of 31 March 1988, we enclose certificates numbered 72 and 73 of the shares of Credit and Commerce American Holdings N.V. registered respectively in Mr Clifford's name and your name.

Also enclosed is a statement (enclosure A) giving details of the new share certificates to be issued.

With best regards.

Yours sincerely,

IMRAN M A IMAM

Encs

PHONES 01-263 8566

Incorporated in Luxembourg

TELEX 882251

A Subsidiary of BCTT Holdings (Luxembourg) S.A

FAX 01-626 8566

1. Name of the Shareholder :- Mr. Robert Altman

2. Details of acquisition of shares:-

DATE	NO OF SHARES BOUGHT (SOLD)	BALANCE	PRICE PER SHARE	TOTAL VALUE OF SHARES BOUGHT (SOLD)	SOURCE OF ACQUISITION	FINANCED BY	CERTIFICATE NO.	REMARKS
24.07.86	2247	2,247	2.216	4,979,352	Purchased from Mashriq Holding Co.	Loan BOC	73	84
17.08.87	475	2,722	2,430	1,154,250	Right Shares	Personal Resources	93	85
31.03.88	(1600)	1,122	(6,800)	(10,880,000)	--	--		Sold to MHI 45
18.07.89	75	1,197	2,774	208,050	Right Shares	Loan BOC	Awaited	87

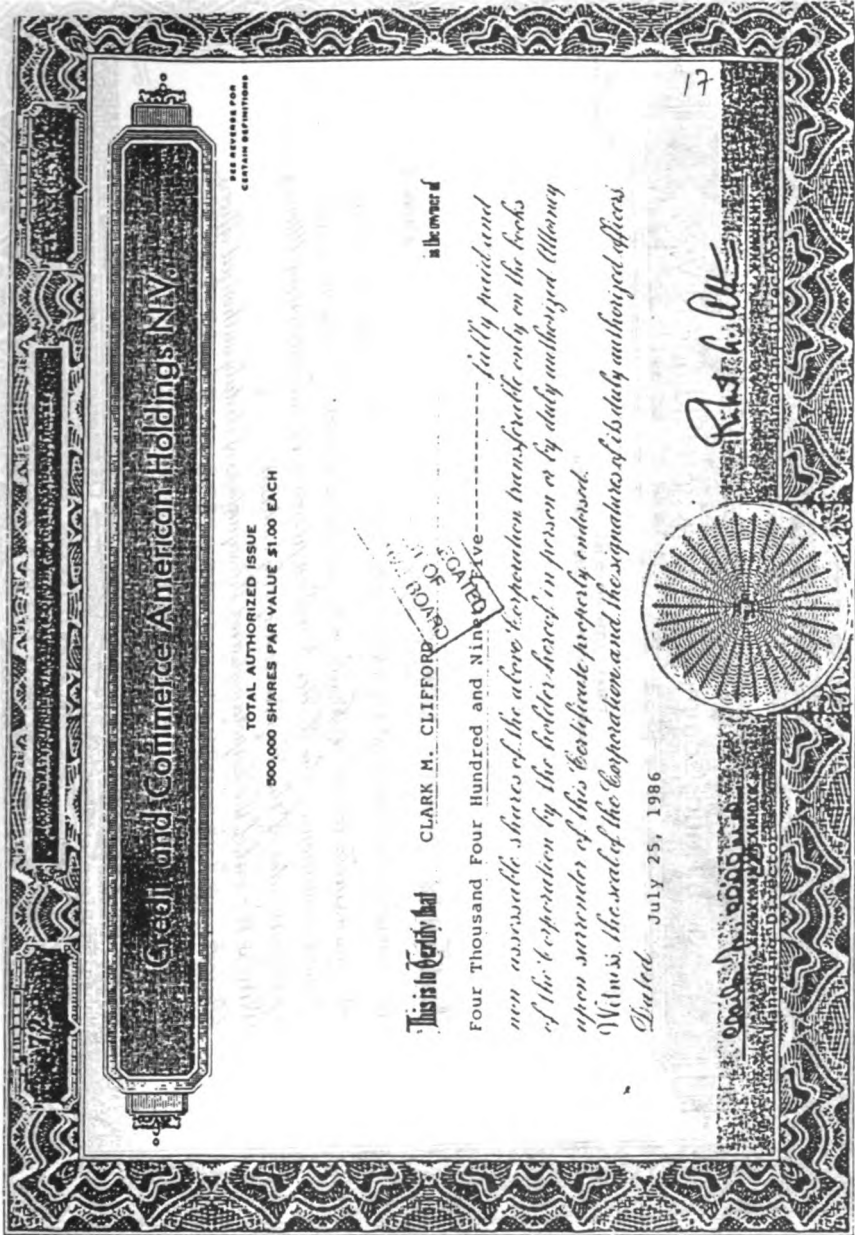
Following Share Certificate's comprise the total Holdings

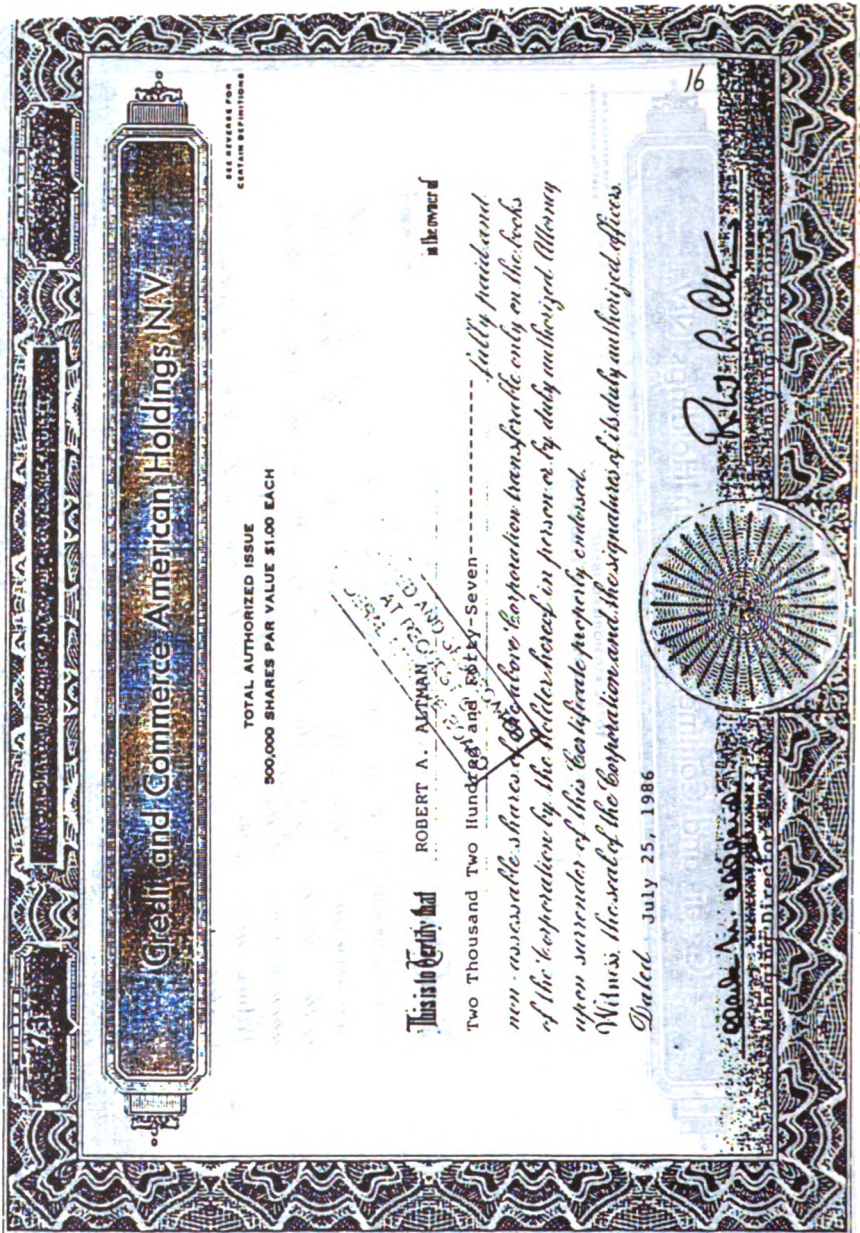
SHARE CERTIFICATE NO.	NO. OF SHARES
73	2,247
93	475
Awaited	75
	<hr/> 2,797 <hr/>

Custody of these shares is outside
Custody of these shares is with C.S.O. U.K.
Custody of these shares is with C.S.O. U.K.

ANNEXURE ASHARE CERTIFICATES FOR CANCELLATION

NAME OF THE HOLDER	CERTIFICATE NUMBER (DATE)	NUMBER OF SHARES	NEW SHARE CERTIFICATES TO BE ISSUED
Mr Clark M Clifford	72 ATED	4,495	(i) 1,295 Shares to be retained in Mr Clifford's name. (ii) 3,200 Shares to be issued in the name of Mr Mohammad M. Hammoud.
Mr Robert A Altman	73	2,247	(i) 647 Shares to be retained in Mr Altman's name. (ii) 1,600 shares to be issued in the name of Mr Mohammad M Hammoud.





1621

MAY 6 '91 14:25

HILL AND KNOWLTON

Hill and Knowlton
Public Affairs Worldwide Co.
Washington Harbour
901 31st Street, N.W.
Washington, D.C. 20007-3838
202-333-7400
Telecopy 202-333-1638
Telex 440143 HKDC

Frank Mankiewicz
Vice Chairman

MEMORANDUM

From: Frank Mankiewicz 

Attached is the First American memorandum addressing the issues concerning Mr. Clifford's and Mr. Altman's ownership of the Company's stock.

I believe First American has fully covered this subject, and then some, and I hope you will find the detailed information provided to be of use.

I would like to stress a few points:

- The fundamental contention of The Washington Post story of May 5, indeed its lead sentence - is untrue, and worse, never supported in the remainder of the article. The Post says regulators were told "that BCCI would have no financial relationship with First American and its senior management." No such statement was ever made. In fact, First American was free to have financial dealings with BCCI on an arms-length basis - as it did with many banks - and audits have confirmed that no impropriety occurred. As to financial dealings with senior management, I have no idea what representation or discussion the Post is talking about.

- These investments were not secretive ownership; rather, the Directors had full knowledge of both the purchases, and approved them. They were also encouraged by shareholders, and the ownership was timely reported to regulators, as required.

MAY 6 '91 14:05

PAGE 003

HILL AND KNOWLTON

- 2 -

- The loan from BCCI was made with the advice of New York counsel who had been involved in the original regulatory proceedings. None, then or now, believes the loan contravened any commitment to the Federal Reserve. And even if one reads the one sentence of the 1981 application with the interpretation the Post suggests, it seems to me this is a hypertechnical issue, considering the loan was repaid in full, with interest, more than three years ago.
- If you look, and I strongly encourage you to do so, at compensation packages provided other senior officers at comparable institutions, by any reasonable standard the compensation of Mr. Clifford and Mr. Altman for the past nine years is modest. As you know, million-dollar-plus salaries and extensive corporate perquisites are commonplace; Mr. Clifford and Mr. Altman had neither.
- Mr. Clifford's and Mr. Altman's stock interests in First American are not subject to divestiture in connection with allegations concerning BCCI's alleged control over any CCAH shares.

MAY 6 '81 14:06

HILL AND KNOWLTON

Recent questions have been received concerning stock ownership in First American by Mr. Clark Clifford and Mr. Robert Altman. Absent compelling reasons for public disclosure, Messrs. Clifford and Altman consider their financial affairs to be private and confidential. Nevertheless, in the interest of a full understanding of the facts and to avoid unwarranted speculation or error, the following compilation of facts has been prepared on this subject.

Clark Clifford was asked by the shareholders and Board to serve as Chairman of First American in 1982 in connection with the acquisition of the Company. When he accepted the position, he informed them that while he intended to devote his energies to building and revitalizing the Company, he was aware that success was not assured and was therefore not prepared to accept a large salary. He and the Board agreed that he would accept a payment of \$50,000 per year. This has remained unchanged for the past nine years.^{2/}

It was Mr. Clifford's feeling that if he and his partner, Robert Altman (who was to become president of First American Corporation, but without salary), were successful in developing the potential of the franchise, and able to increase substantially the value of the stockholders' investment, he would expect that later on he and Mr. Altman would be given the opportunity to acquire stock in the Company. In that way they might profit from their efforts. In effect, they took on

^{2/} Neither Mr. Clifford nor Mr. Altman has received any of the perquisites such as use of corporate aircraft, life or health insurance, club memberships, profit sharing arrangements, pensions, or cash bonuses which are usually a part of compensation packages for individuals in similar senior positions in banking. Mr. Clifford, as Chairman, was provided access to a company car beginning mid-1987. Mr. Altman has never had a company car.

MAY 6 '91 14:06

PAGE.005

HILL AND KNOWLTON

- 2 -

the task on a contingent basis.--'

The first four years were a period of intense effort by Mr. Clifford and Mr. Altman with major investments of their time and energy. Each bank was carefully analyzed, and a close association with the directors, officers, and employees was developed. Basic bank strategies, financial targets, and operating procedures were set, and additional banking professionals were recruited to supplement the existing officer group. The banks began to flourish. Substantial growth came from within, but also some strategic acquisitions were made, particularly, in New York and Virginia.

By 1986, it was clear that the project was thriving under the stewardship of Messrs. Clifford and Altman, and successful years lay ahead. In those four years, assets had increased from \$2.3 billion to \$7.2 billion. Deposits grew from \$1.8 billion to \$5.9 billion. Annual income had doubled from \$20 million to \$41 million. The profit to the shareholders on their investment was large and growing. Given this degree of progress, it then appeared appropriate to Messrs. Clifford and Altman, and to the Board and shareholders, for each of them to acquire stock in the Company.

As the Company grew, funds needed for expansion were raised by periodic rights offerings to the shareholders. (The first such offering took place in 1983.) In 1986 a rights offering of \$150 million was made. If an offering was undersubscribed by the existing shareholders, the shares not purchased would be offered by the Board, at its discretion, to other persons at the same price. This occurred in the 1986 offering, which gave Messrs. Clifford and Altman the opportunity to purchase some of the unsubscribed shares. Mr.

--' The firm of Clifford & Warnke has served as general counsel to First American and its parent holding companies -- which do not have in-house corporate legal affairs departments -- since 1982 with Board and shareholder approval. Appropriate bills have been submitted for legal services rendered in accordance with firm practice. A number of other highly regarded law firms also have rendered ongoing legal services and advice to First American and its parent companies over the years. Mr. Clifford and Mr. Altman have participated in the partnership income of Clifford & Warnke as members of the firm.

Clifford & Warnke's representation of the shareholders had existed for some four years prior to 1982. The legal representation of First American would have occurred after the acquisition without regard to whether Mr. Clifford and Mr. Altman accepted corporate positions at the Company.

MAY 6 '91 14:67

HILL AND KNOWLTON

- 3 -

Clifford bought 4495 shares for \$9.9 million and Mr. Altman bought 2247 shares for \$4.9 million. First American shareholders encouraged the purchases, and the directors of First American's holding company approved the transactions. Such ownership was also reported to the Federal Reserve and appropriate state banking authorities in annual filings made by First American.

The price paid for the shares by Messrs. Clifford and Altman was exactly the same price that was paid by all the shareholders -- book value. Selling stock at book value to raise capital is a practice that was followed in all First American offerings; the same practice was followed by First American's subsidiary banks in selling shares to the public. Mr. Clifford and Mr. Altman never received any gifts of stock, stock options, incentive stock awards, or discounted purchase prices for stock.

After negotiating with two foreign banks, the purchases were financed by 18-month (Libor based) loans from BCCI - the bank that had served as the investment adviser and communications link to the shareholders of First American since the purchase of the Company.²¹ The loans were negotiated at arms length, with the advice and assistance of New York counsel to Clifford and Altman, and were concluded on a non-recourse basis, fully collateralized by pledges of the shares. To service the loans, substantial interest payments were made while the loans were outstanding, by both Messrs.

²¹ A question was raised concerning representations made to bank regulators in 1981 in connection with the acquisition of the Company that BCCI would not be a lender with respect to the "acquisition" by the investors of the shares of the Company. Counsel to First American has confirmed that this representation was intended to relate solely to the tender offer financing in 1982 to acquire the Company, and there was no blanket regulatory prohibition against later borrowings from BCCI or any other bank.

It should also be pointed out that throughout the time of these transactions there was no reason to consider the involvement of BCCI as a lender to be inappropriate or controversial. Indeed, given BCCI's familiarity with First American and its owners, it was in an excellent position to consider the value of the collateral being offered for the loan. The current notoriety about BCCI did not occur until late in 1988 in connection with charges of money laundering, and allegations that BCCI may have gained control over some First American stock at some time during the past nine years arose subsequently in 1989 and 1990.

MAY 6 '91 14:08

HILL AND KNOWLTON

- 4 -

Clifford and Altman.

As a result of the purchases, Mr. Clifford and Mr. Altman had stock ownership that was consistent with customary share incentive plans for senior corporate officials in the United States. Messrs. Clifford and Altman retained legal title to the shares at all times, including voting rights.

In 1987, with First American continuing to thrive, Messrs. Clifford and Altman, as shareholders, participated in the next capital rights offering by the Company, each subscribing to his respective pro rata allotment of shares. Mr. Clifford bought 951 shares for approximately \$2.3 million, and Mr. Altman bought 475 shares for approximately \$1.15 million. Again, First American shareholders encouraged the purchases, and the directors of First American's parent company approved them. The ownership was again reported to the banking authorities. They were financed in a manner similar to the 1986 purchases.

In 1988 when First American was enjoying a record year and shares of banking companies similar to First American were trading at significant premiums, Messrs. Clifford and Altman decided to sell a portion of their holdings. By that time the shareholders had invested approximately \$550 million in First American; based on numerous, published banking transactions in the United States during this period, the Company was conservatively worth \$1.5 billion (based on a multiple of book value), leaving a potential profit for the shareholders, after only six years, of approximately \$1 billion.

In response to Messrs. Clifford and Altman's inquiry, another of the existing shareholders of the Company made an offer to purchase 4800 shares, for cash, at \$6,800 per share.^{2/} We understand that other sales transactions in the stock between other shareholders were made at similar prices. We are informed, for example, that another transaction between investors occurred during this period at approximately \$6,100 per share. In March 1988 Mr. Clifford accepted the offer and sold 3200 shares representing

^{2/} The purchaser later died in 1990 and his heirs now have claimed legal ownership of those holdings. At the time of this transaction, neither Mr. Clifford nor Mr. Altman knew whether the purchaser, a wealthy investor, had obtained financing for the purchase, or the source of any such financing. Nor was there any reason for them to have inquired as to these matters.

Recent information provided by the purchaser's estate representatives indicates that the purchaser has no personal loans from BCCI and that his First American shares are not pledged to BCCI. First American has no independent information about such matters. The shares, which were purchased in the shareholder's personal name, are claimed as the property of his estate.

HILL AND KNOWLTON

- 5 -

approximately 60% of his holdings; Mr. Altman sold 1600 shares representing approximately 60% of his holdings."

On March 31, 1988, Messrs. Clifford and Altman received \$21,760,000 and \$10,880,000 respectively for the purchase of their stock. Using the proceeds of the sale, Messrs. Clifford and Altman paid off in full the principal and remaining interest on their loans that same day. As shown in the table below, after repaying all the indebtedness, commissions, and Federal and State taxes, Mr. Clifford's net cash from the sale was approximately \$2.75 million; and Mr. Altman had received approximately \$1.35 million. Each owned, and continues to own, the balance of his stock free and clear.

Clark M. Clifford

Amount Received	\$21,760,000.00
Less:	
Costs and expenses paid	
Repaid Note of July 25, 1986	(9,960,920.00)
Repaid Note of August 14, 1987	(2,310,930.00)
Interest paid on loans	(1,411,831.00)
Commission on sale	(3,500,000.00)
Subtotal	\$ 6,576,319.00
State and Federal Taxes (approx.)	(3,825,000.00)
Net cash to Clark M. Clifford	\$ 2,752,319.00

Robert A. Altman

Amount Received	\$10,880,000.00
Less:	
Costs and expenses paid	
Repaid Note of July 25, 1986	(4,979,352.00)
Repaid Note of August 14, 1987	(1,154,250.00)
Interest paid on loans	(725,289.00)
Commission on sale	(750,000.00)
Subtotal	\$ 3,271,109.00
State and Federal Taxes (approx.)	(1,918,000.00)
Net cash to Robert A. Altman	1,353,109.00

It is incorrect to assume that the shares retained by Clifford and Altman could be assigned the same value per share as those sold to one interested purchaser.

In 1989 another rights offering was made to the shareholders. Again, Messrs. Clifford and Altman each purchased the pro rata number of shares available to them with the approval of the Company's directors; the resulting ownership was reported to the regulatory authorities. These purchases were not financed through any bank.

In 1990 a sale of \$30 million of convertible debentures was offered to shareholders. Again Mr. Clifford and Mr. Altman purchased their pro rata allotment of the debentures without financing from any bank. Mr. Clifford purchased a debenture with a face amount of approximately \$250,000 and Mr. Altman purchased a debenture of approximately \$125,000. Each continues to hold their debentures.

Mrs. Clifford and Mr. Altman remain small shareholders of the Company, owning .83 and .41 percent, respectively, of the shares outstanding. Their stock ownership continues to be reported in annual filings with bank regulatory authorities. Mr. Clifford and Mr. Altman have continued to have all right, title, and interest in the shares registered in their respective names. There is no existing lien or claim against the shares by any person or entity. There is no way to place a value on Mr. Clifford's and Mr. Altman's present stock holdings because there is no market for the shares.

In summary, at least two points should be emphasized:

- 1) The financial benefits received by Mr. Clifford and Mr. Altman over the past nine years, however computed, are exceedingly reasonable when compared to executives in similar positions. It is also important to note the enormous value they have been central in creating for shareholders.
- 2) There was no reason at the time of these transactions for any one to consider the role played by BCCI to be remarkable or inappropriate. The transactions, including BCCI loans, were reviewed at the time by other legal counsel for Mr. Clifford and Mr. Altman who were familiar with the history of the case and all relevant factors.

CABLE CLIPPER
TELEX 300000 CLEY

16 TELEPHONE
1000 000-4000

Clifford & Wankel
Solicitors and Counselors at Law
815 Connecticut Avenue
Washington, D. C. 20006

CLARK M. CLIFFORD

DIRECT LINE 10001 000-4000

July 25, 1986

Bank of Credit and Commerce
International (Overseas) Ltd.

100 Broad Street

London, England EC4A 3AD

Fort Street, P.O. Box 1359,

George Town, Grand Cayman.

RE: Note and Pledge Agreement for US \$9,960,920.00 dated July 25, 1986 ("Note") payable to the Bank of Credit and Commerce International (Overseas) Limited ("BCCI") by Clark M. Clifford (the "undersigned") of same date for the stock of Credit and Commerce American Holdings, N.V. ("CAAH").

Gentlemen:

With regard to the Note and the Pledge Agreement (jointly referred to herein as "Loan Documents"), and notwithstanding any provision of said Loan Documents to the contrary, BCCI and the undersigned hereby confirm and agree as follows:

- 1) Certain clients of BCCI have given BCCI a firm commitment to purchase any and all of the undersigned's CAHA shares at such time as the undersigned wishes to sell said shares.
- 2) BCCI shall arrange for the sale of said CAHA shares to such clients, or to other interested buyers in such manner, amount, and at such prices as BCCI and the undersigned shall mutually determine. BCCI and the undersigned shall consult as to the timing of such sales, the sales price per share, and the amount of shares to be sold. This shall serve further to confirm that BCCI is authorized to sell the CAHA shares as stated herein.
- 3) If for any reason there is a delay in arranging the sale of said CAHA shares and the Note becomes due, BCCI shall assist in refinancing said loan and interest accrued thereon on the same basis as the

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

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Bank of Credit and Commerce
International (Overseas) Ltd.
July 25, 1986
Page 2

Note provides, or shall roll over the Note for such periods as may be mutually agreed between BCCI and the undersigned.

- 4) As a result of the arrangements set forth in paragraph 1, BCCI has a ready market for the CCAH shares held as collateral by BCCI to secure repayment of the Note. Accordingly, and, notwithstanding any provision of the Note or Pledge Agreement (or any other document relating to the loan by the undersigned to BCCI) to the contrary, it is understood and agreed that the undersigned shall not be obligated personally to repay to BCCI the loan principal or any interest accrued thereon. BCCI shall be limited solely to the undersigned's interest in the CCAH shares and any proceeds thereof to repay the loan and interest thereon as set forth in the Note and related documents. Proceeds from the sale of CCAH shares in excess of the amount sufficient to pay the principal and interest due on the Note shall be paid to the undersigned.
- 5) In the event BCCI assigns the Note to any other party, such assignment would be subject to and governed by the undertakings and confirmations set forth herein.

If the foregoing correctly sets forth your understanding of the transaction, please indicate in the space provided below.

Sincerely,

Clark M. Clifford
Clark M. Clifford

Understood and Agreed:

Bank of Credit and Commerce
International (Overseas) Ltd.

BY _____

[Signature] *[Signature]*

1713

*Clifford & Harbo
Attorneys and Counselors at Law
815 Connecticut Avenue
Washington D C 20005*

July 25, 1956

Bank of Credit and Commerce
International (Overseas) Ltd.
100 Leadenhall Street
London, England EC3A 3AD

ATTN: Mr. Swaleh Naqvi

Gentlemen:

I am enclosing an executed note of the Bank dated July 25, 1956, ("printed note") which constitutes an exhibit to the typed Promissory Note dated July 25, 1956 ("typed note"), concerning a loan to the undersigned in the amount of \$4,979,352.00.

It is expressly understood and agreed that, notwithstanding any provision in the printed note to the contrary, in any and all instances where there is a conflict between the provisions of the typed note and the provisions of the printed note, including, without limitation, provisions concerning the term of the note, source of repayment, and collateral, the typed note shall in all respects govern and control. If the foregoing correctly sets forth your understanding of our agreement concerning the above referenced loan, please execute this letter in the space provided below.

Sincerely,

Robert A. Altman
Robert A. Altman

AGREED AND UNDERSTOOD:

BY:
BANK OF CREDIT AND COMMERCE
INTERNATIONAL (OVERSEAS) LTD.

1655

Swaleh Naqvi
2 2/3
Trumbull

MR. CLARK W. CLIFFORD

I. Interest Calculation on Loans

1. Account No. 11008788

Loan balance	US\$ 11,922,293.92
Less: principal	US\$ 9,952,920.00
Interest + charges	US\$ 1,961,373.92
Refund of interest paid	US\$ 672,362.10
Total of interest + charges on the loan	US\$ 2,633,736.62

2. Account No. 11009585

Loan balance	US\$ 2,526,126.93
Less: principal	US\$ 2,310,930.00
Total of interest + charges on the loan	US\$ 215,196.93

Total of interest and charges on both loans	US\$ 2,848,933.00
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II. Evaluating the Capital Gain

For the purpose of calculating capital gains tax, the second loan is treated by the IRS as a gain; the first loan is considered as the basis. Furthermore, the profit of US\$3.0 million is also treated as a gain.

Profit payable	US\$ 3,000,000.00
Interest + charges	US\$ 2,848,933.00
Principal of the 2nd loan	US\$ 2,310,930.00
Gain payable to the borrower	US\$ 8,159,863.00

This gain is taxable at 28%. Under the agreement, the tax liability is to be reimbursed to CMC. This gain is therefore treated as net gain, and the gross gain is calculated as follows:-

$$\begin{aligned} \text{Net gain (NG)} &= \text{Gross gain (GG)} - 28\% \text{ of Gross gain} \\ \text{NG} &= \text{GG} (1 - 28\%) \\ \text{or } \text{GG} &= \frac{\text{NG}}{0.72} \end{aligned}$$

$$\begin{aligned} \text{Gross gain} &= \frac{\text{US\$ 8,159,863.00}}{0.72} = \text{US\$ 11,333,143.06} \\ \text{Tax on Gross gain @ 28\%} &= \text{US\$ 3,173,280.06} \end{aligned}$$

1758

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS THAT THE UNDERSIGNED HAS MADE, CONSTITUTED AND APPOINTED, AND BY THESE PRESENTS DOES HEREBY MAKE, CONSTITUTE, AND APPOINT, ROBERT A. ALTMAN, OF THE LAW FIRM OF CLIFFORD & WARNKE, AS THE UNDERSIGNED'S TRUE AND LAWFUL AGENT AND ATTORNEY-IN-FACT TO ACT IN THE NAME, PLACE AND STEAD, AND ON BEHALF OF, THE UNDERSIGNED WITH RESPECT TO ANY AND ALL MATTERS RELATING TO THE TRANSFER SALE OR OTHER DISPOSITION OF REGISTERED SHARES IN CREDIT AND COMMERCE AMERICAN HOLDINGS N.V. (THE 'COMPANY'), HELD IN THE NAME OF THE UNDERSIGNED, GIVING AND GRANTING UNTO SUCH AGENT AND ATTORNEY-IN-FACT, FULL POWER AND AUTHORITY TO DETERMINE THE PRICE PER SHARE TO BE PAID AND, UPON VERIFICATION OF RECEIPT OF THE UNDERSIGNED OF THE FULL PURCHASE PRICE, TO ENDORSE OVER THE CERTIFICATE ON BEHALF OF THE UNDERSIGNED TO THE PURCHASER AND TO PERFORM EACH AND EVERY ACT AND THING SOEVER REQUIRED AND NECESSARY TO BE DONE TO EFFECTUATE THE TRANSFER OF OWNERSHIP, INCLUDING ARRANGING THE DELIVERY OF SAID CERTIFICATE TO THE PURCHASER AND THE PROPER ENTRY ON THE SHARE REGISTER OF THE COMPANY. THE UNDERSIGNED HEREBY RATIFIES EACH AND EVERY ACTION TAKEN BY MR. ALTMAN AS THE UNDERSIGNED'S AGENT AND ATTORNEY-IN-FACT WITH RESPECT TO ANY ACTION TAKEN BY HIM IN CONNECTION WITH ANY OF THE FOREGOING MATTERS.

IN WITNESS WHEREOF, THE UNDERSIGNED HAS HEREUNTO SET HIS HAND AS OF THE _____ DAY OF _____



MOHAMMAD M. HAMMOUD

BY: _____

TITLE: _____

1785

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS THAT THE UNDERSIGNED HAS MADE, CONSTITUTED, AND APPOINTED, AND BY THESE PRESENTS DOES HEREBY MAKE, CONSTITUTE, AND APPOINT, ROBERT A. ALTMAN, OF THE LAW FIRM OF CLIFFORD & WARNKE, AS THE UNDERSIGNED'S TRUE AND LAWFUL AGENT AND ATTORNEY-IN-FACT TO ACT IN THE NAME, PLACE AND STEAD, AND ON BEHALF OF, THE UNDERSIGNED WITH RESPECT TO ANY AND ALL MATTERS RELATING TO THE TRANSFER, SALE OR OTHER DISPOSITION OF 2,940- REGISTERED SHARES IN CREDIT AND COMMERCE AMERICAN HOLDINGS N.V. (THE 'COMPANY'), HELD IN THE NAME OF THE UNDERSIGNED, AND EVIDENCED BY CERTIFICATE NO. 16 (THE 'CERTIFICATE'), DOING AND GRANTING UNTO SUCH AGENT AND ATTORNEY-IN-FACT FULL POWER AND AUTHORITY TO DETERMINE THE PRICE PER SHARE TO BE PAID AND, UPON VERIFICATION OF RECEIPT OF THE UNDERSIGNED OF THE FULL PURCHASE PRICE, TO ENDORSE OVER THE CERTIFICATE ON BEHALF OF THE UNDERSIGNED TO A PURCHASER AND TO PERFORM EACH AND EVERY ACT AND THING WHATSOEVER REQUIRED AND NECESSARY TO BE DONE TO EFFECTUATE THE TRANSFER OF OWNERSHIP, INCLUDING ARRANGING THE DELIVERY OF SAID CERTIFICATE TO THE PURCHASER AND THE PROPER ENTRY ON THE SHARE REGISTER OF THE COMPANY. THE UNDERSIGNED HEREBY RATIFIES EACH AND EVERY ACTION TAKEN BY MR. ALTMAN AS THE UNDERSIGNED'S AGENT AND ATTORNEY-IN-FACT WITH RESPECT TO ANY ACTION TAKEN BY HIM IN CONNECTION WITH ANY OF THE FOREGOING MATTERS.

IN WITNESS WHEREOF, THE UNDERSIGNED HAS HEREUNTO SET HIS HAND AS OF
 THE DAY OF 1983.



 Mohammed Husain Qabazard

BY : _____

TITLE : _____



330 PARK AVENUE NEW YORK NY 10022

DATE: December 19, 1988

FROM: Laila Alizai

TO: Mr. Amer Saleem
U.S.R.OSUBJECT: M.M. Hammoud/Congressional Place

Please refer to your approval for issuance of a Standby LC for \$380,000 favoring the City of Alexandria. As already advised to Shahbaz last week, FAENY advises that FAB Virginia is willing to issue the Standby LC @ 1% p.a.; FAENY's charges will be an additional .50% p.a. I have discussed this with Mr. Intias Ansari of Mr. Hammoud's office today, and he has agreed to an all in rate of 2.75%; this would leave us with 1.25% p.a.]

Please provide approval for these charges urgently.

Regards,

Laila Alizai
.....

QB

001213

320 PARK AVENUE NEW YORK NY 10022

DATE:

August 15, 1990

FROM: Credit Department
New York AgencyTO: Mr. Shahbaz Raheem
USRO Credit DepartmentSUBJECT: ZURICH CORPORATION/M. M. HAMMOUD

As you are aware, the interest on the loan of \$10 million given by First American Bank to Zurich Corporation under our SBLC of \$10.1 million is not being serviced by Zurich. Accordingly, First American have debited our account with the following amounts.

<u>DATE</u>	<u>AMOUNT</u>
7/2/90	\$90,416.67
7/25/90	\$87,500.00

Please advise which account should be debited in order to respond to these entries.

Our account with First American Bank has also been debited with the following amounts:

<u>BORROWER</u>	<u>SBLC AMOUNT</u>	<u>AMOUNT DEBITED</u>	<u>DATE</u>	<u>REMARKS</u>
M. M. Hammoud	\$378,081	\$1,890.41	5/21/90	Commission for period 6/5/90 to 12/5/90 First American Bank New York.
M. M. Hammoud	\$378,081	\$ 946.00	6/15/90	D.O. First American Bank Virginia.
Carlson Farms	\$150,000	\$ 750.00	7/14/90	Commission for period 6/7/89 to 6/1/90 First American Bank New York.

Please advise regarding these amounts also.

Regards,



Raghu Bahadur

cc: Mr. Mohammed Ali

NY 0006030
CONFIDENTIAL

31

1. Name of the Shareholder :- M.M. Hamoud

2. Details of acquisition of shares:-

DATE	NO OF SHARES BOUGHT (SOLD)	BALANCE	PRICE PER SHARE	TOTAL VALUE OF SHARES BOUGHT (SOLD)	SOURCE OF ACQUISITION	FINANCED BY	CERTIFICATE NO.	REMARKS
24.07.86	5747	5,747	2,216	12,735,352	Right Shares of A.R.K.	Loan BCC	66	£ 9. The Loans are in the names of Mid-Gulf Tr
17.08.87	1216	6,963	2,430	2,954,880	Right Shares	Loan BCC	91	Company and Rubston
17.08.87	2803	9,766	2,430	6,811,290		Loan BCC	85	Trading Company and
31.03.88	1600	11,266	6,800	10,880,000	Purchased from Altman	Loan BCC	101	portion of the loan
31.03.88	3200	14,566	6,800	21,760,000	Purchased from Clifford	Loan BCC	99	CCM Subscription Al at BCC Cayman
18.07.89	968	15,534	2,774	2,685,232	Right Share	Loan BCC	115	93
18.07.89	881	16,415	2,774	2,443,894	Right Shares of A.R.K.	Loan BCC	109	94
18.07.89	1785	18,200	2,774	4,951,590	Right Shares of Barford Investment	Loan BCC	116	95

3744

Following Share Certificate's comprise the total Holdings

SHARE CERTIFICATE NO	NO. OF SHARES	
66	5,747	Custody of these shares is with C.S.O. U.K.
91	1,216	Custody of these shares is with C.S.O. U.K.
85	2,803	Custody of these shares is with C.S.O. U.K.
101	1,600	Custody of these shares is with NCB Bahrain
99	3,200	Custody of these shares is with NCB Bahrain
115	968	Custody of these shares is with C.S.O. U.K.
109	881	Custody of these shares is with C.S.O. U.K.
116	1,785	Custody of these shares is with C.S.O U.K.
	<u>18,200</u>	

TELEPHONE
7001 020-0200

23

Clifford & Warrick
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D. C. 20006

ROBERT A. ALTMAN

DIRECT LINE 1001 070-0700

July 23, 1987

COMPLETED
AT REQUEST OF
LEAVE BOARD

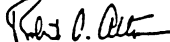
Bank of Credit and Commerce International (Overseas) Ltd.
Fort Street, P. O. Box 1359,
George Town
Grand Cayman

ATTN: Mr. Swaleh Naqvi

Gentlemen:

Enclosed is my check in the amount of \$336,106.26 in full payment of one year's interest on my loan in the principal sum of \$4,979,352 U.S. Dollars, which was extended to me on June 25, 1986. Thank you for your assistance in this matter.

Sincerely,



Robert A. Altman

Enclosure

ROBERT A. ALTMAN
815 CONNECTICUT AVE., N.W.
WASHINGTON, D.C. 20006

136

June 23, 1987

154
640-1

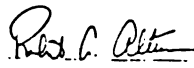
PAY TO THE ORDER OF Bank of Credit and Commerce Int'l (Overseas) Ltd. \$336,106.26**

Three Hundred Thirty-six Thousand One Hundred Six and 26/100 DOLLARS

1st AMERICAN
CREDIT ADVANCEMENT CORPORATION

FOR interest on loan thru 7/23/87

0540000430 5 433 844



BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

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PURCHASE AND SALE AGREEMENT

This Agreement is made this 26th day of April, 1988, by and between Clark M. Clifford, 815 Connecticut Avenue, NW, Washington, D. C. 20006 ("Seller") and Bank of Credit and Commerce International, 100 Leadenhall Street, London, England EC3A 3AD ("Buyer"), concerning Seller's agreement to sell, and Buyer's agreement to purchase, on the terms and conditions set forth herein, the shares of Credit and Commerce American Holdings, N.V. ("CCAH") owned by the Seller.

WHEREAS, CCAH is a closely held, private company owned by foreign investors; and,

WHEREAS, the CCAH shares owned by the Seller represent a small percentage of the shares of CCAH outstanding; and,

WHEREAS, no cash dividends on the CCAH shares have been paid to date, nor are any expected; and,

WHEREAS, the Seller would like to assure liquidity of his CCAH shares in the event of his death; and,

WHEREAS, Seller's heirs and representatives might encounter serious difficulties and/or delays in arranging a sale of Seller's shares; and,

WHEREAS, Buyer serves as financial adviser to certain clients that are shareholders of CCAH; and,

WHEREAS, Buyer is expected to protect the business and financial interests of said clients; and,

WHEREAS, said clients of Buyer are available from time to time to purchase additional shares of CCAH when offered for sale, and Buyer has arranged such sales in the past; and,

WHEREAS, it is believed by the parties to be in the best interests of all shareholders of CCAH to avoid undue fragmentation in the shareholdings of the Company; and,

WHEREAS, the value of Seller's CCAH shares after his death is uncertain, particularly given the small percentage of CCAH stock that Seller owns.

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

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1627

NOW, THEREFORE, in consideration of the mutual promises herein contained and for other good and valuable consideration, it is hereby understood and agreed, as follows:

TERMS AND CONDITIONS

(1) In the event Seller owns any shares of CCAH at the time of his death, Seller hereby agrees to sell, and Buyer hereby agrees to buy, all of said CCAH shares, for cash, at a price of \$2,310.00 (U.S.) per share which currently represents Seller's average cost per share. The closing on the purchase and sale of the CCAH shares shall take place promptly following receipt of written notice to the Buyer from Seller's representative advising Buyer of Seller's death. In no event shall the purchase and sale of the CCAH shares be delayed more than 90 days following receipt of said notice to Buyer.

(2) At the closing, Seller's representative shall deliver to the Buyer certificate(s) representing the shares to be purchased, appropriately endorsed and in proper form for transfer, and the Buyer shall deliver a certified or cashiers check payable to the Seller's order in the aggregate amount of the purchase price.

(3) Nothing herein shall prevent the Seller from selling or disposing of any CCAH shares he owns prior to his death, nor shall BCCI be obligated to purchase any CCAH shares owned by the Seller prior to Seller's death.

(4) The laws of the State of Maryland shall govern the interpretation, validity and performance of the terms of this Agreement regardless of the law that might be applied under the principles of conflicts of laws. Both parties to this Agreement consent irrevocably to the personal jurisdiction of the courts of the State of Maryland and of any federal court located in such State over both of them in connection with any action or proceeding relating to this Agreement and/or any breach of this Agreement. Neither party shall contest that the proper venue for filing and maintaining such action shall be in the State of Maryland.

(5) All notices and other communications provided for herein shall be in writing and shall be deemed to have been duly given if delivered personally, or sent by registered or certified mail, postage prepaid, to the party to whom it is directed:

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- (a) To the Seller, to him, at
815 Connecticut Avenue, NW
Washington, D.C. 20006
- (b) To the Buyer, to it, at
100 Leadenhall Street
London, England EC3A 3AD

or at such other address as the party shall have specified by notice in writing to the other as provided herein.

(6) This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(7) This Agreement is binding upon the parties and their respective legal representatives, heirs, executors, administrators, successors, and assigns, in accordance with its terms.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BANK OF CREDIT AND COMMERCE
INTERNATIONAL

BY: 


CLARK M. CLIFFORD

PURCHASE AND SALE AGREEMENT

This Agreement is made this 26th day of April, 1988, by and between Robert A. Altman, 815 Connecticut Avenue, NW, Washington, D. C. 20006 ("Seller") and Bank of Credit and Commerce International, 100 Leadenhall Street, London, England EC3A 3AD ("Buyer"), concerning Seller's agreement to sell, and Buyer's agreement to purchase, on the terms and conditions set forth herein, the shares of Credit and Commerce American Holdings, N.V. ("CCAH") owned by the Seller.

WHEREAS, CCAH is a closely held, private company owned by foreign investors; and,

WHEREAS, the CCAH shares owned by the Seller represent a small percentage of the shares of CCAH outstanding; and,

WHEREAS, no cash dividends on the CCAH shares have been paid to date, nor are any expected; and,

WHEREAS, the Seller would like to assure liquidity of his CCAH shares in the event of his death; and,

WHEREAS, Seller's heirs and representatives might encounter serious difficulties and/or delays in arranging a sale of Seller's shares; and,

WHEREAS, Buyer serves as financial adviser to certain clients that are shareholders of CCAH; and,

WHEREAS, Buyer is expected to protect the business and financial interests of said clients; and,

WHEREAS, said clients of Buyer are available from time to time to purchase additional shares of CCAH when offered for sale, and Buyer has arranged such sales in the past; and,

WHEREAS, it is believed by the parties to be in the best interests of all shareholders of CCAH to avoid undue fragmentation in the shareholdings of the Company; and,

WHEREAS, the value of Seller's CCAH shares after his death is uncertain, particularly given the small percentage of CCAH stock that Seller owns.

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT

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NOW, THEREFORE, in consideration of the mutual promises herein contained and for other good and valuable consideration, it is hereby understood and agreed, as follows:

TERMS AND CONDITIONS

(1) In the event Seller owns any shares of CCAH at the time of his death, Seller hereby agrees to sell, and Buyer hereby agrees to buy, all of said CCAH shares, for cash, at a price of \$2,310.00 (U.S.) per share which currently represents Seller's average cost per share. The closing on the purchase and sale of the CCAH shares shall take place promptly following receipt of written notice to the Buyer from Seller's representative advising Buyer of Seller's death. In no event shall the purchase and sale of the CCAH shares be delayed more than 90 days following receipt of said notice to Buyer.

(2) At the closing, Seller's representative shall deliver to the Buyer certificate(s) representing the shares to be purchased, appropriately endorsed and in proper form for transfer, and the Buyer shall deliver a certified or cashiers check payable to the Seller's order in the aggregate amount of the purchase price.

(3) Nothing herein shall prevent the Seller from selling or disposing of any CCAH shares he owns prior to his death, nor shall BCCI be obligated to purchase any CCAH shares owned by the Seller prior to Seller's death.

(4) The laws of the State of Maryland shall govern the interpretation, validity and performance of the terms of this Agreement regardless of the law that might be applied under the principles of conflicts of laws. Both parties to this Agreement consent irrevocably to the personal jurisdiction of the courts of the State of Maryland and of any federal court located in such State over both of them in connection with any action or proceeding relating to this Agreement and/or any breach of this Agreement. Neither party shall contest that the proper venue for filing and maintaining such action shall be in the State of Maryland.

(5) All notices and other communications provided for herein shall be in writing and shall be deemed to have been duly given if delivered personally, or sent by registered or certified mail, postage prepaid, to the party to whom it is directed:

1631

51

- (a) To the Seller, to him, at
815 Connecticut Avenue, NW
Washington, D.C. 20006
- (b) To the Buyer, to it, at
100 Leadenhall Street
London, England EC3A 3AD

or at such other address as the party shall have specified by notice in writing to the other as provided herein.

(6) This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(7) This Agreement is binding upon the parties and their respective legal representatives, heirs, executors, administrators, successors, and assigns, in accordance with its terms.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BANK OF CREDIT AND COMMERCE
INTERNATIONAL

BY: 


ROBERT A. ALTMAN

1632



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20561

DIVISION OF BANKING
SUPERVISION AND REGULATION

December 13, 1989

Mr. Robert A. Altman, Esq.
Clifford & Warnke
812 Connecticut Avenue N.W.
Washington, D.C. 20006

COPIED AND SIGNED
AT REQUEST OF
FEDERAL RESERVE BOARD

Dear Mr. Altman:

In connection with the application of Credit and Commerce American Holdings N.V. and Credit and Commerce American Investment, B.V. to become a Bank Holding Company with respect to Financial General Bankshares Inc. a question was raised concerning the financing of the investor's equity participations. Specifically, an issue was raised on whether any of the financing of the equity investment would be provided directly or indirectly by Bank of Credit and Commerce International S.A. (BCCI). It was indicated at the time that the individual investors had substantial funds and only a modest portion of the total investments would be financed. Further, any personal borrowing by the investors would come from financial institutions unaffiliated with BCCI.

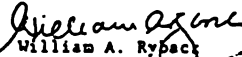
It has come to our attention that at least some of the investors may have borrowed from BCCI. It may be that these borrowings were unconnected with the Financial General Bankshares transaction, but nevertheless, were granted close to the time the acquisition was made. Some, if not all, of the borrowings may be secured by the stock of Financial General Bankshares. In order to clarify the situation it would be helpful if you would provide information on any loans extended to the original or subsequent investors, either directly or indirectly by BCCI or any of its ~~affiliated organizations~~. This information should include all loans extended to the investors regardless of purpose, whether any of these loans are secured and if so, in what manner, and the

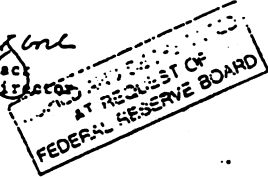
- 2 -

date any loans were originally granted. It would also be useful to provide information on the repayment history of any such loans.

If you have any questions, please do not hesitate to contact the undersigned at (202) 452-2722.

Very truly yours,


William A. Ryback
Deputy Associate Director

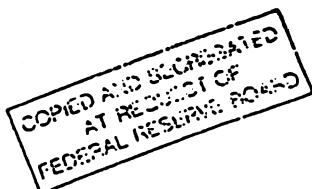


0023

PRIVILEGED & CONFIDENTIAL

January 31, 1990

Mr. Robert Altman, Esq.,
 Clifford & Warnke,
 815 Connecticut Avenue, N.W.
WASHINGTON DC 20006.
 U.S.A.



Dear Mr. Altman,

I am writing in response to your inquiry concerning whether there were any loans from Bank of Credit and Commerce International, S.A. to any of the shareholders of Credit and Commerce American Holdings, N.V. in connection with the acquisition of Financial General Bankshares in March 1982. I have reviewed a copy of the letter dated December 13, 1989 addressed to you from Mr. William A. Ryback of the Federal Reserve that you provided me, as well as the original and current list of First American shareholders which you also made available.

As I explained, I cannot provide you with confidential information about our customers' financial arrangements with BCCI without their express prior authorization.

On a preliminary basis, I am able to confirm the accuracy of the representations made to the Federal Reserve in the Board application that the acquisition of Financial General Bankshares was not financed in any respect by BCCI. Insofar as the Federal Reserve has been informed that "some of the investors may have borrowed from BCCI," we can confirm that none of the shareholders involved in the acquisition had any personal loans from BCCI during the years 1981 (when the application was filed) or 1982 (when the acquisition was completed). The Board's misimpression may be due to the existence of some unrelated loans from BCCI for working capital requirements of various other businesses in which certain shareholders had interests. Of course no stock of CCAH or Financial General was placed as collateral for these loans. I trust this is helpful as an interim report. When I am able to provide full details, it should be completely dispositive.

You should be aware that in the years following the acquisition, some of the persons who are on the list of shareholders of Credit and Commerce American Holdings, N.V. have from time to time borrowed from BCCI for various purposes. Other individuals -- including some who appear as the larger investors in First American -- have not borrowed from BCCI, and do not have any CCAH stock pledged to secure outstanding loans.

....72

I further understand that a copy of this matter may be provided by you to Mr. Ryback on a confidential basis.

Sincerely,



SWALEH NAQVI

COPIED AND SIGNED
AT REQUEST OF
FEDERAL RESERVE BOARD

0001

*Clifford & Warner
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D. C. 20006*

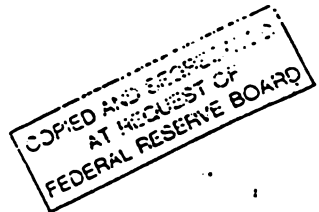
ROBERT A. ALTMAN

RECEIVED FEB 11 1990

February 5, 1990

BY HAND

Mr. William A. Ryback
Deputy Associate Director
Division of Banking Supervision
and Regulation
Federal Reserve Board
Washington, D. C. 20551



Dear Mr. Ryback:

I am writing in response to your letter dated December 13, 1989, and as a follow up to the telephone conferences we have had regarding the issues you have raised.

As we have discussed, we do not have access here to information regarding any financial arrangements that might exist between a shareholder of Credit and Commerce American Holdings, N.V. and other financial institutions, including the Bank of Credit and Commerce International, S.A. ("BCCI"). Based on our consultations with the resident managing director for Credit and Commerce American Holdings in the Netherlands Antilles, we can only confirm that no pledge or security interest has ever been recorded on the Company's share register by any lender.

In order to be properly responsive to your inquiry, and given the practical difficulty in communicating quickly with these shareholders, we concluded that the most expeditious way to procure the information would be to ask BCCI directly to furnish it. Accordingly, I spoke with Mr. Swaleh Naqvi, the Chief Executive Officer, and provided him a copy of your letter together with a list of the original and current shareholders.

I have today received a reply from Mr. Naqvi which is self-explanatory. While BCCI has not yet provided the detailed information we are requesting, we are pleased that /

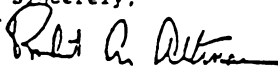
Letter to Mr. William A. Ryback
 February 5, 1990
 Page 2

the letter confirms the accuracy of the representations made by the investors in their Board application. Mr. Naqvi states flatly that BCCI did not finance the acquisition "in any respect." Mr. Naqvi has asked that his letter be handled on a confidential basis by the Board.

I shall, of course, press ahead with my request for the detailed information you wish to review, with my understanding that your primary interest is the current state of borrowings from BCCI by any of the First American investors including any stock that may have been pledged as collateral for loans. I further understand that you are not interested in loans to various businesses in which First American shareholders may have interests, but instead are interested in their personal borrowings or any of their loans secured by First American stock. I shall keep you fully informed as I obtain additional information from the shareholders and/or from BCCI.

I trust this is helpful as a preliminary report. If you have any questions or comments, please let me know.

Sincerely,



Robert A. Altman

Privileged & Confidential

May 8, 1990

MEMORANDUM TO THE FILE

RE: Meeting with Federal Reserve Staff

A meeting was held at the Federal Reserve beginning at 6:00 PM with William A. Ryback (Deputy Associate Director, International Supervision and Applications, Banking Supervision and Regulation Division), Don E. Kline (Associate Director, Bank Holding Companies, Banking Supervision and Regulation Division), James Keller (Legal Division), and a Mr. Barnes to discuss with the staff any concerns that may have arisen following the publication of articles in Regardie's and the Wall Street Journal. In this regard, we also wished to discuss Mr. Ryback's earlier inquiry concerning any BCCI loans to First American shareholders in connection with the acquisition of Financial General by the investors, or which are otherwise of interest.

Mr. Tuttle stated that the purpose of the meeting was to answer any questions the staff might have arising from the articles, to address any issues about BCCI's relationship with First American, and to report to them current information available concerning any BCCI funding of the 1982 acquisition of Financial General. Mr. Altman reviewed a letter from BCCI President, Mr. Svalah Naqvi, a copy of which had previously

- 2 -

been sent to Mr. Ryback, advising us that BCCI had not financed the acquisition in any respect. See Attachment A. Mr. Altman further reported that follow-up letters had been sent to each of the First American shareholders requesting confirmation that the original purchases were made from personal funds and seeking authorization to review with BCCI loans made subsequently to the investors which may have been secured by a pledge of CCAH shares. See Attachment B.

Mr. Ryback indicated he was not really interested in subsequent loans from BCCI, but asked instead that we seek Mr. Naqvi's permission for Mr. Ryback to share the Naqvi letter with other supervisors. Specifically, he would like to provide a copy to the regulatory authorities overseas which apparently had first raised the matter with him. He did not identify the regulatory body or bodies. The suggestion was that by forwarding to them a copy of Mr. Naqvi's letter, he should be able "to close his file on this matter." Mr. Altman said he would contact Mr. Naqvi and request such permission; we did not anticipate any objection. Mr. Ryback will be traveling for the next 10 days or so and we should secure a response by the time he returns.

Mr. Altman reviewed our reaction to the Regardie's and Wall Street Journal pieces, and advised them of a subsequent meeting with two reporters from the Washington Post. He reported that documentation developed during the regulatory proceedings approving the applications refuted the basic

- 3 -

allegations in the Regardie's article as to (i) the allegedly unsavory background of the investors and (ii) the suggestion that federal and state regulatory approvals had been obtained on the basis of mere representations by legal counsel. Copies of correspondence from the N.Y. State Banking Department to Congressman Rosenthal and Congressional testimony by former Federal Reserve Board Chairman, Henry Wallich, were furnished to the Board staff. See Attachments C and D. Mr. Keller noted that the Board staff had in fact undertaken a very thorough regulatory review of the transaction, and he agreed with the assessment of the N.Y. Banking Department letter and the Wallich testimony that the review was extraordinarily comprehensive.

Mr. Altman further advised that testimony in the Tampa criminal proceedings by the government's chief witness appeared fully to rebut the Wall Street Journal contention that widespread money laundering was known and condoned at the highest levels of BCCI senior management. In fact, the testimony establishes to the contrary; such activity was contrary to clear BCCI policies and those engaged in such wrongdoing at lower levels had to keep it secret from senior management.

Mr. Altman next turned to the issue of the BCCI/First American relationship. The acquisition of BCCI by Abu Dhabi was noted (along with reported sweeping management changes) which substantially lessened the shareholder overlap between

- 4 -

the companies. Mr. Altman, however, advised of efforts to pursue the issue raised by Mr. Ryback and stated that identical letters had been sent to each CCAH shareholder requesting confirmation that their acquisition of First American had been with personal funds and seeking further information regarding loans, if any, from BCCI that might have been granted by a pledge of CCAH shares. Copies of the letter sent to Kamal Adham were given to the Board staff as a sample. See Attachment B. Mr. Altman reported that we had received a response from Adham (confirming BCCI had not financed the acquisition), that we were expecting more responses, and that we would be happy to provide the Board staff with such letters when they are received.

There was then discussion regarding the regulatory implications of possible BCCI loans to the shareholders (subsequent to the original acquisition) that may be secured by a pledge of CCAH shares. Mr. Altman pointed out that he had no concrete information, but had heard reports of loans by BCCI to certain shareholders in amounts ranging from \$400 million to over \$1 billion. He did not know how accurate these reports were, or what would be the purpose of any such loans. Mr. Altman further indicated that an informal, off-the-record inquiry had been made of Price Waterhouse who advised that there were loans to shareholders that appeared to be properly documented. However, Mr. Altman said he did not get any specific information. We did understand assets were securing

such loans and believed the collateral was CCAH stock in some instances. (We also noted that there were no CCAH bearer shares, and that there was no formal pledge of stock recorded on the books of CCAH.) Finally, Mr. Altman indicated his understanding that the shareholders from Abu Dhabi have never borrowed from BCCI or any other bank. We emphasized again that this information could not be entirely reliable; it was only what we had heard. In this regard, we stated that the shareholders have never advised us of their financial dealings after the acquisition was completed in 1982.

Mr. Kline expressed some interest in BCCI loans, noting that Mr. Naqvi's letter appears worded not to make representations about post-acquisition lending against CCAH shares. We agreed that Mr. Naqvi advises such loans have been made, though no security for the loans is detailed. Mr. Tuttle suggested that, even assuming that there were significant borrowings against CCAH stock by First American shareholders, the key regulatory issue is only whether BCCI is in some way exercising a controlling influence over First American. There is no legal or regulatory prohibition against borrowing from BCCI, a view apparently shared by the staff. As to this basic control issue, there can be no question that the current U.S. management of First American runs the operation and establishes and implements the Company's policies and programs. This has been the case from the beginning and has been broadly acknowledged by regulators themselves, including in the recent examination

by the Richmond Fed in connection with its review of the application to retain ownership of the Bank of Escambia, N.A. It has also been observed by state banking officials such as Commissioner Bailey in Virginia. Mr. Altman invited the Federal Reserve to audit the Company or talk to any First American senior officer if there were any questions at all on this point.

Mr. Ryback concurred in this view, and emphasized that his limited concern was only to inquire as to any BCCI financing of the original acquisition in view of information supplied him by foreign supervisory authorities. We agreed again to get permission from Mr. Naqvi to release the BCCI letter.

Following this discussion, Mr. Altman took the opportunity to advise the Board staff as to further developments regarding any possible sale or merger of First American, as well as the possible purchase by Sheikh Zaied of some small amount -- 8 percent or 10 percent -- of CCAH stock. He emphasized that such matters were still uncertain -- that no final decisions had been reached, but that he wanted the Board staff to know that such subjects were under consideration. Mr. Altman noted that the Company had received expressions of merger interest from a number of southeast regional banks which we were considering and there was some indication of interest by the Government of Kuwait (although the degree of such interest had not been made clear). Another possibility

- 7 -

is that Abu Dhabi might seek to acquire the Company. Mr. Ryback lightly noted that the deals involving a southeast bank or Kuwait were preferable, given recent developments with Abu Dhabi's acquiring control of BCCI.

The meeting lasted approximately 45 minutes. It was emphasized by Mr. Altman and Mr. Tuttle that good relations with the Board were of paramount importance and that if the staff had any concerns or questions they should immediately contact us. We would endeavor to secure any information they wished to obtain.

Robert A. Altman
Baldwin B. Tuttle
J. Griffin Lasher

Attachments'

00071



FIRST AMERICAN BANKSHARES, INC.

CLARK M. CLIFFORD
Chairman of the Board

October 10, 1989

PRIVILEGED & CONFIDENTIAL

H.H. Sheikh Humaid bin Rashid al Naumi
Ajman, U.A.E.

Your Highness:

In recent months, there has been increased merger and acquisition activity among large regional banks in the Southeast region of the United States. The markets served by First American Bankshares' network of banks are within this important geographical area. Such interest has generally resulted from the view now held by many banking institutions that they must become larger in size and scope to compete successfully in banking in the coming years.

In this regard, we have been approached by the management of a large banking organization called Barnett Banks, Inc. to discuss their interest in a possible merger or acquisition arrangement with First American. Barnett is a \$27 billion, publicly held banking institution headquartered in Florida and is the largest bank holding company in that state. We have reason to believe that there may be other, large regional banks interested in a similar combination with First American.

In order to meet our fiduciary obligations to each of the shareholders of Credit and Commerce American Holdings, N.V. (CCAH) and to protect and promote this important investment in First American, we have undertaken a serious study and evaluation of the matter. We have retained the services of Goldman, Sachs & Co., perhaps the finest investment banking firm in the United States specializing in bank acquisitions and mergers. Goldman, Sachs has been asked to evaluate the express interest of Barnett Banks as well as other possible candidates. To inform you of the efforts by Goldman, Sachs, we enclose a copy of their letter to us setting forth their preliminary assessment of the Company and their proposed program.

15th and H Streets NW Washington, DC 20005 (202) 383-1400

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1511 / 11/11/11
 TESTIMONY - August 8 15

1 First American?

2 Mr. Rahman: Well, it was one of the easier things to
 3 conclude in view of the lack of paper, and once we had made
 4 that recommendation that we unwind that forthwith, and we were
 5 informed that indeed Goldman, Sachs had been appointed to try
 6 and find evaluation and a buyer.

7 Senator Kerry: When was that appointment made?

8 Mr. Rahman: I think late in '89.

9 Senator Kerry: Now, with respect to the First American
 10 shares, was there some talk of a reverse divestiture in that
 11 First American might somehow think of buying out BCCI?

12 Mr. Rahman: I don't think it was seriously discussed as
 13 strategy, but in passing people -- you know, Mr. Naqvi
 14 mentioned, well, that perhaps it will be better if they buy
 15 us.

16 Senator Kerry: What was the purpose of that, to clear up
 17 the ownership issue?

18 Mr. Rahman: Yes, to clear up the ownership issue. It
 19 would mean that the whole of the BCC group would then have a
 20 home in America, effectively, instead of Luxembourg.

21 Senator Kerry: Now, what was the second area of inquiry?

22 Mr. Rahman: The second one was in relation to this bank
 23 within a bank. That was a very, very serious case in the
 24 sense that first it shocked me that an ICIC foundation which
 25 was supposed to be our savings and our shareholding in the

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 WASHINGTON, D.C. 20005
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1 situation of UK. They had a \$4 billion balance sheet, for
2 which only 40 percent was in advances; 60 percent was liquid.

3 Senator Kerry: 60 percent was liquid?

4 Mr. Rahman: It was liquid funds, and they closed the
5 whole bank. It is unbelievable that the Bank of England
6 should --

7 Senator Kerry: But did they not close the bank because
8 of the fraud? I mean this was not a decision based
9 exclusively on liquidity, et cetera.

10 Mr. Rahman: Sir, I think that in banking terms, you
11 close the people. You do not close the bank.

12 Senator Kerry: Well, this is the judgment, obviously,
13 which people are going to have to take a look at.

14 Mr. Rahman: It will come out that even in UK, you will
15 have the same people, the same names coming up again. And not
16 the 2,500 people who work there, or the 300,000 clients who
17 have suffered over there.

18 Senator Kerry: Let me just take one minute here.

19 [Pause.]

20 Senator Kerry: Let me go back to one thing that you
21 raised earlier that may have piqued some people's curiosity.

22 Back in 1990, when you discovered these problems, you
23 mentioned to me that a number of large investment houses were
24 contacted regarding the sale of First American shares. Is
25 that accurate?

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SUITE 400
WASHINGTON, D.C. 20005
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Mr. Rahman: Well, Goldman-Sachs was supposed to try to locate a potential buyer.

Senator Kerry: A potential buyer for?

Mr. Rahman: First American.

Senator Kerry: First American -- so they were suppose to find a buyer for a bank owned by a foreign bank, selling the American bank which was not legally held at the time, or legally owned by the foreign bank. Is that correct?

Mr. Rahman: Yes.

Senator Kerry: Did they know that? Were they notified of that?

Mr. Rahman: I think they were asked on behalf of the shareholders.

Senator Kerry: Well, were they told that?

Mr. Rahman: No, I think that they were told that it is on behalf of Kamal Adham and other shareholders.

Senator Kerry: That they simply want to sell some shares?

Mr. Rahman: Sell, I think maybe sell some shares. I do not know whether the whole bank or some shares.

Senator Kerry: So you do not know what the story is with respect to that?

Mr. Rahman: But that is what was informed to the committed.

Senator Kerry: Did BCCI entertain lavishly? Did it

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Charlotte, NC 28266
Telephone 704/374-1663

NCNB

Hugh L. McCall, Jr.
Chairman of the Board

May 3, 1990

Mr. Clark M. Clifford
Chairman of the Board
First American Bankshares, Inc.
First American Bank Building
15th and M Streets, N.W.
Washington, D.C. 20005

Dear Mr. Clifford:

At your request, we are pleased to convey in this letter our interest in pursuing a transaction with First American Bankshares, Inc. ("FAB") in the form of a merger or acquisition or other mutually agreeable format. As a condition to providing this letter of interest, we request that you treat the contents and existence of this letter as confidential, and disclose such contents and their existence only to Goldman, Sachs & Company, and to those of your employees and agents who are working on the matter. On advice of counsel, we do not believe this letter triggers a reportable event for either party, but should you believe otherwise we would wish to discuss this with you or your counsel. Our proposal contemplates the acquisition of all outstanding shares of FAB common stock in exchange for a combination of our common stock and cash or other securities, which will provide FAB shareholders the ability to continue to reap the benefits of their investment in FAB through the continued earnings growth of the combined entity.

As we have discussed, we have not yet had the opportunity to finalize our evaluation of FAB by means of a complete due diligence review and verification of its current financial position and earnings potential, operations, loan portfolio, personnel or other factors or the structure of this transaction and would look forward to discussing our views as we proceed forward. Although we are concerned over the trends in the first quarter earnings and loan quality, we believe that a detailed due diligence investigation should determine whether these are temporary declines or represent a trend. Based on the financial information provided to us, our preliminary valuation is approximately \$1 billion. This preliminary value represents approximately 12 times your projected 1990 earnings and approximately 1.5 times tangible book value. To the extent that assets or entities other than FAB are to be purchased or excluded as part of this transaction, this valuation will be adjusted accordingly. In addition, this proposal is dependent upon the resolution of a number of issues, including but not limited to those outlined below:

1663

FD 00639

- (i) satisfactory completion of normal business and legal due diligence by both you and us (with particular emphasis on current and future earnings power);
- (ii) negotiation and completion of a definitive purchase agreement including receipt of satisfactory representations and warranties;
- (iii) Board of Director and shareholder approvals and unconditional approvals by federal and state regulators without conditions that are unsatisfactory to either party; and
- (iv) other usual and reasonable conditions which might arise out of additional due diligence or disclosures by FAN or its management.

We are prepared to begin due diligence promptly and once begun, expect this work can be completed within a time period of approximately thirty days. Immediately upon achieving mutually satisfactory results from due diligence, we would expect to begin the negotiation of a definitive agreement. As conditions to our proceeding with this process, we will expect you and your agents to:

- (i) execute a confidentiality agreement with us;
- (ii) complete your due diligence on the value of our company concurrently with our due diligence review of FAN; and
- (iii) provide us with a list of shareholders along with their respective percentage ownership positions in order to assess the pro forma ownership of the combined entity.

It is expected that approvals from regulatory agencies, Boards of Directors and shareholders would also have to be accomplished to consummate this transaction, and a suitable timetable set.

We believe that our proposal would be fair and most generous to the shareholders of FAN and hope that this letter conveys an adequate expression of our interest and commitment to further pursuing a transaction.

In conclusion, we believe the participation of your shareholders and employees in the combined entity represents a truly unique long-term opportunity. We would appreciate a response from you no later than May 10, 1990, so that both you and we can proceed with due diligence.

Sincerely,


Hugh A. McCall, Jr.

1660

FD 00640

Goldman, Sachs & Co. 1 65 Broad Street | New York, New York 10004
Tel. 212-902-5553

J. Christopher Flowers
Partner

Goldman
Sachs

PERSONAL AND CONFIDENTIAL

May 10, 1990

Mr. Robert A. Altman
Clifford & Warnke
815 Connecticut Avenue
Washington, D.C. 20006

Dear Mr. Altman:

We are writing this letter to review with you the status of Project Constitution. We understand that you may forward this letter to the shareholders of First American Bankshares, Inc. (the "Company") and certain of their financial advisors.

In July 1989, you asked us to review various alternatives to accomplish the long-term profit and growth objectives of the Company's shareholders and management. In this regard, we examined an initial public offering of the Company, joint venture opportunities for the Company and the sale of the Company. In examining such alternatives, we analyzed the Company extensively and made certain comparisons of the Company to its peers.

After such analysis, you instructed us to focus on possible business combinations to maximize the value of the shareholders' investment. The nature and breadth of the Company's franchise, as well as certain regulatory restrictions, led us to focus our efforts principally on large, well-managed banks in the Southeastern United States.

To ascertain the effect of the Company's combination with these firms, we prepared pro forma analyses illustrating the impact on the Company's earnings and shareholders' equity and the ownership position the Company's shareholders would hold in the potential combined entities. Because it is most likely that the Company would achieve the highest value for its franchise by accepting the stock of a potential merger partner, we also provided extensive analysis on the expected future stock price performance of certain potential partners.

After reviewing such analysis, you authorized us to approach six banks: Barnett Banks, Inc., First Union Corporation, First Wachovia Corporation, MNC Financial, Inc., NCNB Corporation and SunTrust Banks, Inc. The Southeastern banking market has been one of the most dynamic in the United States and, despite recent difficulties, its prospects are considered excellent.

Most of these institutions demonstrated a high degree of initial interest in the Company's unique franchise. However, a slowing economy and overbuilt real estate markets have reduced the stock prices, and to a lesser extent the earnings, of the six firms. All but one of these institutions have

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FD-00641

Goldman:
Sachs

Mr. Robert A. Altman
May 10, 1989
Page Two

elect not to pursue a transaction at this time. Despite the fact that Barnett Banks, Inc. did not submit a proposal, however, we believe that it is still possible that they will be a bidder.

One of the most interested parties, NCNB Corporation ("NCNB"), submitted a preliminary proposal to pursue a merger with the Company and indicated that its preliminary valuation is approximately \$1 billion. After signing a confidentiality agreement and prior to submitting its proposal, NCNB was allowed to review the confidential memorandum prepared by ourselves with the assistance of Company personnel and other confidential reports prepared by the Company. However, the management of NCNB has not met with the Company's management nor has it had the opportunity to conduct in-depth on-site due diligence. The preliminary proposal and valuation are tentative and subject to the completion of further due diligence by NCNB on the Company, the negotiation of a satisfactory merger agreement and regulatory approvals. The Company, assisted by us, would perform due diligence on NCNB as well.

NCNB's proposal offers to acquire all the Company's common stock in exchange for a combination of NCNB common stock and cash or other securities. Though the wording of the proposal is ambiguous, we believe, based on conversations with NCNB senior management and their financial advisors, that NCNB's final proposal will contain a significant amount of common stock and possibly be all common stock.

Assuming the current NCNB stock price of \$38.75 per share and an all stock transaction, \$1 billion would translate into 25,806,452 shares of NCNB's common stock. If the shareholders of the Company were to exchange their shares for such an amount of newly issued NCNB shares, the shareholders would own, collectively, approximately 20.3% of NCNB common stock.

We believe that NCNB's preliminary valuation is an attractive level and merits careful consideration. The valuation is approximately 1.2x stated book value and 1.5x tangible book value as of year-end 1988 and represents a multiple of 15.0 times 1988 earnings. As you know, the preferred currency for large bank merger transactions in this environment is all common stock versus all cash or a package of securities.

Since we first began discussions on this matter in the summer of 1988, the prices of many bank stocks, including NCNB, have declined significantly. For example, the 25,806,452 shares of NCNB worth \$1 billion today would have been worth nearly \$1.3 billion in July 1988 when NCNB's stock was \$50 per share. A \$1.3 billion dollar valuation is approximately 1.5x stated book value and 1.9x tangible book value and represents a multiple of 19.5 times 1988 earnings.

Despite the decline in NCNB's stock price, we remain positive on NCNB and its stock. NCNB's price decline since summer is not out of line with the stock price performance of other Southeastern banks and, in addition, the decline is likely to result in the Company receiving a greater number of shares in a potential transaction than it would receive if a transaction occurred when NCNB's stock price was higher. Finally, we believe that NCNB's stock should perform well in the future and it is

1671

FD-00642

4

Goldman
Sachs

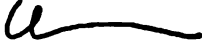
Mr. Robert A. Altman
May 10, 1980
Page Three

recommended for purchase by our bank industry research analysts. We have included our research analysts most recent reports on NCNB and Barnett.

We believe that the best course for the Company probably is to pursue these merger discussions with NCNB and Barnett. Delaying the process risks losing the interest of NCNB. As noted above, it may be that the depressed stock prices of NCNB and Barnett may enable the Company's shareholders to receive more shares; put another way, we think that it is better to bargain for shares when they are cheap. In addition, moving forward now brings the Company's shareholders closer to an opportunity to realize substantial benefits such as cost savings and dividend payments through a combination.

We hope you find this review helpful. If you have any questions, please do not hesitate to call.

Sincerely,



J. Christopher Flowers

1672

FD 00643

First American Courted for Merger

NCNB Is Among Banking Firms Making Acquisition Overtures

By Joel Glenn Brenner
and Jim McGee
Washington Post Staff Writers

North Carolina banking giant NCNB Corp., which has long been looking to expand its reach into the Washington area, recently made overtures to First American Bankshares, parent firm of First American Banks of Virginia, Maryland and D.C.

First American Chairman Clark M. Clifford yesterday confirmed that NCNB and several other banks have approached him to discuss possible mergers. But he said that the Arab shareholders who control First Amer-

ican "have not shown any interest" in those inquiries and "the bank is not for sale."

However, other sources familiar with the bank's operations said they believe First American would be available for sale if the right offer came along.

NCNB spokesman Dick Stillel declined to comment on a possible merger between NCNB and First American, but he reiterated that the Washington market "is one of great interest."

The interest in First American follows a wave of bank mergers along the East Coast, which climaxed last

year with the announcement of a merger between Sovran Financial Corp. and Citicorp & Southern Corp. that will form the largest regional bank holding company in the nation.

Clifford said the Sovran-C&S deal prompted a number of phone calls between bankers, including calls to First American. Robert Akman, president of First American Corp., also said that recent financial trouble at Perpetual Savings Bank, the largest thrift in the Washington area, has set regional banks on edge and prompted further interest in mergers and acquisitions.

First American's financial health is
See FIRST AMERICAN, D6, Col. 1

NCNB Makes Overtures for First American

FIRST AMERICAN, From D1

suffering, with earnings down sharply last year to \$66.7 million from \$80.2 million in 1988. Analysts said the bank's return on assets has been low and the bank also has been spending millions of dollars on new technology, which has hurt the bottom line.

Arnold Danielson, president of Danielson Associates Inc., a local bank consulting firm, said the combination of depressed earnings and recent controversy make First American "extremely attractive" to potential buyers, who might sense they could buy the bank for a bargain price.

The bank recently was the subject of articles in *Regardie's* and the *Wall Street Journal* that raised questions about the overlapping ownership interests of First American and the Bank of Credit and Commerce International, which recently pleaded guilty to money laundering charges and is suffering massive losses.

Danielson said First American is one of the three best franchises in Washington, following Sovran and MNC Financial Corp., parent of Maryland National Bank and American Security. "If I wanted to buy anyone in this area, that would be the one," he said.

100 LEADENHALL STREET LONDON EC3A 3AD

DATE July 30th, 1990.

FROM MR. J.D. VAN OENEN

TO: MR. S. NAQVI

c.c. MR. ZAFAR IQBAL

SUBJECT: CCAH

Enclosure B outlines a series of alternative solutions. From the information so far obtained, it is apparent that there are many problems of which we were not fully aware. The main difficulties revolve around the restrictions on interstate banking, those on foreign ownership in Virginia and Florida, the 'Home-State' and deposit-limitations and, finally, the status of the New York operation.

To complete the survey, and to pursue the matter further, I need the following:-

1. A list of preferred options, in order of priority, so as to save time, money and effort.
2. A modest but adequate budget to obtain legal, taxation and other professional help, and to cover out of pocket expenses such as travel.
3. Information on the status of the discussions between CCAH and Goldman Sachs, and what further action is presently being taken by them (or us), if any.
4. An assurance to maintain complete confidentiality in and outside the organisation (including CCAH and Goldman Sachs at this stage). There should be no discussions with outside institutions without prior liaison with me.

3461

cannot
say

Even if the regulatory climate changes sooner than expected, the legal complexities and the general economic and banking conditions could still cause delays. For an early 'optimum' solution we must therefore be prepared to go through an interim

FD. 00649

stage which will require some help from the shareholders.
The financial consequences of carrying 70% of these loans
have been worked out in Enclosure A. They show that we may
already be a further \$60/70 million in deficit for the year
1990. Urgency is therefore of the utmost importance, without,
however, creating the impression of a 'distress' sale.

Until now the approach remains one of eliciting offers,
 more particularly through the sale of the outstanding loans,
 although I doubt whether Goldman Sachs has worked on this
 basis. I have made two foreign contacts but this may have to
 be widened further to a maximum of five or six institutions,
 all on a discreet and personal basis.

John A. ...

5467

FD 00650

Encl. A

Valuation/Carrying cost

The following very rough calculation may serve to put the situation into perspective. It illustrates the cost of carrying these loans as it would appear to an outside financing institution.

Book Value on 31/12/1989		\$ 856.8 million
Circa <u>70%</u> in the form of loans	61%.	\$ 600.- million
Advance equalling a security value of 2.475 (2.75 x book less 10%)		\$1485.- million

Loan Funding cost	Est..	9.00% p.a.	
Blocked capital cost (8% of asset)	Est.	<u>0.72% p.a.</u>	
		9.72% p.a.	\$145.- million

1989 Net earnings \$55 million (after tax)		
.. of which 70%		\$ 39. million..

<u>Annual deficit</u>		<u>\$106 million</u>
	

Note

Tax aspects which because of the Netherlands Antilles structure can be of major importance have been left out of account. Also the interest on interest factor as profits are not distributed.

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FD 00651

Based on present interest rates and profit performance, this means that the security value - in the absence of any loan interest and fee income - would have to increase by at least 0.175 x book per year to reach break-even point. In other words the advance valuation would have to go up from 2.475 x to something like 3 x book if the CCAH profits do not improve dramatically and loan conversion takes more than two years. This means that until then the loans require an annual subsidy of at least \$100 million without even counting an adequate return on the loan assets.

- 5467

FD-00652

Note: Items marked * need further enquiry

CCAH

*a. if found
in
Cah.*

Legal changes to lift the current interstate bank barriers are under very active consideration by the U.S. Treasury and State authorities. Reciprocity between New York and California, for instance, has already been agreed upon and will be introduced in 1991*. Many institutions believe that country-wide restrictions on banking and on financial services will be removed by 1993*. This vastly increases the number of potential buyers - both domestic and foreign - and perhaps the sale-value of the banking Group, particularly if non-bank institutions* would also be permitted to engage in banking business. Already there are clear signs of moves and arrangements, especially on the part of the large money-centre banks, to become more closely associated with out-of-state regional banking institutions.

*see
note
with 1993*

For the present, we still have to base ourselves on the existing laws, which leaves us with four alternatives:-

I. 'Internal' solution

- reference
to 1993*
- a. Although this option is now closed to BCC, an ownership solution - even if temporary - could be of interest to our shareholders (ADIA) as a potentially profitable investment. Current restrictions would nevertheless require a stop-gap solution involving share acquisition

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FD 00653

(below 25%) on a personal basis. This needs further study as the authorities do not permit related ownership situations. To what extent ADIA could act as one of the shareholders (below 25%) would also need investigation.

- b. Another route would be for ADIA, if this is possible, wholly or partially, to take over the role of the financing institution, call the loans, at a time of their choosing, take possession of the security and thus gain two years breathing space to dispose of it. In the interval, unless BCC compensates for the difference, ADIA would bear the interest cost which would only be partially off-set by the increase in the CCAH bookvalue (see Encl. A). One problem is that calling all loans simultaneously may give rise to suspicion and accusation of having exercised unauthorized control (section O).

- c. To buy time, and to allow the BCC balance sheet to be slimmed down, the loans could be 'garaged' with one or more other institutions:

1. On a re-purchase basis. This would move the assets from above to below the line, but this would not help us in our capital-ratio requirement* apart from having to find a 'willing' institution to assist without substantial guarantees or margins. It also does not solve BCC's regulatory and external auditors (provision) problems. ✓

3460

FD-00654

2. As an outright sale. Unless there are other considerations (see II and III below), the risk factor will require a strong degree of 'comfort' to the buying institution, as they will assess the transaction on book value. It will almost certainly have to be in the form of a (partial) guarantee from our shareholders.

Outright
sale
Loan?
Share?

A transaction along these lines would also raise fee -, capital ratio -, and funding considerations for the lending institution, the cost of which, to some extent, would be influenced by their interest in a (potential) relationship with our shareholders as well as their own investment intentions. There are several ways to compensate for the 'cost' factor, such as funding on favourable terms (although there could be some conflict here under present U.S. law*), and providing partial capital support through the purchase of subordinated capital notes. Whatever form it takes we must accept that a loan - financing solution would be very expensive (see Encl. A), although, on the other hand, it would help to spread the impact over a number of years, i.e. until CCAH is sold.

Funding
consideration

One of the consequences of delaying action is the danger of impeding CCAH's natural growth. Retention of earnings may not be sufficient, and it is therefore necessary to make a study* of the Holding Company's capital requirements over the next three or four years, including determining the extent rights issues, if any.

Capital

3470

FD 00655

*Sub-ordinated
Loan*

can be replaced by the injection of subordinated (convertible or non-convertible) capital notes*. The advantage of this alternative is that the interest would be paid by CCAH, although diluting their (after-tax) earnings and share value.

*Management
Control*

Another difficulty is that the present owners do not exercise any control over the management - in fact they may not even be kept fully informed. Although management performance appears to have been satisfactory, consideration must be given for one or more knowledgeable 'shareholders' representatives (unconnected with the financing institution) to be seconded to the Holding Company (I could recommend one or more highly experienced people).

*Provision
to be
made
before
year*

If BCC remains at risk, we still have to face not only the current profit-haemorrhage (see Encl. A), but also the attitude of the external auditors (and the regulators) in respect of the assessed security value of the CCAH shares. So far, no provisions have been demanded, but unless an acceptable solution is found before the end of the year, they may well insist on 20/30% against the non-Abu Dhabi Governmental holdings.

3471

FD. 00656

II. U.S. Domestic solution

Because of the legal problems, this approach must be split into two:-

1. Southeast Regional

- a) As the laws stand today, this is by far the easiest route and clearly represents the solution on which Goldman Sachs (retained by CCAH) appears to have concentrated. The details supplied in their letter of September 29th are very vague, but they state that certain Super-Regional Holding Companies in the Southeast could acquire the institution although perhaps without New York.

Apparently, discussions have taken place with North Carolina National Bank and with the Florida-based Barnett Bank. The first is said to have offered 1.5 times book*, while Barnett was said to have shown no interest*. We should be given more details of the discussions that took place (particularly the terms of the NCNB offer) and also of the mandate given by CCAH to GS.

- b) To what extent other qualifying institutions have been approached is not clear but it is important to know which and their reaction. There is a long potential list even omitting those that could qualify for a 'reverse' solution referred to by CCAH's legal adviser through merger with a smaller holding-company, which could permit retention of the New York operation.

FD-00657

First National Bank (a multi-state operation in Georgia, Maryland, North Carolina, Tennessee, Alabama)

Southeast Bank (Florida)

Citizens & Southern Bank (Georgia, Florida, South Carolina)

First Union National Bank

Maryland National Bank (Maryland)

Signet Bank (Maryland, Virginia)

Central Fidelity Bank (Virginia)

Sovran Bank (Virginia)

Cresta Bank (Virginia, Maryland, D.C.)

Riggs National Bank (D.C.)

First Wachovia Bank (N. Carolina & Georgia).

*Domestic
Banks*

The potentiality of the banks in this list may require further review. Some background information has already been collected.

c) Assuming that Goldman Sachs have approached all, or most, of these institutions without success, the NCNB offer could indicate that either CCAH does not rate too high in their future plans, or a lack of adequate capital. It could, of course, also be an attempt to take advantage of what they may view as a 'distress sale'.

By all available information NCNB, apart from being one of the most logical candidates, is believed to be doing very well at the moment, and it may therefore be appropriate to re-open our negotiations which is why it is necessary to know what exactly has been discussed.

*Ref -
my EMB
with NCNB*

5/7/77

FD 00158

The reports on Barnett Bank are mixed (perhaps they have some real estate problems?), although still generally favourable. We should not immediately rule them out.

2. Dependent on the identity of the potential buyer, (even taking into account a now possible earlier than expected removal of merger restrictions which might raise CCAH's value) consideration should be given, subject to current legal restrictions, to offer one or more 'sweeteners' as, for instance:

Removal of merger restrictions?

Sweeteners

- a. Provide finance in the form of Due From placements or loans, perhaps on favourable conditions.
- b. Accept payment in instalments.
- c. Agree to purchase some (convertible?) subordinated capital notes, assuming that the purchasing bank needs to raise additional capital. The convertibility aspect, which at present is limited by law, could give us a potential stake in any profit improvement resulting from a merger.
- d. Agree on a type of 'pay later' premium for instance in the form of special warrants.
- e. Accept part payment in marketable shares.

5471

It is not entirely clear* to what extent First American New York is or can be, a factor. If it is negative,

FD. 00659

consideration may be given to split the New York operation off, although (because of the grandfather status) the group would then lose some of its attraction at least as the law stands today.

2. U.S. Banks outside the Southeast

- a. Under the existing legal restrictions, these institutions would not qualify, partly because of their 'home' location, partly because of the overall 80% Southeast deposit condition. As mentioned earlier, several larger banks are nevertheless preparing themselves for a lifting of the existing interstate barriers by acquiring troubled L & S institutions, and/or through the purchase of upto 5% of non-voting shares in regional banks, which is the current legal maximum. Although present laws are very restrictive and option arrangements, etc. although not specifically ruled out, are subject to limitations (Section 209.4), there may be other ways of reaching an understanding*.
- As there are already signs of greater flexibility on the part of the regulatory authorities, we should explore this further, although the share-financing should be in a form where the financing bank could not be considered as taking indirect 'control'*. (Carrying on with the existing share-holder group could, however, create 'documentation' problems, an aspect that should be very carefully investigated*)

5475

FD. CTO 660

- b. Apart from the National banks, a change in the legal climate could also bring a number of investment banks or non-bank institutions into play: commercial and real estate finance companies; trust and life-insurance companies, etc. Unlike the banks, they are completely blocked at the present time to take any stake or interest, although, within certain limits, 'reverse' investments through a higher level holding Company are feasible. Perhaps we should explore this route also but it would be time-consuming.

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FD. 00661

III. Foreign bank solution

The legal complexities are even greater as in addition to the 80% Southeast deposit requirement, there are also the restrictions on foreign bank - ownership in Virginia and in Florida.

The potential candidates can be divided into three groups:

a. with a 'home'-base in the U.S. Southeast

There are very few. The most obvious one is the National Bank of Abu Dhabi (partly owned by ADIA) which through a locally incorporated subsidiary of their Curacao subsidiary has a single location in Washington D.C. Assuming that they meet the 80% Southeast deposit requirement this very small entity (assets \$150 million) could theoretically qualify for a 'reverse' procedure by merging into CCAH, thus permitting them to retain their New York grandfather rights and yet to transfer control to the foreign (Abu Dhabi) institution. May be we should take some advice, although the chances do not rate very high. At best it would be a very complex and lengthy exercise, and perhaps involve litigation in Virginia and Florida.

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FD 00662

b. with no significant 'home' base outside U.S. Southeast

The overwhelming number of foreign banks operating in the United States have already selected California or New York as their 'Home' base. Most with no or only an insignificant presence in the U.S.A., would be rather small banks, unable to digest an investment of the type we have in mind. Theoretically, a few of the somewhat larger ones could shift their activity to the Southeast if they have only a very small presence elsewhere, but it seems unlikely that any would seriously consider doing so as long as Virginia and Florida impose restrictions on foreign ownership. Unless that problem is overcome (as may be the case when new legislation is introduced), this route is not pursued, although a list of potential candidates is nevertheless being compiled.

5473

FD-00663

c. with a major 'Home'-base outside the U.S. Southeast

●
Despite the Home-base and the 80% deposit problems, this may still be the most promising group, if only because the banks are generally larger, and probably keen to strengthen their U.S. dollar funding base. There is no reason to think that several of the more aggressive major foreign banks would be reluctant to follow the U.S. national money-centre banks along the same path. The region certainly could be seen as a potential adjunct to their New York operations (once the current restrictions are lifted).

For the present, our efforts are directed towards the banks in this group, except for those that already have a major presence in other U.S. locations. Perhaps a small non-voting stake (below 5%) with a (joint?) share-financing arrangement* outside the United States (and, of course, a firm commitment) could produce a solution until the more onerous restrictions are removed. In any event, a potential conflict with other U.S. locations needs careful study*. Whatever may be the prospects, concessions, possibly of the type listed in the previous sections, undoubtedly, will have to be made to compensate for the loss to be incurred on the interim loan portfolio financing.

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FD 00664

IV. Break-up solution

This would involve selling the independent parts, possibly split into Metro Bank, Georgia/Florida and New York. It is hard to say whether the CCAH multi-state structure would lose or gain in value once, as is now seriously expected, the U.S. financial system is liberalised.

Although a piece-meal sale may not help to improve our security, it would have a favourable effect on our loan outstandings, the interest accrual factor, and BCC's capital ratio.

The Georgia/Florida component was acquired for about 2.5 x book against an NCNB bid of circa 2.6 x (which included part payment in shares). At this price level (the tax consequences would need to be further examined) we could reduce our loan exposure by circa \$250 million which would be a welcome relief. Perhaps NCNB would still be interested if they do not wish to pursue a merger with the entire group.

Disposing of New York separately, would not be particularly advantageous because of its relatively high cost - and low profitability - structure (footings \$1600 million, equity \$100 million, after tax earnings \$4.3 million). It probably has more value as part of the original multi-bank Holding Company.

It is unlikely that any foreign bank would feature in a break-up type of solution.

5480

AD.00665



100 LEADENHALL STREET LONDON EC3A 3AD

DATE: 15th August 1990

FROM:

Mr J D van Oenen

TO:

Mr Swaleh Naqvi

SUBJECT:

CCAH

cc Mr Zafer Iqbal

STRICTLY PRIVATE

Apart from all the legal and regulatory complications, the present climate, as explained in our discussion on August 8, is not favourable to effect a sale at an acceptable price.

There can be little doubt that full interstate banking will be permitted in the foreseeable future probably around 1993. The removal of the restrictions, including those on foreign ownership, will certainly make the bank more marketable (in whole or in part), but whether this would greatly add to the value is doubtful. One of the main current attractions is the interstate network combined with the New York grandfather operation, but, as explained in my analysis of July 30, this can only appeal to a very small group of banks at the present time. This special attraction will disappear once country-wide branching is permitted, although there will always remain some interest in the acquisition of well-run banks, especially if non-banking institutions are allowed to enter this field.

Specific reasons why there is so much market reluctance are the following:-

(1) The serious concern felt over the health of the US banking system and it is expected that there will be an increasing number of bank failures. The money-Centre banks are certainly experiencing serious difficulties, while the major Regional banks, although generally believed to be in better shape, have not remained unaffected as evident by the recent withdrawal of a

J461

FD. 00648.

stock issue of US\$150M by NCNB (for the purpose of making a bid for Centrust). Bank shares are being quoted at deep discounts, partly also because of expected further Federal tightening up in respect of capital ratios, dividend payments, and regulatory controls.

(2) Balance sheet (equity) restraints experienced by most foreign banks, more particularly, the Japanese, but also many in Europe.

(3) The current Gulf problems, with the resultant economic and financial complications, not only in the USA, but worldwide. The involvement of Arab shareholders (and indirectly of BCCI) does not help in this respect and, in fact, could easily create the impression of a liquidity problem and/or a forced sale.

(4) The inevitable connection made with BCCI's U.S. legal problems, some of which could be considered as possibly affecting CCAH, directly or indirectly.

(5) The size of the transaction itself, whether as a (potential) share acquisition and/or in the form of a sale of secured loans.

Under the circumstances, it may, perhaps, be better to take a low posture for the time being, which was also the personal advice received from the Chairman of a major North American bank. On the other hand, a decision cannot be postponed too long in view of the estimated net carrying cost of over US\$100M per year at present interest rates to which we should really add another US\$20/25M for lost profit margin.

If PW insist on producing their own valuation we may find ourselves having to make a provision totalling US\$225M on the basis of their earlier figure of 2.1 times book, or, if they reduce it to, say, 1.5 times

5462

FD.00647

book, as much as US\$585M. This would make an horrendous impact on our P & L that can only be avoided by any of the following means:

- i. a (partial) guarantee from our main BCC shareholders
- ii. sale of loans (without recourse) to ADIA
- iii. substitution of the borrowing shareholders by new investors who would not rely on BCC financing.

There is little chance that there will be an early upturn in confidence in the US banking sector, although there could be some improvement in merger prices once the situation, particularly the real estate market, shows signs of stabilising, but that will not take place this year.

Because of the peculiarities of the US legal situation, all the above alternatives will require further investigation. Until this is done, my recommendation is:-

- (1) Continue to sound out in a very discreet manner one or two potential foreign prospects.
- (2) Explore re-opening discussions with NCNB
 - a. with an offer of some capital inducements
 - b. the sale of NBG/Florida as a separate entity
- (3) Carefully sound out one or two major US banks.

In the meanwhile, I would appreciate receiving your comments on the four points I raised in my analysis of July 30, particularly on the subject of the discussions that have so far been held by CCAH and Goldman Sachs.

5463

John Anderson

FD. 00648



FIRST AMERICAN CORPORATION

41

ROBERT A. ALTMAN
President

October 9, 1990
VIA COURIER

PRIVILEGED & CONFIDENTIAL

H.E. Sheikh Kamal I. Adham
Garden City
Cairo, Egypt

Your Excellency:

Prior to our meeting in London on October 23 to discuss First American Bankshares, we wish to raise a pressing issue with Your Excellency that will require action before the end of this month.

As you know, earlier this year we were approached by several large U.S. banks concerning a possible merger or sale of First American. One large banking institution made an initial offer, in writing, of one billion dollars for the Company. This was obviously just an opening bid to start negotiations. However, it confirmed the very substantial market value of this Company. It is our responsibility to protect this value for the shareholders.

Recent financial developments in the United States affecting the banking industry make it necessary for First American to obtain \$30 million before October 31, 1990. The failure to secure these monies may create bank regulatory issues and will likely result in technical defaults of loan covenants by First American in October, with the possible acceleration of calls for repayment of some \$100 million in debt that First American has secured on favorable terms. This could cause a loss of confidence in the Company in the market and threaten the enormous present value of this Company for our shareholders. Accordingly, CCAH wishes to borrow \$30 million at market rates this month which monies would be downstreamed and invested as equity in First American.

Taking a somewhat longer perspective, First American should strengthen its capital position further before the end of this year. The financial declines in the U.S. economy in

15th and H Streets NW Washington, DC 20005 (202) 383-1400

2198

H.E. Sheikh Kamal I. Adham
 October 9, 1990
 Page Two

general, and the banking industry in particular -- especially with respect to real estate markets -- are causing many large U.S. banking institutions to examine the adequacy of their capital base. In addition, increasingly stringent capital requirements are being imposed on banks by federal bank regulators in response to market conditions.

First American like many other banks has had to respond to these developments and needs to strengthen its capital position this year when larger reserves are being established in anticipation of loan portfolio weakening. First American has had a large and profitable real estate loan portfolio which is now affected by the precipitous drop in real estate values. While real estate markets will hopefully strengthen in the next 12-18 months, a capital infusion is indicated during this down period.

In this regard, it is also noted that at the time it acquired the National Bank of Georgia in 1987, First American committed to the Federal Reserve it would meet certain capital ratios. In this regard, we advised we may seek to raise an additional \$100 million in new equity no later than the end of 1989. Accordingly, the first rights offering was initiated in June 1989 in the amount of \$50 million, with plans to make a second offering in the same amount in the fourth quarter. Subscriptions to the first offering raised the full \$50 million, but the second offering was postponed. The Company satisfied its commitment to the Federal Reserve through internal resources, and thereby alleviated for a time the making of an additional demand on the shareholders. The raising of that second \$50 million is, however, now needed. Moreover, market conditions warrant the raising of an additional \$50-75 million, if possible, for a total of \$125 million in new capital. We believe this is necessary and would be properly responsive to bank regulatory concerns.

We thus need to discuss the possibility of completing a stock offering this year to raise \$125 million in equity by CCAH. It is anticipated that unlike prior rights offerings, these shares would involve preferred stock that provide an attractive annual cash yield of 9%, together with certain other rights. This matter will be explained in greater detail at our meeting later this month in London. This new capital will serve to preserve the value of your present investment in First American, and, indeed, permit the Company to avail itself of opportunities which would further enhance substan-

2199

H.E. Sheikh Kamal I. Adham
 October 9, 1990
 Page Three

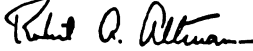
tially the value of the Company if a sale or merger is again entertained.

Of immediate concern, however, is the fact that CCAH must secure a short-term loan or loans totaling \$30 million by October 31 in order to satisfy regulators and avoid any default under "adjusted net worth" loan covenants binding on First American. Such short-term borrowings would pay a market rate of interest, and could be repaid from the proceeds of any 1990 rights offering. Our hope is that Your Excellency, perhaps jointly with H.H. Sheikh Zaied, H.H. Sheikh Khalifa, or others, might be in a position to arrange such funds for First American until we can complete a new rights offering.

I trust this preliminary report which supplements my July forecast is helpful. We had wanted to alert you to this matter before we meet in London so that you could be considering it. We are, of course, happy to answer any questions and will brief you in detail on this and other matters when we meet.

Mr. Clifford and I send our warm personal regards and look forward to our important meeting on October 23.

Sincerely,



Robert A. Altman

2200

Note: Items marked * need further enquiry

CCAH

*a. already
in
Cah.*

Legal changes to lift the current interstate bank barriers are under very active consideration by the U.S. Treasury and State authorities. Reciprocity between New York and California, for instance, has already been agreed upon and will be introduced in 1991*. Many institutions believe that country-wide restrictions on banking and on financial services will be removed by 1993*. This vastly increases the number of potential buyers - both domestic and foreign - and perhaps the sale-value of the banking Group, particularly if non-bank institutions* would also be permitted to engage in banking business. Already there are clear signs of moves and arrangements, especially on the part of the large money-centre banks, to become more closely associated with out-of-state regional banking institutions.

For the present, we still have to base ourselves on the existing laws, which leaves us with four alternatives:-

I. 'Internal' solution

- reference
to an early*
- a. Although this option is now closed to BCC, an ownership solution - even if temporary - could be of interest to our shareholders (ADIA) as a potentially profitable investment. Current restrictions would nevertheless require a stop-gap solution involving share acquisition

5468

AD. 00653

(below 25%) on a personal basis. This needs further study as the authorities do not permit related ownership situations. To what extent ADIA could act as one of the shareholders (below 25%) would also need investigation*

- b. Another route would be for ADIA, if this is possible,* wholly or partially, to take over the role of the financing institution, call the loans, at a time of their choosing, take possession of the security and thus gain two years breathing space to dispose of it. In the interval, unless BCC compensates for the difference, ADIA would bear the interest cost which would only be partially off-set by the increase in the CCAH bookvalue (see Encl. A). One problem is that calling all loans simultaneously may give rise to suspicion and accusation of having exercised unauthorized control (section O).

- c. To buy time, and to allow the BCC balance sheet to be slimmed down, the loans could be 'garaged' with one or more other institutions:

1. On a re-purchase basis. This would move the assets from above to below the line, but this would not help us in our capital-ratio requirement* apart from having to find a 'willing' institution to assist without substantial guarantees or margins. It also does not solve BCC's regulatory and external auditors (provision) problems. ✓

3463

FD 00654

2. As an outright sale. Unless there are other considerations (see II and III below), the risk factor will require a strong degree of 'comfort' to the buying institution, as they will assess the transaction on book value. It will almost certainly have to be in the form of a (partial) guarantee from our shareholders.

*Outright
sale
Guarantee?
Share?*

A transaction along these lines would also raise fee -, capital ratio -, and funding considerations for the lending institution, the cost of which, to some extent, would be influenced by their interest in a (potential) relationship with our shareholders as well as their own investment intentions. There are several ways to compensate for the 'cost' factor, such as funding on favourable terms (although there could be some conflict here under present U.S. law*), and providing partial capital support through the purchase of subordinated capital notes. ~~Whatever~~ form it takes we must accept that a loan - financing solution would be very expensive (see Encl. A), although, on the other hand, it would help to spread the impact over a number of years, i.e. until CCAH is sold.

*Funding
considerations*

One of the consequences of delaying action is the danger of impeding CCAH's natural growth. Retention of earnings may not be sufficient, and it is therefore necessary to make a study* of the Holding Company's capital requirements over the next three or four years, including determining the extent rights issues, if any.

Capital

547J

FD 00655



FIRST AMERICAN BANKSHARES, INC.

CLARK M. CLIFFORD
Chairman of the Board

MEMORANDUM

To: Shareholders of Credit and Commerce American Holdings, N.V.
 From: Clark M. Clifford *CWC*
 Date: November 2, 1990
 RE: Capital Requirements - First American Bankshares, Inc.

I am enclosing a letter received today from Arthur Anderson & Company, First American Bankshares' independent auditors, confirming that the Company needs \$125,000,000 of additional equity capital for 1991, with an immediate advance of \$30,000,000 before the end of November.

The additional capital is intended to protect the shareholders' investment during the economic downturn now being experienced throughout the banking industry in the United States. The capital call thus reflects discussions with federal bank regulators and our financial team.

The requested funds would protect the enormous value that has been created in First American during the past eight years. As you will recall, we received an opening bid of one billion dollars for First American less than 6 months ago, and we no doubt could have negotiated a substantially higher price had the shareholders directed us to do so. For reasons earlier provided, we are requesting additional capital immediately to safeguard your investment.

Mr. Robert Altman and I will be pleased to provide you any other information you may request, and stand ready to meet at any time if you feel that would be helpful to you.

19th and M Streets NW Washington, DC 20005 (202) 363-1400

166?

FD-00633



FIRST AMERICAN BANKSHARES, INC.

12

CLARK M. CLIFFORD
Chairman of the Board

MEMORANDUM

To: Shareholders of Credit and Commerce American Holdings, N.V.
From: Clark M. Clifford **UNC**
Date: November 8, 1990
Re: Special Board Meeting with Federal Bank Regulatory Authorities

This memorandum is written to advise you that a special meeting of the Board of Directors of First American Bankshares and its U.S. parent, First American Corporation, was held on Tuesday, November 8, at the request of the Federal Reserve Board. In addition to representatives of the Federal Reserve, the meeting was attended by staff members of the Office of Comptroller of the Currency and the Federal Deposit Insurance Corporation. The purpose of the meeting was to discuss the regulatory examinations of First American and its subsidiary banks.

During the course of this important meeting, the regulatory agencies focused on our efforts to obtain additional capital for First American from the shareholders. It was emphasized to the Directors that bank shareholders are expected to be a source of financial strength to the organization and that the current economic environment made capital investments mandatory now for First American (and for our competitors). We responded that the matter of additional capital was under consideration in the Middle East and we would report to the regulators as soon as decisions were reached. We were asked to convey to the shareholders the importance of addressing this matter at their earliest convenience.

In this regard, certain First American shareholders recently inquired about the ability to revive discussions we had last Spring with other major banks regarding the sale of

15th and M Streets NW Washington, DC 20005 (202) 363-1400

1659

FD-00630

merger of First American. As you recall, our shareholders did not wish to pursue such a transaction at that time. Current market conditions, however, make any such deal impossible at present. Such a transaction would necessarily involve payment with marketable stock, not cash. In this regard, I attach for your information a chart which reveals the sharp decline in market value of bank stocks during the past year. Such shares now trade at a fraction of book value when a short while ago they were trading at multiples of 1.5 to 2 times book (for non-control blocks). Thus, market conditions, as well as regulatory factors, preclude a deal going forward now.

You, of course, will understand that the very substantial, inherent value of this unique franchise remains despite the inability to consummate a merger or sale under present market conditions. It is noted that the total shareholder cash investment in First American to date is approximately \$600 million, and, of that amount, approximately one-third was invested only in the last few years. Yet, less than six months ago, we had an opening offer from a major U.S. bank to acquire First American in a transaction which would likely have more than doubled the amount the shareholders have invested to date. And, we believe it is possible to enhance further the return on our shareholders' investment.

We are confident that the market value of this Company can be realized when the market strengthens and we urge favorable consideration of senior management's proposal for additional capital to protect the enormous value of this franchise that has been created for shareholders. We remain available to meet with you or to answer any questions you may have about these matters.

Attachment

1660

FD 00631

CABLE CLINEY
TELEX 248888 CLEV

TELEPHONE
202 626-4200

*Clifford & Warnke
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D.C. 20006*

ROBERT A. ALTMAN

DIRECT LINE 4202-626-4235

September 7, 1988

HAND DELIVERED

Jack Blum, Esq.
Special Counsel
Committee on Foreign Relations
449 Dirksen Senate Office Bldg.
Washington, D. C. 20515

Dear Mr. Blum:

This is to confirm that we will meet at your office on Friday, September 9, 1988 at 2:30 p.m. to discuss preliminarily the matters relating to the subpoenas served upon the Bank of Credit and Commerce International (Overseas) Ltd. and two of its employees. This shall further confirm our understanding that a second meeting will be held on Wednesday, September 14, 1988 at your office, at which time we shall make partial production of documents in this matter, and discuss how you would like your investigation to proceed.

If there are any changes in this schedule, please let me know.

Sincerely,


Robert A. Altman

CABLE CLINEY
TELEX 24-0850 CLEY

TELEPHONE
1202: 626-4200

Clifford & Warko
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D.C. 20006

ROBERT A. ALTMAN

September 14, 1988

DIRECT LINE 12021 626-4235

Jack A. Blum, Esquire
Special Counsel
Committee on Foreign Relations
United States Senate
Washington, D.C. 20510

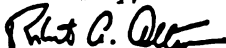
Dear Mr. Blum:

Enclosed herewith are the documents being produced pursuant to our understanding concerning the subpoenas issued to the Florida offices of Bank of Credit and Commerce International (Overseas), Limited ("BCCI") and to Mr. S.M. Shafi and Mr. Amjad Avan. Certain of the documents being made available for your review are confidential and must be protected from public disclosure by adequate safeguards to be mutually agreed upon.

You are advised that in making the production of these documents neither BCCI nor the individuals referenced above waive any rights or privileges relating thereto, all of which are expressly reserved.

It is understood that you will today review these documents in our presence and we shall then agree upon the manner in which they are to be reproduced and delivered to the custody of the Committee.

Sincerely,



Robert A. Altman

September 14, 1988

Attorney-Client Work Product
Privileged and Confidential

INDEX OF BCCI DOCUMENTS

Vol. I. Annual Reports and Financial Statements

1. BCCI Annual Report 1987.
2. Financial Statement Panama.
3. Annual Reports Colombia.

Vol. II. Records of Depositors and Borrowers

1. Miami Agency:
 - (a) list of Panamanian or Colombian depositors;
 - (b) list of Colombian depositors with deposits in excess of \$5 million;
 - (c) list of Colombian borrowers with a limit in excess of \$5 million;
 - (d) Panamanian depositors or borrowers with balances in excess of \$5 million.
2. Boca Raton and Tampa Agencies:
 - (a) list of Panamanian or Colombian depositors;
 - (b) Panamanian or Colombian depositors or borrowers with balances in excess of \$5 million.

Vol. III. Internal BCCI Memoranda and Florida Licenses

1. Compliance Circular: Caribbean Regional Office.
2. Minutes of Management Committee Meeting.
3. Florida Licenses.

1. Business Expenses.
2. Compensation Records.
3. Travel Diaries.
4. Office Telephone Bills.
5. Residence Telephone Bills.
6. Car Telephone Bills.

1. **Business Expenses and Travel Records.**
2. **Compensation Records.**
3. **Telephone Bills.**

{ the same as
the 2nd series.
and so on -

CABLE CLINEY
TELEX 200000 CLEY

TELEPHONE
202 696-4200

*Clifford & Warnke
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D. C. 20006*

September 19, 1988

BY HAND

Jack A. Blum, Esquire
Special Counsel
Committee on Foreign Relations
United States Senate
446 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Blum:

As discussed during the meeting on September 14, 1988 that Messrs. Altman, Sanders and I attended at your office, and as I later mentioned to Kathleen Smith in a telephone conversation, we are forwarding herewith copies of the documents earlier produced under various specifications of the subpoenas issued to the Florida offices of Bank of Credit and Commerce International (Overseas), Limited ("BCCI") and to Mr. S.M. Shafi. As you are aware, we are to schedule within the next several days a more extended period of time during which you can review the records from BCCI's Agency Offices in Miami, Boca Raton and Tampa. We have requested of the Bank that it provide us with computer print-outs of the same type of information for additional periods which you reviewed when we were at your office. Those print-outs should be here this week, and we understand you will examine this material together with that which you have already seen at a date to be agreed upon.

Specifically, the copies being forwarded today include:

- (1) The compliance circular from the Caribbean regional office of BCCI and portions of the minutes of a Management Committee meeting of BCCI, both of which you reviewed on September 14, 1988.

Letter to Jack A. Blum, Esquire
 September 19, 1988
 Page Two

- (2) Various documents relating to Mr. S.M. Shafi including business expense records and travel diaries. You may again decide to examine Mr. Shafi's office telephone bills, residence telephone bills and car telephone bills at a subsequent date to determine whether they should be photocopied.
- (3) A document styled, "Statement of Affairs" for BCCI Panama for the period ending June 30, 1988.

It is our understanding that having reviewed Mr. Shafi's records of compensation, you do not need copies of those materials. Further, the documents to be produced by Mr. Amjad Avan are due on or before September 22, 1988. We were called on Friday, September 16, by John Grabow of Ginsburg, Feldman and Bress, who has been retained by Mr. Avan. We shall await a meeting with him before proceeding on any documents that relate to Mr. Avan because we do not know whether Mr. Grabow intends interposing any objections to the Subcommittee's subpoena.

Finally, we must reiterate the points raised with you during our meeting and in Mr. Altman's letter of September 14 regarding the confidentiality of this material. It is our understanding that the materials which are being provided herewith shall be accorded confidential treatment by you and your staff. Before we can provide additional confidential information to be retained by the Committee, we will require written assurance that acceptable confidential treatment has been approved by the Committee and will be provided.

We will be in touch again by telephone regarding the other scheduling matters yet to be worked out.

Sincerely,


 John F. Kovin

Enclosures

United States Senate
WASHINGTON, DC 20510

TELECOPY TRANSMITTAL FORM

Date: JULY 7 1989

Send to: Mr. Clark Clifford

CLIFFORD AND WARREN

From: SENATOR JOHN KERRY

Office of Senator John Kerry

Receiving Telecopy number: 202 659 0065

Sending Telecopy number for response is (202) 224-8525

To confirm receipt of telecopy call (202) 224-2742

Number of pages being sent, including cover 7

WASHINGTON, DC 20510-6225

Clark Clifford
Clifford and Warnke
815 Connecticut Avenue NW
Washington DC

Dear Mr. Clifford:

As you may recall, we met on September 26, 1988 at my office to discuss BCCI's response to the issuance of a subpoena by the Foreign Relations Committee issued July 27, 1988 for documents from the Bank of Commerce and Credit International in connection with an investigation by the Subcommittee on Terrorism, Narcotics and International Operations into narcotics trafficking, money laundering, law enforcement and foreign policy.

At the time, you advised the Subcommittee that you were aware of no documents regarding General Noriega which were under the possession or control of MCCI, apart from the small number turned over to the Subcommittee by Amjad Avan, and agreed that if any such documents existed, they would be turned over to the Subcommittee in accordance with the subpoena.

Recently, the Subcommittee has learned that a number of documents under the control of BCCI and responsive to the subpoena were not turned over to the Subcommittee pursuant to the Committee subpoena. These documents included records relating to as many as seven accounts at BCCI controlled by Noriega.

According to a recent broadcast on NBC Nightly News, documents from BCCI seized by British authorities and since turned over to the US show that Noriega deposited at least 50 million dollars since he opened the account at BCCI in early 1982. The NBC broadcast also alleged that the BCCI documents found included a letter from General Noriega to Mr. Aven.

According to NBC, the letter from Noriega to Avon instructed Avon to keep the accounts secret and ordered that no bank statements ever be sent to Noriega in Panama.

I have no doubt that you were unaware of the existence of these documents at the time we met. In fact, I recall that you gave me the assurance that they would be provided the Subcommittee should they located. It is now clear that the documents referred to by NBC came within the clear ambit of the subpoena to BCCI, and that they were not delivered to the Subcommittee as provided by the subpoena.

Accordingly, I formally request that in your capacity as attorney for BCCI that you take as rapidly as possible the necessary steps to secure all additional documents responsive to the original subpoena to BCCI from the Foreign Relations Committee regarding or relating to Noriega's relationship with BCCI, including but not limited to those documents referred to in the NBC broadcast.

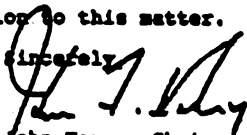
In light of the fact that at least some of these documents are apparently already in the possession of other government agencies, I would appreciate prompt production of the documents, with delivery to take place by the close of business July 19, 1989.

The Subcommittee will be holding further hearings on narcotics matters later this month, and may wish to invite BCCI by its officers or attorneys to testify regarding the involvement of BCCI in handling General Noriega's accounts. In the event that no documents are produced, the Subcommittee will wish to question a representative of BCCI at hearings on July 27 or July 28 as to why the documents were not produced in response to the subpoena, either last year or to date.

If you have any questions, please feel free to contact me, Jonathan Winer, my counsel (telephone 224-2742, or the counsel to the Committee, David Keaney, (telephone 224-9034) who will be available to receive the documents.

I appreciate your attention to this matter.

Sincerely,


John Kerry, Chairman
Subcommittee on Terrorism,
Narcotics and International
Operations

cc: Senator Pell
Senator McConnell

UNITED STATES OF AMERICA

Congress of the United States

To Bank of Credit and Commerce International, Ltd.
304 S. Federal Highway
Boca Raton, Florida

Witness:

Pursuant to lawful authority, YOU ARE HEREBY COMMANDED to
 appear before the _____ Committee on _____
 of the Senate of the United States, on _____ August 11 _____, 19__
 at _____ Nine _____ o'clock _____ a.m., at their committee room _____ 216
 Hart Senate Office Building _____, then and there
 to testify what you may know relative to the subject matters under con-
 sideration by said committee.
 and bring with you the documents described in Attachment A.

**Recall fail me, as you will answer your default under the pains and pen-
 alties in such cases made and provided.**
 To _____ the United States Marshals Service or any other authorized
 person _____
 to serve and return.

Given under my hand, by order of the committee, this
_____ 27th day of _____ July _____, in the year of our
Lord one thousand nine hundred and _____ eighty-eight

Ch. R.

 Chairman, Committee on _____ Foreign Relations

Attachment A

All books, records and papers, relating, referring or embodying the following:

1. The management of assets for Manuel Antonio Noriega.
2. The holding of assets as custodian for Manuel Antonio Noriega.
3. Corporations, partnerships and other business entities under the direction and control of Manuel Antonio Noriega.
4. The management of assets for Michael Harari.
5. The holding of assets for Michael Harari.
6. Corporations, partnerships and other business entities under the direction and control of Michael Harari.
7. The management of assets for private clients in Colombia.
8. The holding of assets as custodian for private clients in Colombia.
9. All Panamanian clients for whom the Bank manages assets.
10. All Colombian clients for whom the Bank manages assets.
11. All trusts which have Panamanian beneficiaries.
12. All trusts which have Colombian beneficiaries.

For the period January 1, 1985 to June 1, 1988:

- a. All books, records and papers relating, referring to, or embodying travel and telephone and telephone communication by Kalid A. Awan and S. M. Shafi.
- b. All books, records, and papers referring, relating to or embodying the compensation of Kalid A. Awan and S.M. Shafi.

c. All reports describing, summarizing, and discussing the Bank's trust and money management operations.

For the purpose of this subpoena a "record" includes all media capable of storing information which can be read, and includes all information stored electronically--whether on computer disk or otherwise.

NIGHTLY NEWS

THURSDAY, JUNE 15, 1989

4

ABERNETHY: If U.S. troops left Europe, would that mean a neutral Germany?

MAN: I think one can trust the Germans. They, they are very much looking now to the East. But they know that their position is in the West.

ABERNETHY: The tension between dreams and reality continued as Gorbachev traveled on a high-speed, experimental train that was delayed an hour by a bomb scare. In his four days here, Gorbachev touched West Germany's deep desire for a less dangerous Europe and revived the soul-searching about where the federal republic should stand between East and West. Bob Abernethy, NBC News, Bonn.

HIT:

GARRICK UTLEY: In this country, the Supreme Court hands down another important decision on civil rights. And General Manuel Noriega of Panama. American authorities think they may now have found the smoking gun. We'll have that, as we continue.

HIT: COMMERCIAL

HIT:

GARRICK UTLEY: For more than a year now, the U.S. government has been pursuing General Manuel Noriega, the ruler of Panama. He has already been indicted for his role in drug trafficking. But investigators wanted more, hard evidence of the money he has made. Now, they believe, they found it, more than one thousand pages of documents of Noriega's secret, numbered bank accounts overseas. Brian Ross is here now with his exclusive report. Brian.

HIT:

BRIAN ROSS: Garrick. American authorities say they

NIGHTLY NEWS THURSDAY, JUNE 13, 1989

3

consider these bank documents to be the smoking gun in the drug case against General Noriega. The documents were seized last October in London by British authorities after the bank used by Noriega, the Bank of Credit and Commerce, was itself indicted in a drug money case in Florida.

After months of going through all the documents seized in the bank, British authorities this week turned over twelve boxes of material, including the records of as many as seven secret accounts controlled by Noriega.

The records show that Noriega, while receiving an Army salary of about fifty thousand dollars a year, deposited at least fifty million dollars since he opened the account in early 1982. According to authorities who have seen the bank records, a key document is a letter from Noriega to his banker, Amjad Avan, now under arrest in Florida, instructing the banker that the accounts must be kept secret and that no bank statements ever be sent to Noriega in Panama.

Authorities believe that most of the money comes from Noriega's dealings with Colombian drug bosses, with international arms dealers, and with the CIA, which had Noriega on the payroll. Authorities say one transaction in particular stands out. The day after Noriega was indicted on drug charges, twenty-seven million dollars of Noriega's money was transferred out of a secret account in London to another secret account in Luxembourg, money American authorities may now try to seize. Garrick.

NIT:

GARRICK UTLEY: Thank you, Brian.

The Supreme Court today made a significant ruling on civil rights. It confirmed the right of an individual to go to court and sue for damages in case of private racial discrimination. What is important in this decision is that although the Court has weakened civil rights programs in recent rulings, here it refused to override an earlier Court decision. That is the power of — legal precedent. Carl Stern explains.

NIT:

2206

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
 WASHINGTON, D.C. REPRESENTATIVE OFFICE
 1007 K STREET, N.W.
 WASHINGTON, D.C. 20006



1st AMERICAN
 BANK OF CREDIT AND COMMERCE INTERNATIONAL

3 296 560⁰⁰
 NOT NEGOTIABLE

2207

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
 WASHINGTON, D.C. REPRESENTATIVE OFFICE
 1007 K STREET, N.W.
 WASHINGTON, D.C. 20006



1st AMERICAN
 BANK OF CREDIT AND COMMERCE INTERNATIONAL

3 296 560⁰⁰
 NOT NEGOTIABLE

2208

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
 WASHINGTON, D.C. REPRESENTATIVE OFFICE
 1007 K STREET, N.W.
 WASHINGTON, D.C. 20006



1st AMERICAN
 BANK OF CREDIT AND COMMERCE INTERNATIONAL

NOT NEGOTIABLE

2206

September 14, 1985
Chapman

FOR DEPOSIT

TOTAL	
THE	
CHECK	
BALANCE	

2207

September 14, 1985
Transamerica Trust Co.

FOR DEPOSIT

TOTAL	
THE	
CHECK	
BALANCE	

2208

September 14, 1985
Rockwell Bank

FOR DEPOSIT

TOTAL	
THE	
CHECK	
BALANCE	

GT

000457

2218	SEP 21 1985	TO BANK OF AMERICA	1200.00
FOR			
TOTAL			
THIS CHECK			
BALANCE			



BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
WASHINGTON, D.C. REPRESENTATIVE OFFICE
1407 K STREET, N.W.
WASHINGTON, D.C. 20005

2218

1200.00

1st AMERICAN
BANK OF AMERICA

NOT NEGOTIABLE
3 294 560

40540000130

2219	SEP 21 1985	TO Mr. Henry Place	1500.00
FOR			
TOTAL			
THIS CHECK			
BALANCE			



BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
WASHINGTON, D.C. REPRESENTATIVE OFFICE
1407 K STREET, N.W.
WASHINGTON, D.C. 20005

2219

1st AMERICAN
BANK OF AMERICA

NOT NEGOTIABLE
3 294 560

40540000130

2220	SEP 21 1985	TO Mr. Henry Place	1415.00
FOR			
TOTAL			
THIS CHECK			
BALANCE			



BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
WASHINGTON, D.C. REPRESENTATIVE OFFICE
1407 K STREET, N.W.
WASHINGTON, D.C. 20005

2220

1st AMERICAN
BANK OF AMERICA

NOT NEGOTIABLE
3 294 560

GT

000461

2215	2215
Sept 23 1925	2215
TO Mr. W. H. Roper	2215
FOR 1-2-25 to 10-27-25	2215
TOTAL	176
THIS CHECK	
BALANCE	



BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
WASHINGTON, D.C., REPRESENTATIVE OFFICE
187 K STREET, N.W.
WASHINGTON, D.C. 20006

2215



NOT NEGOTIABLE
3 294 560

1051000043C

2216	2216
Sept 23 1925	2216
TO C. P. Roper	2216
FOR 1-2-25 to 10-27-25	2216
TOTAL	183
THIS CHECK	
BALANCE	



BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
WASHINGTON, D.C., REPRESENTATIVE OFFICE
187 K STREET, N.W.
WASHINGTON, D.C. 20006

2216



NOT NEGOTIABLE
3 294 560

1051000043C

2217	2217
Sept 23 1925	2217
TO Mr. W. H. Roper	2217
FOR 1-2-25 to 10-27-25	2217
TOTAL	183
THIS CHECK	
BALANCE	



BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
WASHINGTON, D.C., REPRESENTATIVE OFFICE
187 K STREET, N.W.
WASHINGTON, D.C. 20006

2217



NOT NEGOTIABLE

GT

000460

2644		FEBRUARY 26 1936	
TO Cash		BALANCE	
FOR Washington (Edison)		TOTAL	3000
		THE CHECK	
		BALANCE	


2645		FEBRUARY 26 1936	
TO Arthur Ogden		BALANCE	
FOR No 13306 57.94		TOTAL	1464
		THE CHECK	
		BALANCE	


2646		FEBRUARY 26 1936	
TO Mr. Ogden		BALANCE	
FOR Balance of difference		TOTAL	84 1/2
		THE CHECK	
		BALANCE	


2647		FEBRUARY 26 1936	
TO Cash		BALANCE	
FOR Washington (Edison)		TOTAL	3000
		THE CHECK	
		BALANCE	


2648		FEBRUARY 26 1936	
TO Arthur Ogden		BALANCE	
FOR No 13306 57.94		TOTAL	1464
		THE CHECK	
		BALANCE	

2649		FEBRUARY 26 1936	
TO Mr. Ogden		BALANCE	
FOR Balance of difference		TOTAL	84 1/2
		THE CHECK	
		BALANCE	


BANK OF CREDIT AND COMMERCE INTERNATIONAL
 1000 N. STREET, N.W.
 WASHINGTON, D.C. 20004


BANK OF CREDIT AND COMMERCE INTERNATIONAL
 1000 N. STREET, N.W.
 WASHINGTON, D.C. 20004


BANK OF CREDIT AND COMMERCE INTERNATIONAL
 1000 N. STREET, N.W.
 WASHINGTON, D.C. 20004


BANK OF CREDIT AND COMMERCE INTERNATIONAL
 1000 N. STREET, N.W.
 WASHINGTON, D.C. 20004

2650	Feb 27 1926	TO General	FOR DEPOSIT
			FOR DEPOSIT 25412612
TOTAL			4361
THE CHECK			
BALANCE			

NOT NEGOTIABLE

2651	Feb 27 1926	TO Cash	FOR DEPOSIT
			FOR DEPOSIT
TOTAL			2000
THE CHECK			
BALANCE			

NOT NEGOTIABLE

2652	Feb 27 1926	TO American Bank	FOR DEPOSIT
			FOR DEPOSIT
TOTAL			4276
THE CHECK			
BALANCE			

NOT NEGOTIABLE

PAID TO THE ORDER OF THE
TREASURER OF THE
UNITED STATES OF AMERICA
WASHINGTON, D.C. 20540
FEBRUARY 27 1926
4361

PAID TO THE ORDER OF THE
TREASURER OF THE
UNITED STATES OF AMERICA
WASHINGTON, D.C. 20540
FEBRUARY 27 1926
2000

PAID TO THE ORDER OF THE
TREASURER OF THE
UNITED STATES OF AMERICA
WASHINGTON, D.C. 20540
FEBRUARY 27 1926
4276

2707	SALES ORDER
March 20-1936	
TO Embassy (Legation)	
American Legation	
FOR Chief of Mission	
TOTAL	
THIS CHECK	500
BALANCE	

2708	SALES ORDER
March 20-1936	
TO Embassy of China	
FOR Mr. Wang	
TOTAL	
THIS CHECK	20.25/100
BALANCE	

2709	SALES ORDER
March 21-1936	
TO Chamber of Commerce of the	
United States	
FOR Mr. Wang	
TOTAL	
THIS CHECK	100
BALANCE	

UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF CUSTOMS AND BORDER PROTECTION
WASHINGTON, D.C. 20540

March 20-1936

TO Embassy of China
FOR Mr. Wang

NOT NEGOTIABLE



UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF CUSTOMS AND BORDER PROTECTION
WASHINGTON, D.C. 20540

March 21-1936

TO Chamber of Commerce of the
United States

NOT NEGOTIABLE



UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF CUSTOMS AND BORDER PROTECTION
WASHINGTON, D.C. 20540

March 21-1936

TO Chamber of Commerce of the
United States

NOT NEGOTIABLE

2728

attached: 31-10-24

TO RECEIVED

FOR 40-24-24-25-26

TOTAL	
THIS CHECK	24/24
BALANCE	

2729

attached: 31-10-24

TO CASH/RECEIVED

FOR 40-24-24-25-26

TOTAL	
THIS CHECK	24/24
BALANCE	

2730

attached: 31-10-24

TO RECEIVED

FOR 40-24-24-25-26

TOTAL	
THIS CHECK	24/24
BALANCE	

2728

attached: 31-10-24

TO RECEIVED

FOR 40-24-24-25-26

TOTAL	
THIS CHECK	24/24
BALANCE	

2729

attached: 31-10-24

TO CASH/RECEIVED

FOR 40-24-24-25-26

TOTAL	
THIS CHECK	24/24
BALANCE	

2730

attached: 31-10-24

TO RECEIVED

FOR 40-24-24-25-26

TOTAL	
THIS CHECK	24/24
BALANCE	



BANK OF CREDIT AND COMMERCE INTERNATIONAL
BRANCH: NEW YORK
INCORPORATED IN THE UNITED STATES OF AMERICA
WASHINGTON, D. C. 20001

attached: 31-10-24

FOR 40-24-24-25-26

NOT NEGOTIABLE



BANK OF CREDIT AND COMMERCE INTERNATIONAL
BRANCH: NEW YORK
INCORPORATED IN THE UNITED STATES OF AMERICA
WASHINGTON, D. C. 20001

attached: 31-10-24

FOR 40-24-24-25-26

NOT NEGOTIABLE

2869	PAID
check 12-19-54	PAID
TO Federal Express	
FOR 42-162-9282-6	
TOTAL	236
THIS CHECK	
BALANCE	

2870	PAID
check 14-19-54	PAID
TO Lumbermen Inc	
FOR 42-379-112053	
TOTAL	1480 1/2
THIS CHECK	
BALANCE	

2871	PAID
check 11-19-54	PAID
TO Cash	
FOR Sub attached 219	
2nd Mt. City	
TOTAL	2000
THIS CHECK	
BALANCE	

FOR CASH ON HAND, DEPOSIT, WITHDRAWAL, ETC.
 TO THE ORDER OF THE
 FEDERAL RESERVE BANK
 OF NEW YORK, N.Y. 10005

NOT NEGOTIABLE



BANK OF CREDIT AND COMMERCE INTERNATIONAL
 BRANCH IN NEW YORK
 100 WALL STREET, 10TH FLOOR
 NEW YORK, N.Y. 10038

2870

check 14-19-54

may

NOT NEGOTIABLE



BANK OF CREDIT AND COMMERCE INTERNATIONAL
 BRANCH IN NEW YORK
 100 WALL STREET, 10TH FLOOR
 NEW YORK, N.Y. 10038

2871

check 11-19-54

may

NOT NEGOTIABLE

2884		MAY 21 - 1938	
TO Mr. S. S. S. S.		PAID TO ORDER	
FOR BANK OF AMERICA		TOTAL	
		THIS CHECK	
		BALANCE	
		53/100	

2885		MAY 21 - 1938	
TO Mr. K. P. M. M.		PAID TO ORDER	
FOR BANK OF AMERICA		TOTAL	
		THIS CHECK	
		BALANCE	
		29/100	

2886		MAY 21 - 1938	
TO Mr. S. S. S. S.		PAID TO ORDER	
FOR BANK OF AMERICA		TOTAL	
		THIS CHECK	
		BALANCE	
		25/100	

2884		MAY 21 - 1938	
TO Mr. S. S. S. S.		PAID TO ORDER	
FOR BANK OF AMERICA		TOTAL	
		THIS CHECK	
		BALANCE	
		53/100	

2885		MAY 21 - 1938	
TO Mr. K. P. M. M.		PAID TO ORDER	
FOR BANK OF AMERICA		TOTAL	
		THIS CHECK	
		BALANCE	
		29/100	

2886		MAY 21 - 1938	
TO Mr. S. S. S. S.		PAID TO ORDER	
FOR BANK OF AMERICA		TOTAL	
		THIS CHECK	
		BALANCE	
		25/100	

BANK OF CREDIT AND COMMERCE INTERNATIONAL

SIXTY AND TWO CENTS

NEW YORK BRANCH, 60 WALL STREET, NEW YORK

WASHINGTON, D. C. 20004

Mr. K. P. M. M.

Cash for deposit only

NOT NEGOTIABLE

BANK OF CREDIT AND COMMERCE INTERNATIONAL

SIXTY AND TWO CENTS

NEW YORK BRANCH, 60 WALL STREET, NEW YORK

WASHINGTON, D. C. 20004

Mr. K. P. M. M.

Cash for deposit only

NOT NEGOTIABLE

2953
June 16 - 19 52

TO AAA

FOR # 44U-5142365

TOTAL	
THIS CHECK	36/-
BALANCE	

2954
June 16 - 19 52

TO Bank's Administrative

FOR On Again

TOTAL	
THIS CHECK	24/-
BALANCE	

2955
June 16 - 19 52

TO Bank's Administrative

FOR On Again

TOTAL	
THIS CHECK	24/-
BALANCE	

2953
June 16 - 19 52

TO AAA

FOR # 44U-5142365

36/-

NOT NEGOTIABLE

2954
June 16 - 19 52

TO Bank's Administrative

FOR On Again

24/-

NOT NEGOTIABLE

2955
June 16 - 19 52

TO Bank's Administrative

FOR On Again

24/-

NOT NEGOTIABLE

2968	June 25 - 1947	TO Mr. S. S. Allen	334/10
FOR Travel with Mrs. S. S. Allen			
TOTAL			
THIS CHECK			
BALANCE			

2968 June 25 - 1947

TO Mr. S. S. Allen

FOR Travel with Mrs. S. S. Allen

334/10

NOT NEGOTIABLE

2969	June 25 - 1947	TO National City Bank	458/15
FOR Travel with Mrs. S. S. Allen			
TOTAL			
THIS CHECK			
BALANCE			

2969 June 25 - 1947

TO National City Bank

FOR Travel with Mrs. S. S. Allen

458/15

NOT NEGOTIABLE

2970	June 25 - 1947	TO National City Bank	726/10
FOR Travel with Mrs. S. S. Allen			
TOTAL			
THIS CHECK			
BALANCE			

2970 June 25 - 1947

TO National City Bank

FOR Travel with Mrs. S. S. Allen

726/10

NOT NEGOTIABLE



BANK OF CREDIT AND COMMERCE INTERNATIONAL
 BRANCH - NEW YORK
 100 WALL STREET, NEW YORK 5, N.Y.
 INCORPORATED IN U.S.A.

2968 June 25 - 1947

TO Mr. S. S. Allen

FOR Travel with Mrs. S. S. Allen

334/10

NOT NEGOTIABLE



BANK OF CREDIT AND COMMERCE INTERNATIONAL
 BRANCH - NEW YORK
 100 WALL STREET, NEW YORK 5, N.Y.
 INCORPORATED IN U.S.A.

2969 June 25 - 1947

TO National City Bank

FOR Travel with Mrs. S. S. Allen

458/15

NOT NEGOTIABLE

3043

July 22 - 1956

TO International Conference

for all charges

TOTAL	3777.46
THIS CHECK	
BALANCE	

July 22 - 1956

3777.46

NOT NEGOTIABLE

3044

July 22 - 1956

TO Federal Reserve

for 44-1142-2220-6

44-1142-2220-6

TOTAL	627
THIS CHECK	
BALANCE	

July 22 - 1956

627

NOT NEGOTIABLE

3045

July 22 - 1956

TO all charges

not negotiable for Federal

TOTAL	857.46
THIS CHECK	
BALANCE	

July 22 - 1956

857.46

NOT NEGOTIABLE

3073	August 19 1958	TO <u>Washington, D.C.</u>	DEPOSITED
FOR <u>John F. Kennedy</u>			
TOTAL			
THIS CHECK			
BALANCE			

August 19 1958

NOT NEGOTIABLE

3074	August 19 1958	TO <u>Washington, D.C.</u>	DEPOSITED
FOR <u>John F. Kennedy</u>			
TOTAL			
THIS CHECK			
BALANCE			

August 19 1958

NOT NEGOTIABLE

3075	August 19 1958	TO <u>Washington, D.C.</u>	DEPOSITED
FOR <u>John F. Kennedy</u>			
TOTAL			
THIS CHECK			
BALANCE			

August 19 1958

NOT NEGOTIABLE



DEPARTMENT OF CREDIT AND COMMERCE INTERNATIONAL
 BRANCH OF AMERICAN
 REPRESENTATIVE OFFICE
 1715 P STREET, N.W.
 WASHINGTON, D.C. 20006

3



DEPARTMENT OF CREDIT AND COMMERCE INTERNATIONAL
 BRANCH OF AMERICAN
 REPRESENTATIVE OFFICE
 1715 P STREET, N.W.
 WASHINGTON, D.C. 20006

3

3271
 ORDER NO. 10-28
 10 Transnational Telephone Inc.
 FOR AMOUNT \$111
 TOTAL
 THIS CHECK
 BALANCE

3272
 ORDER NO. 10-28
 10 Transnational Telephone Inc.
 FOR AMOUNT \$111
 TOTAL
 THIS CHECK
 BALANCE

3273
 ORDER NO. 10-28
 10 Transnational Telephone Inc.
 FOR AMOUNT \$111
 TOTAL
 THIS CHECK
 BALANCE

3271
 ORDER NO. 10-28
 10 Transnational Telephone Inc.
 FOR AMOUNT \$111
 TOTAL
 THIS CHECK
 BALANCE
 NOT NEGOTIABLE

3272
 ORDER NO. 10-28
 10 Transnational Telephone Inc.
 FOR AMOUNT \$111
 TOTAL
 THIS CHECK
 BALANCE
 NOT NEGOTIABLE

3273
 ORDER NO. 10-28
 10 Transnational Telephone Inc.
 FOR AMOUNT \$111
 TOTAL
 THIS CHECK
 BALANCE
 NOT NEGOTIABLE

3292

Oct 15 - 1954

TO BEEL Broom

FOR ALL STAMPS

TOTAL	THIS CHECK	BALANCE
		100%

BANK OF CREDIT AND COMMERCE INTERNATIONAL

NEW YORK, N.Y. 10005

WEST STREET, NEW YORK, N.Y. 10005

NOT NEGOTIABLE

3293

Oct 15 - 1954

TO BEEL Broom

FOR ALL STAMPS

TOTAL	THIS CHECK	BALANCE
		100%

BANK OF CREDIT AND COMMERCE INTERNATIONAL

NEW YORK, N.Y. 10005

WEST STREET, NEW YORK, N.Y. 10005

NOT NEGOTIABLE

3294

Oct 15 - 1954

TO Cash

FOR ALL STAMPS

TOTAL	THIS CHECK	BALANCE
		100%

BANK OF CREDIT AND COMMERCE INTERNATIONAL

NEW YORK, N.Y. 10005

WEST STREET, NEW YORK, N.Y. 10005

NOT NEGOTIABLE

3289

October 15-1948

To The New York Times

FOR \$20.00-100.00

TOTAL	
PAY CHECK	300
BALANCE	

3290

October 15-1948

To Henry J. Brown

FOR \$100.00-100.00

TOTAL	
PAY CHECK	100.00
BALANCE	

3291

October 15-1948

To Dr. J. H. Brown

FOR \$100.00-100.00

TOTAL	
PAY CHECK	100.00
BALANCE	

~~NOT NEGOTIABLE~~

BANK OF CREDIT AND COMMERCE INTERNATIONAL
 3289
 100.00
 100.00

~~NOT NEGOTIABLE~~

3291

BANK OF CREDIT AND COMMERCE INTERNATIONAL
 3291
 100.00
 100.00

3355	PAID BY POST
November 27-1936	
TO <u>Reddell Comm - ac</u>	
FOR <u>Wm. B. B. 302</u>	
TOTAL	
THIS CHECK	119/100
BALANCE	

BANK OF CREDIT AND COMMERCE INTERNATIONAL

BANK OF CREDIT AND COMMERCE INTERNATIONAL
WASHINGTON, D. C. 20004

WASHINGTON, D. C. 20004

~~NOT NEGOTIABLE~~

3356	PAID BY POST
November 27-1936	
TO <u>Washington Limited Inc</u>	
FOR <u>Mr. H. H. H.</u>	
TOTAL	
THIS CHECK	102/100
BALANCE	

BANK OF CREDIT AND COMMERCE INTERNATIONAL

BANK OF CREDIT AND COMMERCE INTERNATIONAL
WASHINGTON, D. C. 20004

WASHINGTON, D. C. 20004

~~NOT NEGOTIABLE~~

3357	PAID BY POST
November 27-1936	
TO <u>W. H. Ford Service</u>	
FOR <u>Wm. B. B. 339</u>	
TOTAL	
THIS CHECK	369/100
BALANCE	

BANK OF CREDIT AND COMMERCE INTERNATIONAL

BANK OF CREDIT AND COMMERCE INTERNATIONAL
WASHINGTON, D. C. 20004

WASHINGTON, D. C. 20004

~~NOT NEGOTIABLE~~

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME
 WASHINGTON, D.C., REPRESENTATIVE OFFICE
 1001 K STREET, N.W.
 WASHINGTON, D.C. 20004

3620

February 10, 1967

Pay to the order of First American Five hundred and no/100 only DOLLARS

1st AMERICAN
 BANK OF AMERICA, N.A. WASHINGTON, D.C. 20004

FOR DEPOSIT ONLY

#0035 20# #05400004 31# 3 294 560# #00004305907#

L280EENE 30330827

USFN 000179

[illegible]

3755	March 21-1947	TO Cash	FROM R. G. Cook	1947A	TRIP COST	985/6
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[illegible]

[Faint, illegible handwritten notes]

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BANK OF CANADA AND COMPANIES INCORPORATED
CANADA INCORPORATED
 HEAD OFFICE
 60 KING STREET WEST
 TORONTO, ONTARIO M5X 1C5
 BRANCHES IN ALL MAJOR CITIES
 THROUGHOUT CANADA
 TEL. 971-8111
 TELEX 9800
 FAX 971-8111
 WWW.BOC.CA

3769
April 1 1987
to The Kennedy Plaza Hotel

TOTAL	226.567
THIS CHECK	
BALANCE	

FOR ALL DEBIT

NOT NEGOTIABLE

AT 11:00 P.M. 3 1987, 510P

3770
April 1-1987
to The Kennedy Plaza Hotel

TOTAL	923.40
THIS CHECK	
BALANCE	

FOR ALL DEBIT

NOT NEGOTIABLE

AT 11:00 P.M. 3 1987, 510P

3771
April 1-1987
to The Kennedy Plaza Hotel

TOTAL	537.6
THIS CHECK	
BALANCE	

FOR ALL DEBIT

NOT NEGOTIABLE

AT 11:00 P.M. 3 1987, 510P

Bank of America
Branch Office
Washington, D.C.
1400 K Street, N.W.
WASHINGTON, D.C. 20005

Bank of America
Branch Office
Washington, D.C.
1400 K Street, N.W.
WASHINGTON, D.C. 20005

GT

000977

3847	April 22, 1937	TO General Insurance Co.	
		FOR LOANS \$125,000.00	
		TOTAL	125,000
		NEW CHECK	
		BALANCE	

TO General Insurance Co.
 125,000.00
 1937
 The loan is made by the General Insurance Co.
 125,000.00
 1937
 NOT NEGOTIABLE

3848	April 22, 1937	TO General Insurance Co.	
		FOR LOANS \$125,000.00	
		TOTAL	125,000
		NEW CHECK	
		BALANCE	

TO General Insurance Co.
 125,000.00
 1937
 The loan is made by the General Insurance Co.
 125,000.00
 1937
 NOT NEGOTIABLE

3849	April 22, 1937	TO General Insurance Co.	
		FOR LOANS \$125,000.00	
		TOTAL	125,000
		NEW CHECK	
		BALANCE	

TO General Insurance Co.
 125,000.00
 1937
 The loan is made by the General Insurance Co.
 125,000.00
 1937
 NOT NEGOTIABLE

3931	
May - 26 - 1947	
TO CASH	
FOR DEPOSIT - 100.00	
TOTAL	100.00
THIS CHECK	100.00
BALANCE	0.00

100.00

May 26 1947

NOT NEGOTIABLE

AT 1133 405400004.35

3932	
May - 26 - 1947	
TO CASH	
FOR DEPOSIT - 100.00	
TOTAL	100.00
THIS CHECK	100.00
BALANCE	0.00

100.00

May 26 1947

NOT NEGOTIABLE

AT 1133 405400004.35

3933	
May - 26 - 1947	
TO CASH	
FOR DEPOSIT - 100.00	
TOTAL	100.00
THIS CHECK	100.00
BALANCE	0.00

100.00

May 26 1947

NOT NEGOTIABLE

AT 1133 405400004.35

3952				
June-25-1987				
TO Bank of Caribbean Commerce				
for all charges				
	TOTAL			
	THIS CHECK			
	BALANCE			

Bank of Caribbean Commerce
 504 Market St.
 P.O. Box 1156
 Kingston, Jamaica
 T-12-57
 60044

NOT NEGOTIABLE

3953				
June-22-1987				
TO All Nippon Airways				
for all Sullen all time				
	TOTAL			
	THIS CHECK			
	BALANCE			

Bank of Caribbean Commerce International
 504 Market St.
 P.O. Box 1156
 Kingston, Jamaica
 T-12-57
 60044

NOT NEGOTIABLE

3954				
June-23-1987				
TO Bank				
for all Nippon Airways				
	TOTAL			
	THIS CHECK			
	BALANCE			

Bank of Caribbean Commerce International
 504 Market St.
 P.O. Box 1156
 Kingston, Jamaica
 T-12-57
 60044

NOT NEGOTIABLE

3640	February 13 1947	to 25215 (A-1) Lunscomb	420 44324 (A-1)	non Staff 1/4 hr. Feb 1947	TOTAL	THIS CHECK	25215-76
							BALANCE

3641	February 15, 1962	TO DECKERS NEW YORK	FOR THE MORGAN	TOTAL	1015.00
				THIS CHECK	
				BALANCE	

3512	February 12 - 1927	TO BOSTON	4976
		FOR	
		TOTAL	
		THIS	
		CHECK	
		BALANCE	

Not NEGOTIABLE

BUREAU OF CENSUS, UNITED STATES DEPARTMENT OF COMMERCE
 WASHINGTON, D. C. 20540
 MAY 18 1964
 MR. J. B. BIRNEY
 1000 15th St. N.E.
 ALBANY, N. Y. 12219

DEPT OF COMMERCE
 BUREAU OF CENSUS
 WASHINGTON, D. C. 20540

Mr. Birney, I regret that I cannot return your letter of 10/14/64.

Sincerely,
 [Signature]

10/14/64

NOT NEGOTIABLE

UNITED STATES OF AMERICA
DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC ANALYSIS
WASHINGTON, D. C. 20540
OFFICE OF THE ASSISTANT SECRETARY
FOR ECONOMIC AFFAIRS
WASHINGTON, D. C. 20540

3646
February 17, 1927
To Rector's Digest

FOR \$ 23505-52241	
TOTAL	1041
PAY CHECK	
BALANCE	

3647
February 17, 1927
To McKinley Place Hotel

FOR Mr. Manning	
TOTAL	922072
PAY CHECK	
BALANCE	

3648
February 17, 1927
To Mr. H. L. Kline

FOR Telephone (Mrs.) J. H. Kline	
TOTAL	49122
PAY CHECK	
BALANCE	

3646
February 17, 1927
To Rector's Digest

FOR \$ 23505-52241	
TOTAL	1041
PAY CHECK	
BALANCE	

NOT NEGOTIABLE

3647
February 17, 1927
To McKinley Place Hotel

FOR Mr. Manning	
TOTAL	922072
PAY CHECK	
BALANCE	

NOT NEGOTIABLE

3648
February 17, 1927
To Mr. H. L. Kline

FOR Telephone (Mrs.) J. H. Kline	
TOTAL	49122
PAY CHECK	
BALANCE	

NOT NEGOTIABLE

3649
February 10-1927
To Charles G. Lawrence of
the U.S. Office
for Bureau

TOTAL	758
THIS CHECK	
BALANCE	

3649 605400000430
NOT NEGOTIABLE

3650
February 12-1927
To Cecil C. Lawrence of
the U.S. Office
for M. A. Lawrence

TOTAL	4765/25
THIS CHECK	
BALANCE	

3650 605400000430
NOT NEGOTIABLE

3651
February 12-1927
To Lawrence
for M. A. Lawrence of
the U.S. Office
for M. A. Lawrence

TOTAL	231/76
THIS CHECK	
BALANCE	

3651 605400000430
NOT NEGOTIABLE

3727
March 16 - 1907

TO Helmsley House

FOR all charges

TOTAL	
CASH	9.25
BALANCE	

3728
March - Dec 1907

TO Helmsley House

FOR all charges

TOTAL	
CASH	122.45
BALANCE	

3729
March - Dec 1907

TO Helmsley House

FOR all charges

TOTAL	
CASH	3.00
BALANCE	

3727 605100001.35


NOT NEGOTIABLE


3728 605100001.35

NOT NEGOTIABLE

3729 605100001.35

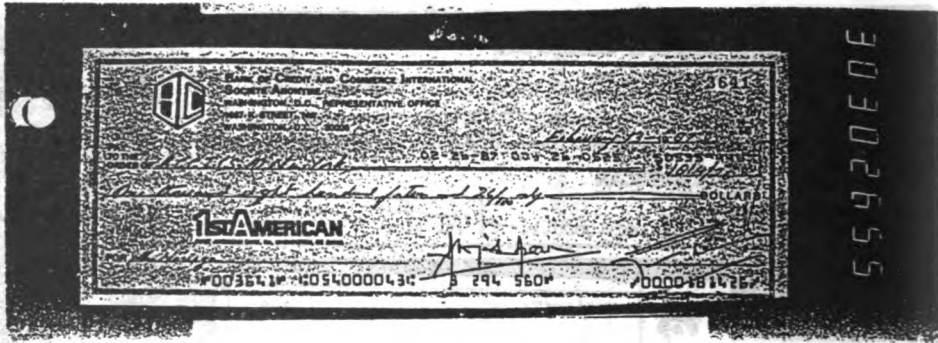
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 <p>BANK OF CREDIT AND COMMERCE INTERNATIONAL SOCIÉTÉ ANONYME WASHINGTON, D.C., REPRESENTATIVE OFFICE 1847 K STREET, NW. WASHINGTON, D.C. 20006</p>	3619
	<p><i>February 11, 1982</i></p> <p>PAY TO THE ORDER OF <u><i>Franklin Drexler Inc.</i></u> \$ <u><i>17039/60</i></u></p> <p><i>Seventeen thousand two hundred thirty nine and 60/100</i> DOLLARS</p> <p>1st AMERICAN <small>Bank of America, N.A., Washington, D.C. Branch</small></p> <p><i>[Signature]</i></p> <p>#003619# #054000043# \$ 294 560# #0001723960#</p>

 <p>FEDERAL RESERVE NOTE</p>	1348
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0203373

USFN 000178



USPN 000184

BIC Bank of Commerce International, Inc.
 1000 Avenue of the Americas
 New York, N.Y. 10020
 1000 Avenue of the Americas
 New York, N.Y. 10020

3650

Charles H. Smith

1000 Avenue of the Americas

1000 Avenue of the Americas

1st AMERICAN
 1000 Avenue of the Americas, New York, N.Y. 10020

1003650 5054000043 3 294 560 700000767

USPN 000186

MEMORANDUM

CONTENTS COVERED BY ATTORNEY-
CLIENT AND WORK/PRODUCT PRIVILEGES

TO: Confidential File of Bank of Credit and Commerce
International (Overseas) Limited

FROM: Roma W. Theus, FI

DATE: September 24, 1990

RE: Inquiry of the Kerry Committee

Approximately two-weeks ago I met with a highly reliable, Confidential Source (the "Source") to further discuss the subpoenas served on Robert Altman ("Altman") and Raymond Banoun ("Banoun") by the Kerry Committee. The meeting lasted approximately thirty (30) minutes and resulted in my receiving information from the Source that was predicated upon his personal contacts in Washington, D.C.

The Source advised that there is no return date for subpoenas that have been served on Altman and Banoun by the Kerry Committee. In response to those subpoenas, the Source stated that Altman and Banoun are opposing the subpoenas and doing everything within their power to call in "political markers". Consequently, it may be that Altman and Banoun will succeed in quashing their subpoenas or having them withdrawn; and not end up testifying before the Kerry Committee.

According to the Source, the Kerry Committee and its Staff have a strong belief that the Bank of Credit and Commerce International (Overseas) Limited ("the BCCI") is a "bad" or "evil" bank. Indeed, the Source stated that the Kerry Committee and its Staff genuinely believe that BCCI has furnished wholesale advice to its customers regarding the structuring of federal income tax evasion, and that BCCI has deliberately sought and accepted as deposits "hot money". With respect to the structuring of federal income tax evasion, the Source stated that the Kerry Committee and its Staff believe that BCCI has furnished advice to its customers about off-shore deposits, off-shore loans, letters of credit, and offshore transactions. The common thread concerning all such advice, according to the Source, is the evasion of payment of federal income taxes.

Page 2

Additionally, the Source stated that the Kerry Committee and its Staff are deeply concerned about the overlap of ownership as to BCCI, First American Bank and other entities. With respect to this matter of the overlap of ownership, the Source stated that the Kerry Committee and its Staff intend to question Altman closely in his capacity as a banker.

With respect to the overlap of ownership issue, the Source surmised that Garon Pharone ("Pharone") might be subpoenaed by the Kerry Committee. Pharone would be a likely candidate to be subpoenaed to testify before the Kerry Committee because of his contacts and association with Bert Lance.

The Source stated bluntly that the Kerry Committee is on a "crusade". In short, from the information available to the Source at this time, it appears that the Kerry Committee wants to put BCCI out of business.

The Source stated that the Kerry Committee and its Staff are also concerned about past contacts between such Committee and Altman and Banoun. These past contacts may have resulted in representations having been made by either Altman or Banoun or both that were not accurate. The Source suggested that these inaccurate, or perhaps false, representations may have related to the production of documents or cooperation with Government.

The Source stated that it is anticipateable that the Kerry Committee will direct its questions to Altman in his capacity as a banker, not in his capacity as a lawyer. The Source further stated that it is expectable that Banoun will be questioned about representations he made to the Kerry Committee regarding document production and/or cooperation with the Government.

The Source emphasized that the matters he was revealing to me were extraordinarily sensitive and confidential. Accordingly, he stressed that the utmost in confidentiality should be observed in order to preserve and protect the flow of information on this matter.

The Source stated that the intense effort being made by the Kerry Committee was very unusual. However, the Source did not know, and had not heard, what triggered these very intensive efforts by the Kerry Committee regarding BCCI. The Source did note, however, that the Kerry Committee had received substantial, negative information about BCCI

Page 3

preliminarily from the United States Customs Service; and that such a negative information had been reenforced by further condemnation of BCCI by the IRS.

The foregoing accurately summarizes the highlights of my meeting with the Source approximately two-weeks ago. The within memorandum is not, and is not intended to be, a verbatim account of that meeting with the Source. Moreover, because of the singular nature of much of the information and the direct and personal contacts made by the Source, this memorandum and its contents should be disseminated on only the most selective basis.

CONFIDENTIAL*mean very?*

320 PARK AVENUE NEW YORK NY 10022

DATE: March 1, 1990

FROM: B.A. Palkhiwala
USRO - New YorkTO: Mr. Swaleh M. Naqvi
PresidentSUBJECT: STATUS REPORT ON MIAMI AGENCY LICENCE
SYNOPSIS OF DEVELOPMENTS TO DATE TO ENABLE COURSE OF ACTION

On Wednesday, February 28th, accompanied by Larry Wechsler and Greg Baldwin, the undersigned met with the Criminal Investigation Department of the U.S. Internal Revenue Service in Fort Lauderdale.

Attending the meeting were Mr. Daniel M. Dockum, Chief of the Criminal Investigation Division and his Assistant, Mr. Tom Ferris.

The purpose of the meeting was to present BCC's case to the IRS which was pressing for a possible indictment against the Bank in the Southern District of Florida. BCC's Plea Agreement and other cooperation agreements were made with the Middle District of Florida and apparently, the Southern District does not necessarily have to abide by them.

If the IRS decides to press for an indictment, the case would be referred to the U.S. Attorneys Office in Miami for their concurrence and, finally, indictment and trial.

To cut the long story short (detailed Minutes will be provided by our Legal Group), this was the first time that the IRS came face-to-face with a BCC person. The historical background of the Bank, its shareholders, its activities, its regulatory progress of the past 18 months, etc. were not known to them in any significant detail, nor did they appear interested in such details. Their focus was only in bringing about the successful prosecution of various U.S. citizens or entities who they felt were evading U.S. taxes, and proceeding against the Bank who they felt was possibly in collusion with such entities and corporations to assist in U.S. income tax evasion.

All they wanted to know was "what can you really do for us, how can you help us, if we were to decide not to indict you?". As plain as that. As a corollary, they expressed doubts as to how they can ensure that if a deal was struck, the Bank would honor it.

Messrs. Wechsler, Baldwin and I went through every aspect and explained our position, explained that cooperation had already begun and that the IRS would give nothing away because the Bank, besides being on a 5-year probation, could be indicted at any time in the future and hence, the advantages lay with the Authorities.

DC 007501

At the end of it all, Mr. Dockum stated that much would depend on what Mr. Gerald Lewis would do. We explained that the loss of the Miami Agency license would be an unfortunate but localized situation and that possibly, the Bank would continue to exist (and cooperate) in New York and California.

However, an indictment has other overtones involving overseas regulators, financial institutions, government institutions, customers, market confidence, etc. They appeared to understand the differentiation we were attempting to explain.

At the conclusion of the meeting, Mr. Dockum stated that the meeting had been very useful and we got the impression that we might have stopped the head-long rush towards another indictment, but whether we have eliminated it or not, remains to be seen.

The turning point, if any, was the outline of how the Bank could cooperate and the tremendous advantages of assisting the areas where the IRS would have little success by itself. Mr. Dockum hinted that in view of the IRS' very meager resources, such assistance would be of considerable value - provided they got it.

Conclusion: - Cautious optimism.

(If an indictment would come, it would not be earlier than 4 weeks and not later than 8 weeks. The IRS' recommendations would go from Miami to Atlanta to Washington for finalization.)

OPTIONS ON MIAMI AGENCY LICENSE

If a second indictment were to occur, there is no question that the Miami Agency License would cease to exist as the media pressure would be extreme.

If we assume that the indictment is not coming, then the focus is on the options that Mr. Gerald Lewis can exercise on BCC Miami Agency License.

OPTION 1

He may decide to revoke/cancel the Miami Agency License prior to the expiration date of March 14, 1990.

In such an eventuality, BCC has the right to demand an Administrative Hearing. If the request for the Hearing is approved, the Miami Agency License is deemed to be continuous until such time as the Hearing is concluded. The possible time frame for such a Hearing from start to finish could be up to 6 months, at the end of which two things can happen:

- 1) The Judge may uphold Gerald Lewis' decision and the Miami License would stand cancelled. BCC would have the right to appeal to a higher Court. Alternatively, BCC could accept the verdict and ask for a 60-90-day period to wind up its affairs in Florida.
- 2) The Judge could rule in BCC's favor and the State of Florida would have to renew the License. They could, however, impose further sanctions, i.e. substitute the MOU with a Cease and Desist Order and any other restrictions.

The consensus is that Mr. Lewis will not cancel or revoke the License.

OPTION 2

Mr. Gerald Lewis may simply allow the existing License to lapse on March 14th. This could be done by a letter addressed to BCC prior to March 14th stating that the Renewal Application has been rejected.

(As a corollary, it is felt that BCC is more likely to learn of this rejection from the press as the letter to be addressed to BCC could be in the hands of the media before it arrives at the Bank. This would be a retaliation for the manner in which Mr. Gerald Lewis learned of the BCC Plea Agreement in Tampa.)

There are no Florida Statutes that call for the continuation of the Miami Agency License once the Renewal Application has been rejected.

BCC would have to resort to the Courts to obtain an injunction and a continuance of License pending a request for a Hearing. Once the Hearing has been granted - which could again last up to 6 months - the License would be deemed to be continued and the Bank could continue to operate until the conclusion of the Hearing.

Whatever would the decision be of the presiding Judge, the same procedure would thereafter apply as outlined under Option 1.

The consensus of our Legal Group is that Mr. Gerald Lewis is most likely to exercise this Option.

OPTION 3

Under this Option, Mr. Gerald Lewis may decide to renew the License on a probationary basis for continuing short periods, say 60 or 90 days at a time pending the resolution of further investigations, deals, etc.

Besides being a highly unsatisfactory solution, the danger is that at the end of a period close to November, 1990, Mr. Lewis may make the final decision not to renew in order to get maximum fresh political advantage just prior to the November elections.

ADVANTAGES AND DISADVANTAGES OF PROLONGING OF THE LICENSE PERIOD THROUGH HEARINGS PROCEDURES

The Hearings, as outlined in Options 1 and 2, could provide the advantages of buying time.

During this period of a few months, it may be possible for the Bank, with the assistance of our Legal Group, to demonstrate to the various Authorities (Federal, U.S. Attorney, IRS, DEA, etc.) the actual cooperation given by the Bank and the benefits thereof to the Authorities. If these benefits are clearly demonstrated to be of great importance to the Authorities, then some or all of these government entities could be induced to press our case with and, hopefully, convince Mr. Gerald Lewis to reinstate the Miami Agency License.

It could also give a breathing space with the Florida State Banking Authorities and Mr. Gerald Lewis to work out some other arrangements that maybe acceptable to them. Mr. Bruce Roberson of Holland & Knight in Tampa, who has his finger on the pulse, estimates that BCC's chances at a Hearing are, at best, less than 50-50. It is conceivable that during this period of Hearing, the chances could improve over 50%.

If the decision of the Judge goes against BCC, the Bank will have on its record the fact that its License had been cancelled. This could obstruct the chances for BCC to obtain a license anywhere else in the world or to purchase a Bank anywhere else in the United States or anywhere else in the world.

It is my personal opinion that extra weighage should not be given to this factor because as matters stand at present, the Bank is already labelled as a convicted felon, a fact that can have no better or worse effect on any future license application than if any of its licenses has been revoked or cancelled. In other words, we are already at a disadvantage as of February 5th when our guilty plea was accepted at the Federal Court in Tampa.

However, we should consider whether winning a decision at the Hearing is worth the effort for BCC.

Is it worth for us to have won the right to operate in an environment of hostility from the State Regulators, hostility from press and media, hostility from the constituents and hostility from the local financial institutions.

The fact is that continuing under a 5-year probation as imposed by the Federal Court in Tampa, additional restrictions from the Florida State Authorities and an unrelenting press continuing its witch-hunt, only the flimsiest of excuses, justified or otherwise, could cause our License, our reputation and our continuance in that State to come under pressure. In other words, in spite of our victory, we could be hounded to death. Does an international institution with \$20 billion in assets have to contend with such an existence in one of its secondary locations.

At this point, we should consider the decision to withdraw our Application for the renewal of the Miami Agency License and pre-empt any aggressive move by Mr. Gerald Lewis largely for reasons of political advantage. We will have left voluntarily instead of the stigma of being asked to leave.

But then, one might argue, did we not state earlier that the cancellation of the License can hardly put us in any worse position than that the Bank is in as convicted felon?

Not a worse position. It could put us in a better position, i.e. in a position of some slight advantage.

By this I mean that the Regulators, financial institutions and key clients are aware that we have pleaded guilty under the doctrine of criminal responsibility, where a Bank is deemed to be guilty because of the acts of some of its employees. Institutions outside of the U.S. realize that the Bank would not be guilty in any other country except the United States because of this particular U.S. law. In the light of this, a voluntary withdrawal by BCC in Miami would be an advantage.

However, this decision, if it is to be made, has to be finalized by the end of business Friday, March 2nd, as it is likely that Mr. Gerald Lewis may announce his decision in the following week. Everyday thereafter, we increase the risk of being beaten to the punch by a possible announcement from Tallahassee.

SECOND INDICTMENT: HOW DREADFUL IS IT?

We have been so focused and tension-ridden about the possibility of a further indictment that we have bestowed upon it the power to signal a catastrophe for BCC.

But let us pause for a moment and think. Of course a second indictment will be dreadful. Yes, it will upset the Overseas Regulators. Yes, it will lead to another open season against BCC in the press and media.

However, let us analyze what this second indictment will be all about.

The IRS have stated that the indictment would be brought about as a result of investigations and activities going back to 1988 and earlier. No indictment is expected for any fresh event during 1989 and after.

We have gone through all our accounts with the Legal Group and Price Waterhouse, central audit and we have ourselves cleaned our shop. In truth, the indictment will be counter-productive; they will be beating a dead horse as they will be looking at events which happened in 1988 (or before) and after the Bank in the U.S. was re-organized, re-fitted, upgraded, automated and has passed the strictest Federal and State Examinations in all locations in 1989.

This fact will be clear in the minds of the U.S. Regulators and can be explained to all the overseas Regulators and Central Banks.

On the one hand, we have the U.S. Justice Department, the U.S. Attorney's Office and the Federal and State Regulators, including Florida State Regulators, confirming the progress of BCC the new professionalism and the fact that the Bank is now considered to be a good corporate citizen. On the other hand, some governments department are hostile and refusing, by their actions to acknowledge this fact.

Hence, whereas a second indictment will cause considerable discomfort, we should not attribute to it greater destructive powers than it possesses. If it comes, let us face it.

At one time, we were much worried with the superseding indictment. It happened.

I do not wish to minimize the impact of such an eventuality but let us take the terror out of it and review it in the cold light of day.

PUBLIC RELATIONS

It is my strong recommendation that should Mr. Gerald Lewis hold a Press Conference at the time that he decides to pull the Miami Agency License, we should be prepared within 24 hours to issue our own statement which should be blunt, factual and aggressive. We should not be afraid to tell the public that in our view this is a situation where State Officials have gone against the recommendations and opinions of Federal, State and other government departments, possibly for political gain.

In the U.S., silence could be mistaken for guilt. We have to speak out.

We have to prepare two draft releases and keep them ready by Friday, March 2nd. One: to promptly deal with an announcement from Mr. Gerald Lewis' Office allowing our License to lapse. Two: to deal with the withdrawal of our Application by ourselves.

I have recommended to Larry Wechsler and Greg Baldwin that both of these should be kept ready and Larry Wechsler has informed me that one press release is ready and that he would discuss the matter with Mr. Altman to prepare the second release and keep it ready. USRO has plans at each Agency to immediately approach the Regulators and thereafter, key institutions to explain either move.

If mine were the decision, I would voluntarily move out of Miami because it will be impossible to survive in a hostile environment. We could consolidate the manpower, assets, deposits and all businesses in New York and I have confidence that we could make New York one of the most profitable operation in BCC. We could do much of the business in New York that is now being handled by Miami. We will grow and expand in the environment in New York where a more mature Federal Reserve Bank and more mature Regulators sympathize with our position and where decisions affecting a Bank of the stature of BCC will not be subject to the whims of a politician.

I would welcome the opportunity to discuss and clarify any of the above, keeping in mind that the clock is running.

Kindest regards,



B.A. Palkhivala
General Manager - USA

cc: Mr. Robert A. Altman, Clifford & Warnke, Washington
Mr. Lawrence H. Wechsler, Janis, Schuelke & Wechsler, Washington
Other Attorneys

lawyers

BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A.
 UNITED STATES REGIONAL OFFICE 320 PARK AVENUE NEW YORK NY 10022

March 7, 1990

VIA TELEFAX

Robert A. Altman, Esq.
 Clifford & Warnke
 815 Connecticut Ave. NW, Suite 1200
 Washington, D.C. 20006

Dear Mr. Altman:

I have been trying to reach you since yesterday.

Greg Baldwin has set up an appointment with Carol Wilkinson

(REDACTED)

The meeting is on Thursday at 3:30 PM and I sincerely request you to have Larry accompany us.

Kindest regards,

B.A. Palkhiwala

B.A. Palkhiwala
 General Manager-USA

FAXED

CC: Mr. Lawrence H. Wechsler - Janis, Schuelke & Wechsler, Washington, D.C.

HN 0019



BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A.
 UNITED STATES REGIONAL OFFICE 320 PARK AVENUE NEW YORK NY 10022

Altman

See page 3

CLIENT/ATTORNEY PRIVILEGE

March 21, 1990

Mr. Robert A. Altman
 Clifford & Warnke
 815 Connecticut Ave. NW, Suite 1200
 Washington, D.C. 20006

Dear Mr. Altman:

Events have moved so rapidly and on so many fronts during these last 3-4 weeks that I felt that I should provide my comments for purposes of coordinating this multi-sided situation.

My comments are aimed at ensuring firstly, that we provide priority where necessary, and secondly, that items of secondary priority do not inadvertently drop between chairs.

This letter may possibly serve as one of the basic pieces around which some discussions can take place in London next week.

1) PERSONNEL ISSUES

When Messrs. Wechsler, Baldwin and I met Ms. Carol Wilkinson on March 9th, the issue of the Bank taking action against its errant employees, irrespective of whether any Government Agency moved against them or not, was an issue that was forcefully presented to us. I gather from her comments that she felt that Tariq Jan should have been fired — "the customer's documents (Pratt) found in his desk drawer" episode. The pointed reference to "a person in London" remains unidentified.



Mr. Robert A. Altman
Clifford & Warnke
Page 2

Several months ago, we identified certain people, particularly the gentleman in Jamaica who should be given his walking papers. Nothing has yet happened and if your investigations have revealed good reasons to fire this individual, we should do it immediately. If there are other names on this list, we must also move on them immediately if we are to follow up on our commitments and not lose credibility with key officials and departments.

As these employees will be outside my jurisdiction, I would appreciate your comments as to what action to take, because in-action will merely ensure that any resulting debris will wash up on my doorstep.

Another issue is that both the Florida and New York Regulators have questions the large staff at Miami Agency (82 employees) and New York Agency (72 employees + Regional staff of 29).

Mr. Sullivan of the New York FED and Caroline Harless of Atlanta FED have both pointedly remarked that not only is the staffing excessive, but there are discriminatory processes of the benefits paid to international staff as opposed to local staff. International staff are those officers who are appointed by London and get special housing loans, furloughs, country allowances and other privileges. Up to now, the local staff has got nothing but I have instituted housing loan, car loan and personal loan for them. There is some justification for non-American personnel being assigned to the USA on an international staff status. There is no justification for US citizens to be given international staff status. There are 6 of these and it is deemed to be a discriminatory practice because these US citizens get benefits that other US citizens do not.

Patrick Lynch, Marvin Hancock and Khurshid Alam are US citizens enjoying international status. I have tried in vain since September, 1989 to have all US citizens converted to local staff status but I have failed. I need permission to convert all US citizens to local staff no later than March 31, 1990 or we may attract US Regulators' criticisms.

I believe that a reduction of at least 20 employees at each Agency is feasible, along with a cut of 7 people in the Regional staff. The US must reduce from a total staff strength of 224 to approximately 170. If Miami closes, the maximum staff strength should be not more than 100.

In addition to overstaffing, the profit picture is suffering dramatically and the US Region must be given a free hand to rationalize or face the consequences.

DC 018347



Mr. Robert A. Altman
Clifford & Warnke
Page 3

2) INDEPENDENT INVESTIGATION

We came away from the meeting with Carol Wilkinson on March 9th convinced that we are facing a serious situation, perhaps second only to the October, 1988 indictment, and with greater potential for danger than anything Gerald Lewis or the Plea Agreement can muster.

For whatever reasons, right or wrong, I came away with the feeling that a second indictment was a near certainty and a serious effort on our part -- displayed by actions and not words -- could perhaps avert disaster. Perhaps. I am equally convinced that a lack of such a display will make action against the Bank inevitable.

In my conversations with Larry Wechsler after the March 9th meeting, I had expressed this view which Larry had promised to convey to you. I am now reiterating this view because we must have something additional to lay on the table by mid-April if it is not to be our last supper.

When I briefed Mr. Naqvi after the March 9th meeting, he agreed with the need to conduct a private investigation but with the provision that there must be some concrete evidence against the employee before he would be prepared to dismiss them.

Private investigations, along with #1 above, require top priority as we are committed.

3) COURT HEARING AND RELATED STRATEGY

Everyone, verbally and in print, has stated that our chances for success at the Hearing are slim. The strategy is to use the time in order to make a coordinated deal with all relevant Government Agencies, Districts, etc. to give the Bank some protection against maverick indictments in exchange for codified cooperation, some of it already demonstrated by the Bank.

However, I would be opposed to offering ad-hoc cooperation to any Government Agency if firstly, the results of such cooperation are used against the Bank, and secondly, an overall understanding with all concerned Government Agencies has not been reached.

DC 018348



Mr. Robert A. Altman
Clifford & Warnke
Page 4

Our past efforts have shown that cooperation has resulted in the Bank being faced with a congratulatory pat on the back from one side, along with the possibility of a slap in the face from another. This ongoing dichotomy has to be rectified or the Bank can't function in the USA. K

I thought that I would bring these objectives to your attention and join you on the banking side, to accomplish them under your guidance.

By the way, I would mention that copies of any of my letters are only sent to those who are addressed or copied. If you agree, however, I would like to place the contents of this letter on the Agenda for London, unless steps have already been taken to make these items obsolete.

Kindest regards,

B.A. Palkhiwala
General Manager-USA

CC: Mr. Lawrence H. Wechsler - Janis, Schuelke & Wechsler, Washington, D.C.
Mr. Raymond Banoun - Arent, Fox, Kintner, Plotkin & Kahn, Washington, D.C.

DC 018349



FAX TRANSMISSION

March 27, 1990

100

TO: Mr. Robert A. Altman
Clifford & Warnke, Washington, D.C.

FAX NO.

NO. OF PAGES 1 of 1

REF. NO.

I wish to bring the following to your attention.

1)

2)

(REDACTED)

3)

- 4) I have been chosen to take the place of London Credit Committee Officials and give my deposition on Thursday. Therefore, I may be unable to reach New York until Friday night but you can reach me, care of Feroze Deane.

They don't call me Lucky Pierre (apologies to Banoun) for nothing.

Kindest regards,

(dictated by from London by Mr. B.A. Palkhiwala)

CC: Mr. Raymond Banoun - Arent, Fox, Kintner, Plotkin & Kahn, Washington, D.C.
Mr. Lawrence Wechsler - Janis, Schuelke & Wechsler, Washington, D.C.

BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A.

HN 0023

UNITED STATES REGIONAL OFFICE 230 PARK AVENUE NEW YORK NY 10022 PHONE (212) 715-2800 TELEX 438882 BOC NY 60 FAX (212) 715-2800



FAX TRANSMISSION

March 27, 1990

TO: Mr. Robert A. Altman
Clifford & Warnke, Washington, D.C.

FAX NO.

NO. OF PAGES 1 of 1

REF. NO.

I wish to bring the following to your attention.

- 1) The telephone number for Kerry Rothschild, a friend of Gerald, is (813) 253-6551. Trust you will issue suitable instructions.

- 2) I am informed by Romit Basu that FIBA have removed our name.

This unprofessional action deserves a firm response, especially as I had met with the President and Chief Executive Officer and explained our inability to defend ourselves because of the Gag Order. They had agreed to permit me to address the Members and/or their Executive Committee at an appropriate time and had stated that they would take no further action at the present time.

For a Bankers' Association to act in this irresponsible manner, at a time when we are under appeal in the Court in the State of Florida, is pathetic and my humble view, which is shared by Feroze Deane, is that we should make an aggressive and unmistakable response which we can copy to other Bankers' Associations who are fighting to ensure that cavalier action is not taken against banks.

I don't know if you will agree with this view but if you do, I suggest a draft response should be prepared and reviewed by all prior to despatch.

- 3) Re: Amin Jindani, the Bank had sponsored him for Permanent Residence several months ago when he was to transfer from LACRO to USRO. The transfer did not materialize. Please phone Barcella.
- 4) I have been chosen to take the place of London Credit Committee Officials and give my deposition on Thursday. Therefore, I may be unable to reach New York until Friday night but you can reach me, care of Feroze Deane.

They don't call me Lucky Pierre (apologies to Banoun) for nothing.

Kindest regards,

(dictated by from London by Mr. B.A. Palkhiwala)

CC: Mr. Raymond Banoun - Arent, Fox, Kintner, Plotkin & Kahn, Washington, D.C.
Mr. Lawrence Wechsler - Janis, Schuelke & Wechsler, Washington, D.C.

DC 018297

BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A.

UNITED STATES REGIONAL OFFICE 220 PARK AVENUE NEW YORK NY 10022 PHONE (212) 715-2222 TELEX 432622 BCCI NY 00 FAX (212) 715-2222

MONEY LAUNDERING ALERT



Reprinted from Money Laundering Alert, August 1991
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Clifford firm served as paymaster in Tampa BCCI prosecution

Performed role before hidden BCCI interest in D.C. bank was known

From an account at First American Bank in Washington, D.C., the law firm of Clark M. Clifford, from 1988 to 1990, served as the paymaster in the Tampa money laundering prosecution of BCCI and eight of its employees.

The firm paid the legal fees of all defendants and all BCCI employees who were witnesses in the case. It also paid the fees of the accounting firm of Price Waterhouse, a number of private investigators, and others who were recruited with the firm's blessing to provide services in the Tampa case.

The firm's checks bore the legend "BCCI Legal Defense Fund."

The law firm, Clifford and Warnke, continued as bursar for the defense long after its clients, BCCI S.A. and BCCI (Overseas) Ltd., pleaded guilty to numerous money laundering charges in the Tampa federal district court.

The Clifford firm's influence in the money laundering case, which was the first time BCCI had ever faced criminal charges anywhere, went beyond the payment of fees.

Even after the guilty plea by the BCCI entities, the firm's lawyers were kept informed of discussions at periodic meetings, usually attended by more than 20 lawyers, accountants, investigators and others, devoted to coordinating defense strategies and to "damage control," as one insider puts it.

The Clifford firm was kept closely informed of the course of the trial, and of the evidence produced, by the attorneys it had hand-picked to monitor the case and to represent BCCI's employees.

The guilty pleas by the BCCI corporate entities resulted in a \$15 million "forfeiture" penalty to which the government consented. The plea agreement was roundly criticized at the time as

being too lenient on the bank.

The BCCI guilty plea also removed the opportunity for government prosecutors, in a public trial, to probe the corporate relationships of BCCI such as its then-secret control of First American Bank.

Clifford and his law partner and protege, Robert A. Altman, are stockholders of First American Bank and sit on its board of directors.

The plea also precluded chances to explore other money laundering activities of BCCI which are now coming to light.

Altman was at the apex of the team he selected to supervise the coordinated Tampa defense. Within the Clifford firm, John Covin, an attorney, reviewed and approved the multitude of detailed bills that came from the many persons hired to serve on the defense team. The payments reached the millions of dollars.

Altman's field general was Washington attorney and former federal prosecutor, Lawrence H. Wechsler, who, in turn, had two former federal prosecutors, E. Lawrence Barcella and Raymond Banoun, as his principal lieutenants. All three practice law independently and are not affiliated with the Clifford firm.

Below them, a number of independent Washington and Florida lawyers, all of them paid by the Clifford firm, performed the day-to-day services of representing the BCCI employees.

No BCCI employee, including those who were charged with crimes, was dismissed by BCCI even though the defendants had been in prison since October 1988. The accused BCCI employees were convicted in July 1990, after which they were dismissed by BCCI.

At the time of their involvement in the Tampa case it was not yet known that Clifford and Altman may have misled the Federal Reserve Board about the hidden interest which BCCI had acquired in 1981 in the offshore holding company which controls First American Bank.

The role that Clifford and Altman played in BCCI's fraudulent acquisition of an interest in First American Bank is under investigation by the Federal Reserve Board and New York County District Attorney Robert M. Morgenthau.

Clifford and Altman are stockholders of Credit and Commerce American Holdings N.V. (CCAH). That offshore company is the parent of First American Bankshares, Inc., which owns First American Bank.

In announcing a \$200 million civil penalty against BCCI last month, the Federal Reserve Board said that in 1981 Clifford and Altman represented a number of investors who were seeking to acquire an interest in CCAH. The investors said they were doing so with their own money. At the time, there were suspicions that BCCI money was illegally financing the acquisition.

At a hearing before Federal Reserve and other banking regulators in April 1981, Altman said "there is no connection between (CCAH) and BCCI in terms of ownership or other relationship."

At the time of that meeting, money laundering had not yet been made a federal offense, but the Bank Secrecy Act, which was enacted in 1970, required banks to report large currency transactions.

It is not known what investigation of BCCI, if any, was initiated by any agency of the government as a result of that encounter.

Money Laundering Alert, 1460 Brickell Ave., Miami, FL 33131 USA
Telephone (305) 530-1652 Fax (305) 530-9434

CABLE CLINEY
TELEX 80086 CLEY

TELEPHONE
FOR 020-4000

*Clifford & Harbo
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D.C. 20006*

ROBERT A. ALTMAN

DIRECT LINE 12001 000-4235

February 26, 1990

Robert F. Stoll
Bank of Credit and Commerce
International
320 Park Avenue
New York, New York 10022

Dear Mr. Stoll:

John Kavin has referred to me your letter dated February 16, 1990 concerning the payment of certain legal bills. However, we do not have authorization to pay the \$380,000.00 in fees that you have referenced in your letter from the legal defense fund that we administer.

The legal defense fund is used to pay legal expenses in those instances where we have reviewed and approved the bills that are submitted. While we had earlier agreed to review the bills sent to New York which relate to Florida, those statements were not sent to us for our evaluation. Accordingly, it would be inconsistent with our commitment to BCCI if we were to reimburse New York for the fees you paid when we have no prior knowledge of the bills, or the appropriateness of the amount.

Of course, this appears largely to be an internal accounting issue, and we would certainly remit the \$380,000.00 to the New York office if we are directed to do so by London, as we must account for all expenditures from the fund. I am therefore sending a copy

DC 018183

HN 0014

Robert F. Stoll
February 26, 1990
Page 2

of this letter to London so that I may receive advice
and direction.

I trust this is responsive to your inquiry.

Sincerely,


Robert A. Altman

cc: Mr. Swaleh Naqvi
Mr. B. A. Palkhiwala
John F. Kavin, Esq.

DC 018184

HN 0015

Privileged & Confidential

May 8, 1990

MEMORANDUM TO THE FILE

RE: Meeting with Federal Reserve Staff

A meeting was held at the Federal Reserve beginning at 6:00 PM with William A. Ryback (Deputy Associate Director, International Supervision and Applications, Banking Supervision and Regulation Division), Don E. Kline (Associate Director, Bank Holding Companies, Banking Supervision and Regulation Division), James Keller (Legal Division), and a Mr. Barnes to discuss with the staff any concerns that may have arisen following the publication of articles in Regardie's and the Wall Street Journal. In this regard, we also wished to discuss Mr. Ryback's earlier inquiry concerning any BCCI loans to First American shareholders in connection with the acquisition of Financial General by the investors, or which are otherwise of interest.

Mr. Tuttle stated that the purpose of the meeting was to answer any questions the staff might have arising from the articles, to address any issues about BCCI's relationship with First American, and to report to them current information available concerning any BCCI funding of the 1982 acquisition of Financial General. Mr. Altman reviewed a letter from BCCI President, Mr. Svalish Naqvi, a copy of which had previously

- 2 -

been sent to Mr. Ryback, advising us that BCCI had not financed the acquisition in any respect. See Attachment A. Mr. Altman further reported that follow-up letters had been sent to each of the First American shareholders requesting confirmation that the original purchases were made from personal funds and seeking authorization to review with BCCI loans made subsequently to the investors which may have been secured by a pledge of CCAH shares. See Attachment B.

Mr. Ryback indicated he was not really interested in subsequent loans from BCCI, but asked instead that we seek Mr. Naqvi's permission for Mr. Ryback to share the Naqvi letter with other supervisors. Specifically, he would like to provide a copy to the regulatory authorities overseas which apparently had first raised the matter with him. He did not identify the regulatory body or bodies. The suggestion was that by forwarding to them a copy of Mr. Naqvi's letter, he should be able "to close his file on this matter." Mr. Altman said he would contact Mr. Naqvi and request such permission; we did not anticipate any objection. Mr. Ryback will be traveling for the next 10 days or so and we should secure a response by the time he returns.

Mr. Altman reviewed our reaction to the Regardie's and Wall Street Journal pieces, and advised them of a subsequent meeting with two reporters from the Washington Post. He reported that documentation developed during the regulatory proceedings approving the applications refuted the basic

allegations in the Reardon's article as to (i) the allegedly unsavory background of the investors and (ii) the suggestion that federal and state regulatory approvals had been obtained on the basis of mere representations by legal counsel. Copies of correspondence from the N.Y. State Banking Department to Congressman Rosenthal and Congressional testimony by former Federal Reserve Board Chairman, Henry Wallich, were furnished to the Board staff. See Attachments C and D. Mr. Keller noted that the Board staff had in fact undertaken a very thorough regulatory review of the transaction, and he agreed with the assessment of the N.Y. Banking Department letter and the Wallich testimony that the review was extraordinarily comprehensive.

Mr. Altman further advised that testimony in the Tampa criminal proceedings by the government's chief witness appeared fully to rebut the Wall Street Journal contention that widespread money laundering was known and condoned at the highest levels of BCCI senior management. In fact, the testimony establishes to the contrary; such activity was contrary to clear BCCI policies and those engaged in such wrongdoing at lower levels had to keep it secret from senior management.

Mr. Altman next turned to the issue of the BCCI/First American relationship. The acquisition of BCCI by Abu Dhabi was noted (along with reported sweeping management changes) which substantially lessened the shareholder overlap between

the companies. Mr. Altman, however, advised of efforts to pursue the issue raised by Mr. Ryback and stated that identical letters had been sent to each CCAH shareholder requesting confirmation that their acquisition of First American had been with personal funds and seeking further information regarding loans, if any, from BCCI that might have been granted by a pledge of CCAH shares. Copies of the letter sent to Kamal Adham were given to the Board staff as a sample. See Attachment B. Mr. Altman reported that we had received a response from Adham (confirming BCCI had not financed the acquisition), that we were expecting more responses, and that we would be happy to provide the Board staff with such letters when they are received.

There was then discussion regarding the regulatory implications of possible BCCI loans to the shareholders (subsequent to the original acquisition) that may be secured by a pledge of CCAH shares. Mr. Altman pointed out that he had no concrete information, but had heard reports of loans by BCCI to certain shareholders in amounts ranging from \$400 million to over \$1 billion. He did not know how accurate these reports were, or what would be the purpose of any such loans. Mr. Altman further indicated that an informal, off-the-record inquiry had been made of Price Waterhouse who advised that there were loans to shareholders that appeared to be properly documented. However, Mr. Altman said he did not get any specific information. We did understand assets were securing

such loans and believed the collateral was CCAH stock in some instances. (We also noted that there were no CCAH bearer shares, and that there was no formal pledge of stock recorded on the books of CCAH.) Finally, Mr. Altman indicated his understanding that the shareholders from Abu Dhabi have never borrowed from BCCI or any other bank. We emphasized again that this information could not be entirely reliable; it was only what we had heard. In this regard, we stated that the shareholders have never advised us of their financial dealings after the acquisition was completed in 1982.

Mr. Kline expressed some interest in BCCI loans, noting that Mr. Naqvi's letter appears worded not to make representations about post-acquisition lending against CCAH shares. We agreed that Mr. Naqvi advises such loans have been made, though no security for the loans is detailed. Mr. Tuttle suggested that, even assuming that there were significant borrowings against CCAH stock by First American shareholders, the key regulatory issue is only whether BCCI is in some way exercising a controlling influence over First American. There is no legal or regulatory prohibition against borrowing from BCCI, a view apparently shared by the staff. As to this basic control issue, there can be no question that the current U.S. management of First American runs the operation and establishes and implements the Company's policies and programs. This has been the case from the beginning and has been broadly acknowledged by regulators themselves, including in the recent examination

by the Richmond Fed in connection with its review of the application to retain ownership of the Bank of Escambia, N.A. It has also been observed by state banking officials such as Commissioner Bailey in Virginia. Mr. Altman invited the Federal Reserve to audit the Company or talk to any First American senior officer if there were any questions at all on this point.

Mr. Ryback concurred in this view, and emphasized that his limited concern was only to inquire as to any BCCI financing of the original acquisition in view of information supplied him by foreign supervisory authorities. We agreed again to get permission from Mr. Naqvi to release the BCCI letter.

Following this discussion, Mr. Altman took the opportunity to advise the Board staff as to further developments regarding any possible sale or merger of First American, as well as the possible purchase by Sheikh Zaied of some small amount -- 8 percent or 10 percent -- of CCAH stock. He emphasized that such matters were still uncertain -- that no final decisions had been reached, but that he wanted the Board staff to know that such subjects were under consideration. Mr. Altman noted that the Company had received expressions of merger interest from a number of southeast regional banks which we were considering and there was some indication of interest by the Government of Kuwait (although the degree of such interest had not been made clear). Another possibility

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is that Abu Dhabi might seek to acquire the Company. Mr. Ryback lightly noted that the deals involving a southeast bank or Kuwait were preferable, given recent developments with Abu Dhabi's acquiring control of BCCI.

The meeting lasted approximately 45 minutes. It was emphasized by Mr. Altman and Mr. Tuttle that good relations with the Board were of paramount importance and that if the staff had any concerns or questions they should immediately contact us. We would endeavor to secure any information they wished to obtain.

Robert A. Altman
Baldwin B. Tuttle
J. Griffin Lasher

Attachments
00071

[Whereupon, at 6:35 p.m., the subcommittee was adjourned, to reconvene at 10 a.m., October 25, 1991.]

NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

FRIDAY, OCTOBER 25, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room SH-216, Hart Senate Office Building, Hon. John Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry and Brown.

Senator KERRY. This hearing will come to order.

If I could ask the panelists to take their seats at the panel, that would be helpful. Do we have everybody here? [Pause.]

Senator KERRY. Good morning.

The Subcommittee on Terrorism, Narcotics, and International Operations will hear this morning from Acting Director Richard Kerr of the Central Intelligence Agency and from three representatives of the State Department: Mr. Alan Kreczko, the Deputy Legal Adviser, Laurence Pope, Associate Coordinator for Counter-Terrorism, and Grant Smith, the Deputy Assistant Secretary for International Narcotics Matters.

Among the many significant questions that are raised relative to BCCI are the degree to which the intelligence community had knowledge of BCCI's involvement in this country and elsewhere and the steps that were taken to communicate that knowledge of various agencies of our government.

Questions are raised about the CIA's use of a bank that had been known at an early time to be engaged actively in an illegal ownership in this country.

The first inkling that we had as a committee that there was an intelligence community involvement with this bank was three years after the beginning of this investigation. It was then when we first learned of a CIA report from former Customs Commissioner, William Von Raab, who told my staff that Mr. Robert Gates had provided him with a report on BCCI when Mr. Von Raab requested information on the bank in the course of the C-Chase operation in Tampa.

According to Mr. Von Raab, Mr. Gates referred to BCCI at that time as the "Bank of Crooks and Criminals." Soon thereafter, Mr. Von Raab learned from a different source of the existence of intelligence accounts at BCCI.

Regrettably, there was a problem in really getting answers to the questions that we posed thereafter. We contacted the CIA twice and were informed that the report did not exist.

Two months later, after pressing significantly, the CIA "found" the report. The report was delivered to the Senate Intelligence Committee in a classified form, on the ground that it contained "extraordinarily sensitive information."

When I received the report—and I say this as somebody who respects the notion that there is incredibly intelligence-oriented, sensitive information, and it does exist—but when I reviewed the report, just as a matter of common sense and some basic judgment, I must tell you I found nothing, in my mind, in it that could be classified as "extraordinarily sensitive," let alone anything which justified it being classified at all.

It contained the revelation that the CIA knew back in 1986 that BCCI secretly owned First American and had told Federal law enforcement of that fact. That fact has since been declassified by Mr. Webster prior to his departure at my request.

In the meantime, however, the rest of that report remains classified for reasons that I must tell you, frankly, I find very hard to understand.

Subsequent to that, my staff, who were cleared at top secret level, requested a briefing of what the CIA knew about BCCI, and we were provided with briefers who were totally unfamiliar with the basic facts about the bank, including even the identity of a former head of Saudi intelligence, Mr. Kamal Adham, who was a central player in BCCI, whose name we've heard many times in the course of these hearings.

In early August, on the very day that Congress was leaving for recess, after all of our inquiries, Mr. Kerr, who is here today, appeared in public to give a speech to a group of students at the National Press Club, and, indeed, they were able to learn what we were not, which was that the CIA, itself, it made use of BCCI.

There were no questions permitted at the time. But I must say that it struck me as ironic that a group of students at the Press Club were learning, formally from the Acting Director, of this fact while a Senate subcommittee had been pressing to get some information on it for a fair amount of time.

Added to these facts is the fact that Mr. Kamal Adham, the lead shareholder in First American, apparently had a lengthy relationship with the intelligence community, and at least one other shareholder in the original takeover of Financial General Bankshares was a business partner of the former CIA Director and Ambassador to Iran, Richard Helms.

Beyond this, we have statements by the Finance Minister of Pakistan, Mr. Sartaj Aziz, who told the London "Financial Times" on July 25, 1991, that it was his understanding that the CIA made use of BCCI in his country to provide rewards to the Afghan rebels and Pakistani military officers coordinating that movement.

This past week, we have received additional testimony from an officer within BCCI who, in his sworn testimony, stated that the former head of BCCI, Mr. Agha Hasan Abedi, believed he had been targeted by the CIA. That is not a new belief by many people in many countries. But additionally, it was felt by some of the officers

working with him that there had been some sort of relationship that had been created.

Mr. Sakhia, one of the top officers of the bank in this country, also testified that he was contacted by the FBI for help in unraveling the involvement of BCCI in arms sales to Iran as part of the Iran-Contra Affair.

There are documents which we have obtained independently from BCCI that confirm a participation in planned arms deals in 1985 and 1986. While some of these deals may have been aborted, in the end, they do appear to have been negotiated with important Iran-Contra figures, like Adnan Khashoggi and Manusher Ghorbanifar, who is the arms merchant used by Oliver North and the NSC for negotiations with Iranian "moderates."

Yesterday, we learned for the first time from Mr. Altman that his bank, in fact, was a depository of the CIA, despite the fact that the CIA knew that First American was secretly owned by BCCI.

These are the connections that obviously raise questions.

Now, again, I want to reiterate—and I say this adamantly—I am not in any sense of the word an opponent of the CIA's need to have bank accounts and to maintain secrecy. This committee respects that concept, the chairman respects that concept, and I understand that there will be a need to have some testimony in private session. We will do so.

Similar questions arise with respect to the State Department. There were many signals in many different countries with respect to the "culture of criminality," as it has been referred to by the Bank of England, though the Bank of England, obviously, didn't respond to that any too soon, either. The question is whether or not in the course of State Department efforts and so forth there was some knowledge of the bank's criminality and some failure to act.

There is a propensity up here in the U.S. Congress to look at things after the fact, and it's all clear as a bell, and people make a lot of judgments about things that I am not sure any of us would have made or could have made at a particular time, without the retrospective made available.

So, this is fact finding and not finger pointing. I hope all of you will help us to understand exactly what took place here so that we can try to make some judgments down the road.

I welcome all of you here and look forward to your testimony. I understand you will have some opening statements, and after that, we can proceed with the questioning.

Why don't we lead off, Mr. Kerr, with you, if we can. Then, after your opening, I'd like to get the openings from the State Department. Then we will come back.

Does that empty chair represent the gulf between the CIA and the State Department?

Mr. KERR. No, I think it's an accident.

Senator KERRY. It's an accident, like most. All right.

Mr. KERR. Quite simply, I didn't know that we were going to have quite this array here this morning.

Senator KERRY. Well, actually, I didn't, either. But we welcome you. Thank you.

[COURT REPORTER'S NOTE: Due to an inadvertent oversight, today's witnesses, Mr. Kerr, Mr. Kreczko, Mr. Pope, and Mr. Smith, were not sworn in prior to giving

their testimony. However, following their testimony and before the close of the hearing, Chairman Kerry swore in the witnesses in a retroactive swearing or affirmation.]

TESTIMONY OF RICHARD KERR, ACTING DIRECTOR OF CENTRAL INTELLIGENCE

Mr. KERR. Mr. Chairman, thank you.

First of all, I might say just in a general comment that, as an intelligence officer for 30 years, I find myself a little reluctant in an open hearing to talk about intelligence, intelligence sources, and intelligence methods, and the information that we acquire through that process.

You pointed out, for instance, that you saw a report, or at least heard about a report, that you didn't find particularly——

Senator KERRY. Would you pull the mike a little bit closer, if you would. That would be helpful. Thank you.

Mr. KERR [continuing]. That you saw a report that you didn't find the information in particularly sensitive. I think often that is true.

But our concern is not only the information that we get, but also the way we get it. Sometimes you can get information overtly, out of a newspaper; and sometimes you can get it clandestinely. It is the sources and the sensitivity of those sources sometimes that makes the difference between how we classify and not the information that is contained in the report.

We are, and I am, responsible, and you have indicated you are clearly not trying to go beyond this process into the details of the intelligence operations. I appreciate that.

Senator KERRY. Let me just say that I totally agree. We're running into a lot of that in the MIA/POW issue. Clearly, sources indicate an enormous amount, and there is obviously a reason to keep sources quiet, to protect them, sometimes their lives, let alone the network. I understand that.

In this particular memo, it was just a summary written by somebody in the Agency, with no sources mentioned. I tried to separate that.

Mr. KERR. I understand. But sometimes it's rather difficult, and maybe it's difficult for us at times to separate the information we get from the way we get it. So we are often looking at how we get it as the sensitivity, rather than just the information.

I might also say that, in this case, it is extremely important, from my perspective, to protect sources and methods because, if I'm going, as an intelligence organization, if we are going to continue to collect against areas of importance to national security, I need to protect those sources. I mean, the very areas I'm going to talk about today are not areas that are history. They involve activities and things that are ongoing and that are very important to the future.

At the same time, one of the reasons I'm here is because I think it's important to clear the air, and I think it's important to state what CIA's and the intelligence community's involvement with BCCI was. I intend to do that as directly and as forthrightly as I can, while also trying to protect the information as best I can.

I have a statement that's going to set it out in an unclassified form. As an introduction, let me state that CIA conducted a thorough review of its activities over the past several years with regard to BCCI. We've done that from the management point of view, from our own intelligence point of view, and an independent investigation has been conducted by our statutory Inspector General.

The results of our look at this, including the report by our statutory Inspector General, were made available to the Senate and House Intelligence Oversight Committees, which are our principal funnels into the Congress. The Senate Intelligence Committee has conducted its own independent investigation of CIA's involvement with BCCI with the full cooperation of the Agency and of the intelligence community. We expect their report will support our findings on this issue and the points that I'll make subsequently.

There have been, from my perspective, a number of outrageous and unfounded allegations of illegal or improper relationships between CIA and BCCI that have been made in the press and elsewhere. I want to respond to several of those allegations directly.

But first, I'd like to provide the committee with a perspective of the Agency's foreign intelligence collection program against BCCI.

CIA's foreign intelligence collection focus on BCCI began in the mid-1980's, due to their suspected involvement in narcomoney laundering. As a result of an initial, successful, intelligence collection operation, a larger operational program was developed in the timeframe from 1986 to 1990.

This operation focused on the people, the mechanisms, and the way that BCCI laundered narcotics money.

As a byproduct of our effort against BCCI money laundering, the CIA collected limited intelligence on such things as the manipulation of financial markets, weapons proliferation, and terrorism. CIA reported in early 1985 that BCCI had succeeded in gaining control of Financial General Bankshares in late 1981. As you know, Financial General Bankshares later became First American Bankshares.

During the period from 1979 to 1991, several hundred reports were produced by the Agency's Directorate of Operations discussing BCCI's activities. BCCI was also discussed in a number of finished Directorate of Intelligence studies, analytic studies, where information about the organization was tied into larger discussions of terrorism and counter narcotics.

The CIA's intelligence on BCCI was disseminated to a number of U.S. Government intelligence consumers, including Treasury, Customs, Commerce, DEA, NSA, DIA, Federal Reserve Board, the Department of Energy, U.S. Trade Representative, the Department of State and the FBI.

They were distributed during this entire period, as information was received, as individual reports.

Now, I might add that not all of the reports went to all of the consumers. Some reports were earmarked for particular people, and some were sent to a larger number of customers. The distribution of some was rather limited.

I might also add that's one issue where we have looked back at our own dissemination and are going to try to tighten it up a bit to be a little more consistent than we have been in the past, and try

to make sure that we have a little better focus on our dissemination of reporting on issues like this in particular.

As for allegations in the media of CIA illegal or improper relationships with BCCI, let me go down those directly.

CIA did not assist or encourage, either by action or implication, any wrong-doing on the part of BCCI or its employees. CIA took no action, including withholding information, to influence or impede any existing or potential civil or criminal investigation or prosecution of BCCI. In addition to providing information concerning BCCI activities to law enforcement agencies, CIA registered no objection when it was consulted by law enforcement agencies regarding whether any CIA equities might be imperiled by an investigation or a prosecution.

To the contrary, in all the instances where the Agency was consulted, CIA responded that law enforcement action would not impact on Agency interests.

The Agency did not acquire intelligence on the decisions made by or the role played by major foreign shareholders in the operation of BCCI, including Kamal Adham and Adnan Khashoggi. I'll go back to this point in a moment.

With regard to BCCI in Panama, the Agency collected intelligence on the use of BCCI Panama by major narcotics traffickers. With regard to the plans and intention of the Chairman, Abedi, and senior BCCI management, the Agency collected and disseminated intelligence on the overall corporate strategy of illicit activity in international financial markets. The allegations that the Agency placed Abedi on a watch list or had a direct or indirect relationship with him, or recruited him for CIA activities, are baseless.

CIA was not involved with any alleged BCCI black network of thugs and assassins, as described in the press.

CIA was not involved with, nor did it have knowledge of, any use of BCCI for the sale of arms to Iran or the diversion of funds for the Nicaraguan Contras in connection with the Iran-Contra Affair.

BCCI was not a major banking mechanism used by the Agency for the support of covert foreign intelligence operations. It was used on an extremely limited basis for legal banking transactions. Accounts were also opened with the bank to facilitate acquisition of information concerning the bank's illegal activities.

BCCI management was not witting of Agency involvement in these activities. Let me say that again, because I think that's an important issue and one that we've heard some news about. That is that BCCI management was not witting of Agency involvement in these activities.

In summary, from my perspective and in our review of it, I think CIA did its job and did it well. The Agency collected and disseminated strategic foreign intelligence on BCCI's illicit foreign financial activities to policy makers beginning several years ago. CIA also disseminated that foreign intelligence through appropriate channels to the intelligence and law enforcement communities.

CIA conducted a detailed and thorough investigation of CIA's activities regarding BCCI. No evidence was found indicating any improper or illegal activity by CIA, and we feel confident that the

Senate Intelligence Committee's investigation, as I said earlier, will reach that same conclusion.

We have asked the SSCI to brief the chairman and other members of this subcommittee on its findings.

I would like to make one point that I think is important to put CIA's activities with regard to BCCI in some appropriate context.

First of all, BCCI was a target. But it's important, I think, to understand that we are not an investigative agency or a law enforcement agency. What we were interested in doing was not trying to find wrong-doing per se and trying to follow the individuals or detail their involvement. Our focus was on the activities that BCCI was involved in with regard to drug traffickers or trafficking, money laundering, terrorism, or arms deals. We were focused on larger strategic problems and issues, not on the bank itself or the individuals involved.

That's one of the reasons why, when you ask us in some of the interrogatories that you've given us for detailed information about individuals or about specific actions, we replied that in effect they were not targets of our particular collection. We were focused on a set of activities that really went beyond BCCI, but that were using BCCI as a mechanism. I think that's an important consideration.

As you've indicated, I would be glad to expand on my unclassified comments in a closed hearing in additional detail.

Senator KERRY. Well, what I'd like to do, Mr. Kerr, is get you to expand in open session a little bit on certain areas here that I think ought to be a permissible area of inquiry. As we discussed previously on the telephone, where we clearly understand that we're moving into an area that might compromise something, then we'll do that privately. But there are some things that I think we could articulate a little bit further that are raised just by your opening testimony here. I'd like to come back to it, if I can.

Who's going to lead off?

Mr. Kreczko. Am I pronouncing that correctly?

Mr. KRECZKO. Yes.

Senator KERRY. Would you just state your name and who you are for the record and go right ahead.

TESTIMONY OF ALAN KRECZKO, DEPUTY LEGAL ADVISER, DEPARTMENT OF STATE

Mr. KRECZKO. Thank you, Mr. Chairman.

I'm Alan Kreczko, Deputy Legal Adviser at the State Department, and I'm pleased to introduce the Department's testimony concerning the foreign policy implications of the Bank of Commerce and Credit International scandal.

As we emphasized in prepared statements submitted to this committee in August, the State Department has viewed this matter from the outset of the revelations of BCCI's control of First American as one properly conducted and controlled by law enforcement and bank regulatory officials.

The Department has undertaken to cooperate to the fullest extent in assisting the various investigative efforts of the Federal Reserve and the Department of Justice. With the continuing support of our embassies and consulates abroad, the Department regu-

larly provides direct assistance to the Federal Reserve and to the Justice Department in connection with their respective investigative efforts. Questions concerning the conduct of those investigations would need to be put to the law enforcement agencies involved.

The committee has sought the Department's views on the foreign policy implications of the BCCI scandal. We will try to be fully responsive to the committee's questions.

Of course, our assessments are preliminary, since various domestic and foreign investigations are still underway, and the full extent of the implications of this case may not have been disclosed. Moreover, an extraordinarily wide range of allegations has been made concerning BCCI. While the Department has conducted a review of its own files, we are not an investigative agency and have never been involved in foreign investigations of the various accusations that have been leveled against BCCI and its officers.

I am accompanied today by several Department representatives, who will address areas that the committee has indicated to be of specific concern. Sitting at the witness table with me are: Grant Smith, Deputy Assistant Secretary for International Narcotics Matters, who will testify as to what the Department knows about BCCI's role in narcotics operations and money laundering; and Laurence Pope, Associate Coordinator for Counter-Terrorism, who will testify as to what the Department knows about BCCI's role in terrorism.

Sitting behind me and available to answer questions as to what the Department knows about the foreign policy implications of the BCCI scandal in particular regions of the world are: Richard McKee, Director of the Office of Arabian Peninsula Affairs, and Roberta Jacobson, Deputy Director of the Office of Policy Planning and Coordination in the Inter-American Bureau.

Mr. Chairman, before turning to these individuals to address specific areas in detail, I would like to provide a general overview.

First, as I've indicated, the Department has reviewed its records for material related to BCCI. The Department has relatively few records which pertain to BCCI from the 1970's or early 1980's. We have some reporting from the late 1970's on the establishment of BCCI branches in various countries. We have also located a 1978 biographical sketch of Abedi, which noted that BCCI engaged in "questionable, if not illegal" activities, referring to BCCI's effort to acquire Financial General Bankshares.

In 1983, we received a request from New York State authorities for information about BCCI when BCCI sought to establish an agency office there. We solicited the view of our Embassy in Luxembourg and specifically asked for any comment on trafficking in arms or controlled substances.

Our embassy in Luxembourg responded at the time that BCCI was a prominent and reputable financial institution. Thus, our records from this period contain very little suspicious material about BCCI.

This situation changed markedly in the mid-1980's, when the Department became aware of BCCI's involvement in money laundering and terrorism. Mr. Smith and Mr. Pope will explain, subject to

classification considerations, what the Department knew and how it responded.

With respect to the foreign policy implications of the BCCI scandal, I would distinguish between the implications of our law enforcement actions on U.S. bilateral relations with the key countries concerned, and the effects of the BCCI scandal itself in various countries and regions.

As to the former, U.S. law enforcement actions have not, to date, had a negative impact on bilateral relations with the key countries affected.

Our relations with the United Arab Emirates remain very good. We have explained to the government that our actions are motivated solely by our efforts to enforce the law, and the United Arab Emirates has indicated from the outset its desire to cooperate with U.S. investigators. An investigative team from the Federal Reserve was received in Abu Dhabi last spring, and the UAE Government subsequently made available a large number of BCCI documents to the Federal Reserve.

More recently, the UAE Government has received a team from the Department of Justice.

In Pakistan, the initial public response was that the actions taken by the U.S. and the U.K. were politically motivated and reflected anti-Muslim sentiment. However, as the breadth of the scandal has been revealed, Pakistani depositors have shifted blame to BCCI itself.

There has been extremely close collaboration with the United Kingdom, particularly between the Federal Reserve and the Bank of England. There was the potential for a serious foreign policy dispute with the United Kingdom when the House Banking Committee subpoenaed the Federal Reserve for documents provided them in confidence by the Bank of England. Fortunately, an accommodation was reached with the Bank of England concerning congressional access to certain of those documents.

However, we remain concerned that the issuance of the subpoena could have an adverse impact on the willingness of countries to cooperate in connection with subsequent U.S. investigations.

The Department has also monitored more generally the impact of the BCCI scandal in countries across the globe. While the precise dimensions of the impact cannot be assessed until the various domestic and foreign investigations of BCCI are completed, we foresee the following: damage to the economies of certain countries; international legal tangles over regulatory jurisdiction, bank confidentiality, and the disposition of the BCCI group's remaining assets, perhaps prompting reassessment of laws and regulations governing international banking; and, in certain countries, adverse political fallout.

While our analysis is necessarily preliminary at this stage, we can make a few observations on the current situation.

The political fallout within Europe from the BCCI scandal has been primarily limited to the United Kingdom, where the government's oversight of BCCI has become a domestic political issue. The political impact in other European countries appears marginal.

The scandal appears to have had limited political or diplomatic impact in Africa. However, the economic consequences in Africa

could be considerable. According to press reports, Cameroon, Zimbabwe, and Zambia together could lose up to \$200 million in assets. The BCCI shutdown could also adversely affect business activity in the Sudan, Botswana, Sierra Leone, and the Ivory Coast.

In Latin America, the impact appears to be primarily political, rather than economic, with governments opening investigations on BCCI activities and possible political corruption in Argentina, Peru, and Jamaica.

In East Asia, local depositors have been hurt by the closing of numerous BCCI branches. The decision of the Government of Hong Kong to liquidate the Hong Kong branch of BCCI led to angry protests, but it does not represent a major blow to the Hong Kong financial system.

In the Arabian Peninsula and South Asia, some have chosen to see imperialist and Zionist motivations behind the West's attack on what is popularly viewed as a successful Muslim and Third World bank. In the United Arab Emirates, there is no evidence the scandal has eroded the hold on power of the rules of Abu Dhabi or their popular base of support. The bank's failure may, however, create certain cash flow problems for the UAE.

The ramifications in Pakistan will depend, in part, upon what is confirmed of the press allegations that BCCI operated an arms and drug smuggling operation from Pakistan.

Closure of BCCI's four branches in Bangladesh will adversely affect its 70,000 individual depositors.

The impact of the BCCI scandal on terrorism and narcotics trafficking will be limited. Although there may be temporary disruptions of some financial flows, most terrorist groups and drug traffickers will probably be able to redirect funding transfers through other institutions. Over the longer term, however, the scandal may lead international banks to be more scrupulous about their banking practices.

With these introductory comments, Mr. Chairman, I would ask Mr. Smith and then Mr. Pope to comment in more detail on BCCI's role in money laundering and terrorism respectively.

Thank you.

Senator KERRY. Thank you very much. Mr. Smith.

TESTIMONY OF GRANT SMITH, DEPUTY ASSISTANT SECRETARY, INTERNATIONAL NARCOTICS MATTERS, DEPARTMENT OF STATE

Mr. SMITH. Good morning, Mr. Chairman.

I am Grant Smith. I have been Deputy Assistant Secretary in the Bureau of International Narcotics Matters in the Department of State since October 11.

My predecessor, Parker Borg, outlined in his statement in August what we know about BCCI and actions we have taken to deal with narcotics money laundering.

I'd just like to draw a few comments from that statement.

First, it is important to note that, while the State Department plays an important role in money laundering policy formulation, it is not the lead agency in implementation. We cooperate, however, on a day-to-day basis with those which have the lead on implemen-

tation: Justice, Treasury, the Drug Enforcement Administration, Customs, and other agencies.

The information we have received is often based on the outcome of successful cases by those law enforcement agencies.

As a result of growing administration concern and congressional concern about narcotics money laundering, we decided to add a specific money laundering chapter in our annual International Narcotics Control Strategy Report, or INCSR, beginning with the March, 1988, report. The 1991 report contained a money laundering chapter of 63 pages, with detailed reports covering 122 governments.

The 1989 INCSR provided 13 paragraphs of discussion of the charges against BCCI and its officers resulting from one Customs operation. Followup reports on this investigation of BCCI were provided in the 1990 and 1991 INCSR reports.

What are the factors which made BCCI suitable for money laundering? Setting aside those instances where BCCI managers knowingly promoted money laundering, BCCI seemed attractive to traffickers for the same reasons that other banks have been found attractive.

First, traffickers seek international banks that are sophisticated in wire transfers, that have branches in those parts of the world where they operate, and which permit quick retrieval of funds.

Second, traffickers seek banks in those countries where national banking laws afford maximum secrecy to depositors, permit nominee accounts, and do not provide for close monitoring of cross border transactions or currency movements. These are lessons which we have learned over the past few years.

I would now like to focus on some of the actions we have taken to restrict narcotics related money laundering.

Working bilaterally and through multilateral organizations, the United States has become a leader in the effort to expand the global consensus on good banking practices to prevent narcotics money laundering. Cooperation between the financial and enforcement communities in many governments has improved considerably.

This has been influenced by the ratification of the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the Vienna Convention, the adoption of the recommendations of the Financial Action Task Force, the approval of the European Community's new policy directive, and other commitments, and especially by the deliberations which led to the drafting and approval of these international accords.

In accord with the Vienna Convention and the Financial Action Task Force recommendations, numerous countries have adopted or are now deliberating on provisions which criminalize money laundering, regulate the flow of currency and monetary instruments, mandate records of currency and other monetary instrument transactions, require declarations of beneficial owners of accounts, and compel disclosure of suspicious transactions.

The challenge, however, is becoming more complex. As we noted in our 1991 report, we are detecting money laundering schemes involving a second tier of countries which were not of major concern to us 3 years ago. Traffickers, and more particularly their profes-

sional money managers, are actively seeking those countries and territories where there are central banks with minimal capabilities, financial systems with limited controls on foreign exchange, and restrictive bank secrecy practices. We are responding by extending the dialog throughout the world.

While compliance with the Vienna Convention and the Financial Action Task Force recommendations will remain high priorities, the challenge for the future will also include the application of these same standards to nonbank financial institutions.

We need to work to tighten requirements for incorporating or licensing businesses which might engage in financial transactions or make use of bearer shares or certificates. We need to develop means to regulate exchange houses and other traditional family financial systems, which are at the core of financial exchanges in many developing countries around the world.

In summary, Mr. Chairman, we have been aware of BCCI's involvement in narcotics money laundering for several years and have indicated that awareness in our reports to Congress. Working with officials at Justice and Treasury, we have formulated recommendations for the Financial Action Task Force and other multilateral organizations, as well as for use in our bilateral negotiations with other financial center countries on cooperative countermeasures.

We have made important progress in the last few years, but there is a lot more to be done.

Senator KERRY. Thank you very much, Mr. Smith. Mr. Pope.

TESTIMONY OF LAURENCE POPE, ASSOCIATE COORDINATOR FOR COUNTER-TERRORISM, DEPARTMENT OF STATE.

Mr. POPE. Thank you, Mr. Chairman.

Mr. Chairman, I am Larry Pope, Associate Coordinator for Counter-Terrorism for the State Department.

On August 1, Peter Burleigh submitted a prepared written statement for the record. His statement summarized the links between BCCI and terrorism as follows.

In 1986, the intelligence community developed and disseminated information that linked the Abu Nidal organization and its activities to a BCCI branch in Europe through the use of front companies. The ANO traded profitably—

Senator KERRY. What's the date on that, again? I'm sorry?

Mr. POPE. 1986, sir.

Senator KERRY. 1986.

Mr. POPE. The ANO traded profitably and successfully in weapons, construction services, and other business enterprises. Based on the information developed by the intelligence community, we launched a major diplomatic effort to have the concerned governments, which included the previous communist regimes in East Germany as well as Poland, expel the ANO personnel responsible for these businesses and to close down the companies themselves.

The efforts we made with other governments to disrupt the ANO's commercial activities were successful. The business front companies that financed a major portion of ANO's activities have been shut down. Since the August 1 hearing, the full report pre-

pared in 1987 on the ANO front companies on which Mr. Burleigh's statement was based has been declassified. Copies of that report have been provided to Subcommittee staff.

We have continued to review the available information with regard to BCCI's connections to international terrorism. We have not uncovered any information indicating that the ANO or any other terrorist group received financial backing from BCCI.

In a few instances, terrorist groups other than the ANO and one state sponsor of terrorism maintained accounts with BCCI branches. I regret that I'm unable to be more specific in a public hearing.

Mr. Chairman, at the request of the committee staff, we have also looked into the allegations which have been made in the press about Mr. Mohammed Hammoud, a Lebanese businessman and shareholder in BCCI, who died last year, with regard to his possible links to terrorist groups like Hizbullah. We do not have information which would support these allegations.

Subcommittee staff has also asked about a possible connection of the Qassar brothers to BCCI. Mondher and Ghassan Qassar have been notorious for their involvement in an arms and narcotics smuggling network which has provided revenue for the operation of several terrorist groups, including the Abu Nidal organization.

The white paper, which we have made available to the committee, discusses their activities in detail and their close connection to the business activities of the ANO, which we worked successfully to breakup.

We also know that the ANO had a banking relationship with BCCI. But we are not aware of evidence linking the Qassar brothers to BCCI directly, although this is plausible given their connections to the ANO.

As investigation into BCCI affairs by appropriate law enforcement agencies here and overseas continues, we may learn more. We will continue to followup any leads aggressively from the counterterrorism point of view.

Thank you.

Senator KERRY. Thank you very much.

Let me begin, if I can, well, let me sort of run across the board here.

First reports of the State Department on terrorism were in 1986?

Mr. POPE. First reports of the connection between BCCI and the Abu Nidal organizations.

Senator KERRY. Were in 1986?

Mr. POPE. That's correct, sir.

Senator KERRY. And drug involvement, money laundering, first knowledge?

Mr. SMITH. Actually, first knowledge was in 1987, from an investigation which was then underway and which was mentioned in our 1988 report without giving the name of the bank. We were able, in the 1989 report, to mention BCCI specifically.

Senator KERRY. Well, that was publicly. You had no other knowledge of their involvement in money laundering or drug activities prior to that, even with the existence of five or so branches in Medellín?

Mr. SMITH. We would have seen the earlier reports. But the specific details were provided by the investigations which were underway in 1987.

Senator KERRY. So you relied on the law enforcement investigations for your knowledge?

Mr. SMITH. That was the primary source of our knowledge. Yes, sir.

Senator KERRY. You didn't gain it through State Department personnel in Colombia?

Mr. SMITH. No, sir.

Senator KERRY. You didn't gain it from State Department personnel in Panama?

Mr. SMITH. No, sir.

Senator KERRY. Or any other Latin American countries?

Mr. SMITH. No, sir.

Senator KERRY. There have been no reports, no cables, no information whatsoever in the State Department about banks' involvement in money laundering prior to that?

Mr. SMITH. I believe we've done a complete search of our files and this is what we've come up with, sir. We can check again if you wish. But we have conducted a search.

Senator KERRY. Well, if you're convinced you've done a complete search, I don't want you to—I mean, if you've done a complete search—and I see heads nodding—I take it at face value that that's when you had your first reports.

Mr. Kerr, what circumstances led to the CIA becoming interested in BCCI originally, do you know?

Mr. KERR. Well, Senator, as I indicated earlier, we had an operational lead early on in the mid-1980's that led us to focus on it, that identified it with money laundering. So that initial focus turned around the issue of narcotics money laundering, and that provided the impetus for the future focus of collection, which led to a variety of others.

Senator KERRY. And that began in the early 1980's?

Mr. KERR. In the—do you know precisely? [Pause.]

1983-84 would be the timeframe.

Senator KERRY. So in 1983-84, you were gaining information regarding money laundering. Who did you disseminate that information to?

Mr. KERR. We'd have to go through specific reports. But, generally, our dissemination list, as I indicated, included the intelligence community, State Department, the FBI, Treasury, and because area of narcotics, obviously to those organizations involved in counternarcotics in this country. So it's tailored by our distribution. It's to some degree tailored by the nature of the reporting with terrorism going to one set of customers, narcotics information going to another, and banking information going to another.

Senator KERRY. Each and ever one of those activities would have involved breaking the law, is that correct?

Mr. KERR. I'm sorry? Each activity?

Senator KERRY. Well, each of those activities represented legal infractions, didn't they—money laundering, drug smuggling, terrorism?

Mr. KERR. My assumption is that some of those clearly would involve the breaking of U.S. law. Others would involve breaking internal, local laws of foreign countries. So there's probably two different kinds of laws being broken. We obviously have obligations within the intelligence community when U.S. laws are broken to pass that information to Justice and to our own law enforcement agencies. We don't have a similar obligation, obviously, when foreign laws are broken.

Senator KERRY. Agreed.

You made a judgment that in 1985, you said in your testimony, you issued a report that since 1981, BCCI owned First American. Is that accurate?

Mr. KERR. I think that's a correct statement. Yes.

Senator KERRY. And in 1985, when you made that judgment, to whom did you disseminate that information?

Mr. KERR. Principally to Commerce and to Treasury, although our understanding is the Comptroller of the Currency was informed by Treasury.

Senator KERRY. Was Justice informed?

Mr. KERR. I don't believe on that particular report; it was not informed.

Senator KERRY. Was DEA?

Mr. KERR. DEA? I doubt if it was because that was not, again, a narcotics issue. It was a banking issue, as we would see it.

I think in this case we would see as Treasury our principal customer in the United States intelligence community.

Senator KERRY. Was the Fed Reserve?

Mr. KERR. No.

Senator KERRY. The Fed was not informed?

Mr. KERR. No. My understanding was it was not.

Senator KERRY. Is there any reason that the Fed would not be informed that a bank was illegally owned in the United States?

Mr. KERR. Our assumption at this point in time I believe was—and it's hard going back that long to know exactly why a report. We have two issues, though: the first is the sensitivity of the sourcing of the information, and the second was that Treasury, again, was our, what we believed to be our principal customer on information of this sort. And our arrangements, by the way, with Treasury, as with State and with others, is that we have an intelligence component or an intelligence organization that is essentially counterpart organization in each of those organizations that we deal with.

Senator KERRY. Now, in retrospect, does this compartmentalizing and source issue confront us with a dilemma with respect to the other interests that the banking community might have had?

I mean, here you have Messrs. Clifford and Altman now hauled before committees and investigations. You have serious issues about the impact on other countries of what has happened, as testified to by the State Department. You have millions of small depositors who have been affected, not to mention a lot of businesses and so forth, as a consequence of BCCI being able to continue to do what it was doing.

Now, you had knowledge in 1985 that, since 1981, First American, by the judgment of the CIA, was "owned by BCCI."

Messrs. Clifford and Altman are saying they didn't know that. Where do you wind up with respect to a responsibility in terms of the banking laws of this country and the interests of the financial regulators being able to enforce that law and guarantee the soundness and safety, if you will, of the banking structure?

Mr. KERR. Well, it's easy in hindsight to make judgments about what the CIA should have done, given the way things have developed. Obviously, if we had that kind of hindsight, we might have done it differently. However, at that time, I think we saw Treasury as our principal customer. We understood Treasury informed the Office of the Comptroller of the Currency. To us, that was a very specific and direct responsibility.

Senator KERRY. So, in other words, you would say that you feel you informed the people who needed to be informed——

Mr. KERR. Yes.

Senator KERRY [continuing]. And they should have done something with it?

Mr. KERR. You'll have to ask them about their own view of that and the context they placed it in and their subsequent view of it.

But, even in hindsight, I think that was the appropriate customer for us. In hindsight, if we had added the Federal Reserve on, that probably would have been useful for this hearing and we would have been able to demonstrate dissemination to one more customer, and it might have been useful at that point in time. But, again, our perspective on that was that Treasury would be the logical place to receive the information.

Senator KERRY. I understand.

In retrospect, does that mean that there should be a broader dissemination list? Does it mean there should be a stricter set of guidelines as to how that kind of information is used from now on?

Mr. KERR. As I've indicated to you, we are looking at our own dissemination practices to see if we can make sure that we do disseminate our product to the right person. It's a continual drama, after all to know who's involved in what issue over a wide range of subjects. You can always improve that, and we are taking steps to improve it.

One of the difficulties I think it's important to recognize is that, as intelligence officers, while we have some reasonable insight into a lot of issues, we do not necessarily have full insight into necessarily what breaks the law in terms of banking, or the details of banking regulations. We really have to count on others to provide that detail.

We have, obviously, an overview of that and have some sense of what is legal and illegal. But when you get into the fine points of the acquisition of holding companies, you begin to go beyond our expertise, and also, as I said, we are not an investigative unit. We are essentially collecting intelligence for a very specific purpose. That purpose, quite simply, in this case was primarily, again, aimed at the illegal activities that BCCI was involved in—narcotics money laundering, terrorism, support to terrorism, and other activities such as that.

Senator KERRY. Well, how many reports would you say that you——

Mr. KERR. Several hundred.

Senator KERRY [continuing]. Disseminated through the community? Several hundred reports?

Mr. KERR. Yes. During this timeframe, we disseminated several hundred.

Senator KERRY. And these several hundred reports referred to?

Mr. KERR. Primarily in the narcotics area, in terrorism and in other reports of other kinds of activities, arms transfers and reports of—

Senator KERRY. When did you first start sending reports of terrorist activities?

Mr. KERR. Let me ask for specifics. [Pause.]

1986, I'm told, is the first report on terrorist activities.

Senator KERRY. When did you send reports with respect to narcotics activities?

Mr. KERR. That would go back into the earlier timeframe, probably back in—would that be back in 1983? [Pause.]

From 1984 on.

Senator KERRY. And when did you send reports with respect to, the first report, I take it, with respect to the ownership issue, was 1985?

Mr. KERR. That's right, early 1985.

Senator KERRY. So, in 1984-85, you began generating a fair amount of traffic on this issue, is that fair to say?

Mr. KERR. That's fair to say. We began at that point in time.

As I said earlier, we had an operational lead that led us to a focus, led us to focus our attention. As you might expect, we're a worldwide organization that has a lot of interests. And so, we tend, if we pick up a lead or a particular activity, then we focus some additional resources on it. But we are spread very thin when it comes to looking at all activities of everyone, everywhere.

Senator KERRY. Now, in your opening statement, you did mention that you provided information to the Fed. What kind of information was that?

Mr. KERR. Well, we have provided information and they are on our dissemination list for some products.

Senator KERRY. With respect to BCCI particularly.

Mr. KERR. I believe they were on dissemination lists for a subsequent report. [Pause.]

They got reporting, but not the initial report, though, in 1985.

Senator KERRY. Did they in any of the subsequent reports receive notice about the ownership that you reported in 1985?

Mr. KERR. I believe so. Yes.

Senator KERRY. You do believe so?

Mr. KERR. Let me ask Ted Price, who can be a little more specific.

Senator KERRY. OK.

Mr. KERR. He was saying we did not provide specific information to the Federal Reserve on the ownership issue.

Senator KERRY. Why did the CIA choose to use First American as a depository when it knew it was controlled by BCCI?

Mr. KERR. I assume the same reason a lot of other people used it, as a normal bank. It was used to transfer money to hold accounts, savings accounts, and other activities for us. But it is not a, it is

not an operation, used operationally. It was used as a repository for normal banking.

Senator KERRY. So the fact that you were generating reports on terrorist activities, the fact that you were generating reports on narcotrafficking activities, the fact that you had an illegal ownership situation didn't give you any alarm bells about using this—

Mr. KERR. But be specific about that, Senator, and that is our information was not on First American, what you just described. Our information about that activity, terrorism and counternarcotics, was on BCCI. We do not, number one, collect intelligence on domestic organizations, and we did not see—

Senator KERRY. You do not do that now, right?

Mr. KERR [continuing]. We did not see a link in terms of the activities of First American. In other words, we had no reason to suspect First American of any of the things you just described.

Senator KERRY. And so, the fact that First America was, according to your determination, owned by BCCI didn't matter? You considered it a separate entity?

Mr. KERR. I don't think that was a consideration in terms of our own banking activities domestically. No.

Senator KERRY. Now what about, I take it the CIA was aware that President Carter traveled to China, traveled to other countries in the presence of Mr. Abedi on a BCCI airplane.

Mr. KERR. I wouldn't assume that. Obviously, we'd know where President Carter was going just from reading the news. But I'm not sure we had identified particularly, you know, the mode of his travel or his association. Again, we don't collect intelligence on our former Presidents or U.S. citizens.

Senator KERRY. If a President of the United States—well, I take it you had an interest in the bank. I mean, you've said that.

Mr. KERR. Certainly.

Senator KERRY. Correct?

Mr. KERR. Yes.

Senator KERRY. And you were watching the bank very carefully, correct?

Mr. KERR. Again, I would say, though, it's very important to say we were watching it in terms of very specific objectives. We were not watching it as a financial institution. We were not watching the leadership in terms of its movements or its activities.

What we were watching, or what we were trying to do is collect information that we felt from our perspective, affected the national security interest—I go back to that. That was the focus.

Senator KERRY. Was it of national security interest to you that this bank might be trying to gain a foothold in the United States in order to further specific Third World or Pakkistani interests?

Mr. KERR. It was sufficiently of interest to us that we provided that report to Treasury in the 1985 timeframe.

Senator KERRY. If that is of interest to you, wouldn't it be rather important to you to evaluate what Mr. Abedi, the head of that organization, might be doing with a former President of the United States?

Mr. KERR. I don't think so. I think that would be, I'm not sure those two are logically connected and I'm not sure we did.

I wouldn't, personally.

Senator KERRY. Would you not have been concerned about this bank that you knew was involved in narcoterrorism, knew was involved in terrorism itself, and that you knew had an illegal ownership, that it was openly appealing to the many interests in this country? Did that get relayed to anybody?

Was there any flag raised saying people ought to be notified here that this is not a good bank and they're getting sucked in?

Mr. KERR. No. Let me go back again.

I said we had several hundred reports that we provided on that general kind of activity. It seems to me that is our obligation, to provide the information to the appropriate organizations and to consistently continue to collect, and we did exactly that.

Senator KERRY. Did you notify those people who could have brought legal action against this bank for its activities?

Mr. KERR. We provide information to our oversight committees and to the Congress on a wide range of things, and to the principal executive organizations involved in law enforcement and intelligence, and in policy. I think that is our obligation, and we did precisely that.

Senator KERRY. Did several hundred reports go to law enforcement?

Mr. KERR. I don't know the precise number, but certainly a large number went. Of that, certainly several hundred were disseminated. I would say most of, many of them, depending, again, on the subject, would go to DEA, to the FBI, which is our principal conduit for intelligence, and to other intelligence organizations and then to policy organizations.

Senator KERRY. Could you, Mr. Kerr, provide the committee with a categorization of those reports, a breakdown of who the reports went to and what reports went to people over the period of that time?

Mr. KERR. I don't see why we cannot do that. It seems to me that's appropriate.

Senator KERRY. I think it would be helpful for us to understand that.

Mr. KERR. We'll provide a general characterization of the number, of roughly the numbers in closed testimony.

Senator KERRY. Is there any reason that the committee couldn't have the reports submitted to 207?

Mr. KERR. I'd prefer not to do that. But we can talk about how we might do that. Our problem with disseminating individual reports is we come very close to a sources and methods problem.

Senator KERRY. No, no, no. I'm not talking about disseminating. Could we put them in the intelligence safe over there, so that I, at least with code clearance, could review them?

Mr. KERR. I'd be glad to pursue that with you, sir, and work out some arrangement.

Senator KERRY. Is this going to be one of those long pursuits, or can we? [General laughter.]

Mr. KERR. Well, I would rather—I'd like to look carefully at what we are talking about and how we are going to do that, and talk to our oversight committee about it, and then let us pursue that, certainly.

Senator KERRY. Well, let us pursue that.

Mr. KERR. Let us pursue it.

Senator KERRY. We will pursue that.

Mr. KERR. My problem with that, if I might add, is that we would be glad to characterize them for you. We'll be glad to give you a briefing on them. We are a little hesitant when it comes to providing access to individual, raw reporting that describes sources and—

Senator KERRY. Well, you have provided it to each of these Departments.

Mr. KERR. Yes; individually, yes.

Senator KERRY. Correct?

Mr. KERR. Yes.

Senator KERRY. So if they can get it, I believe the U.S. Senate can get it. Is that fair?

Mr. KERR. Fair. A U.S. Senator can. We will talk further about it.

Senator KERRY. Thank you.

Now, what did you learn about BCCI's involvement in the facilitating of drug trafficking or drug money laundering?

Mr. KERR. I think it's difficult to go much further into this area except to repeat what I said earlier, and that is that we did learn that there were, in a number of countries, as my colleagues here said that BCCI branches were facilitating the introduction of large sums of money out of the narcotics business into the banking system.

Senator KERRY. In how many countries would you say that was taking place?

Mr. KERR. I would defer. Earlier, I heard the number that you gave. I don't have a precise number.

Mr. SMITH. We have a number of ten, which is drawn from investigations conducted by the investigative parts of the U.S. Government.

Senator KERRY. When did the CIA learn about BCCI's involvement in financing international arms trade?

Mr. KERR. A specific date I don't know. There are only a few reports of that. That is not an extensive body of information, and I don't have—let me ask—I don't have a precise date. But we certainly can provide that date to you, Senator.

[The information referred to follows:]

The CIA advised the subcommittee on November 22, 1991, that the date the CIA learned of BCCI's involvement in financing the international arms trade was 1987.

Senator KERRY. Do you recall how many instances or how significant the arms trafficking information might have been?

Mr. KERR. I think that, again, I can characterize it a little better in a closed session, but let me just take a stab at it and say that those are indirect, and what you have are activities on the part of a bank official to move weapons or to facilitate the movement of weapons between two countries. So it is a facilitating role.

Senator KERRY. But you did learn the bank was involved in that facilitating role?

Mr. KERR. Yes, we did.

Senator KERRY. Fine. I think that's the key.

What did you learn about BCCI's involvement in the handling of finances of terrorist organizations?

Mr. KERR. Again, I think the characterization we had earlier was that that is somewhat indirect. Probably, again, I'd prefer, because of our continuing interest in this area, to not detail it. But it is primarily, again, as front men for activities on the part of terrorists and helping them with their own front companies primarily in funding mechanisms for terrorism.

Senator KERRY. Did you learn and are you able to state how widespread that was within the bank structure itself?

Mr. KERR. I think it would be fair to say it was not—I mean, our knowledge of it was certainly not extensive. It's rather limited.

Senator KERRY. Fairly narrow—

Mr. KERR. Yes.

Senator KERRY [continuing]. To the top echelon, so to speak, to a narrow group of people?

Mr. KERR. Well, it's limited to a specific number of very few branches and to a very specific number of organizations. I think it would be unfair—

Senator KERRY. Fair enough.

Mr. KERR [continuing]. To characterize it as widespread and extensive.

Senator KERRY. That's what I'm trying to get at. That's fair.

What about knowledge of involvement in the movement of prohibited technologies to countries who weren't able to get those technologies on the open market?

Mr. KERR. My own view of that—and I'll have to ask the people behind me who know the details—I don't think there is specific evidence in the technology area. There's clearly evidence of material or weapons that were not, that would not have an appropriate end user, that would not be appropriate. But I don't know of a technology issue. [Pause.]

Senator KERRY. Did you want to add?

Mr. KERR. That's accurate.

Senator KERRY. Did you learn anything about BCCI's involvement in making bribes or payoffs, or any other forms of payments to foreign political leaders or heads of state or other high-ranking officials?

Mr. KERR. I don't think we have specific information on that, direct information.

Senator KERRY. So there were no reports with respect to any of those matters contained in these reports you made, these over 200 or so reports?

Mr. KERR. There is certainly a small number that talk about corruption or kind of sharp practices and ways to avoid local taxes—I mean, in that sense. But I think that would be the nature of the kind of reporting.

Is that fair? [Pause.]

Mr. KERR. That's, I think, a fair description of it. I think of the kind you are talking about, the kind of issue, I would say no.

Senator KERRY. Did the CIA learn anything about specific services provided to the Government of China by BCCI?

Mr. KERR. No.

Senator KERRY. Did you learn anything about the involvement of BCCI in the acquisition of proscribed technologies for Iraq?

Mr. KERR. Again, I think there is some evidence of arms——

Senator KERRY. Through BCCI?

Mr. KERR [continuing]. Through BCCI using a front. There is some, I know, specific. But I think an arms, this is not major high technology.

Senator KERRY. What did the CIA learn with respect to the relationship with Manuel Noriega and Panama?

Mr. KERR. On that issue, I think it would be inappropriate, given the nature of the trial; the Justice Department would prefer me not to talk about issues that involve Noriega.

I think that's probably appropriate guidance for me.

Senator KERRY. Can you perhaps at least confirm to the committee that you, through those, that in those reports to other agencies, there were reports of involvement?

Mr. KERR. What I can say is we did collect on involvement between BCCI, obviously, in Panama and the use of BCCI Panama by major narcotics traffickers. I don't think you can, I don't think you can, in fact, carry that statement beyond that, too specifically to Noriega.

Senator KERRY. I won't. We can take that up in private session. But I just want to establish, and I think it's important to do so on the record, that you gained information about that.

What about BCCI's activities in Colombia, including involvement with drug traffickers and government officials there?

Mr. KERR. Again, there is reporting on drug trafficking in Colombia, and the use, as I described earlier, of BCCI as an entry point for laundering money.

Senator KERRY. What about BCCI services provided to the Government of Pakistan?

Mr. KERR. I don't have specific information on that, on the Government of Pakistan. I don't think there is specific intelligence that would support that.

Senator KERRY. Can you share with the committee what the CIA learned about BCCI's secret purchase of First American in Washington?

Mr. KERR. I cannot do much more than I described to you earlier, and that is that in early 1985, we provided, we had information indicating that BCCI had acquired the holding company as early as 1981, and we provided that information in report form. But we have very little other to say about that. In fact, there is very little more to say about that. We got subsequent information on that issue later, but it did not change the fundamental report of 1985.

Senator KERRY. How would you describe the nature and extent of the agency's use of BCCI for its operations?

Mr. KERR. We used it as a normal bank to move money with accounts in that bank. As I said, we used it. Those accounts were associated with lawful and authorized activities that have been briefed to our oversight committees. So there's nothing that we were doing that they were not aware of.

We also used it as an access mechanism to collect against the bank itself. The amounts involved are relatively small, are quite small relative to the size of the bank and to our own activities.

Senator KERRY. How many accounts would you say there were, Mr. Kerr?

Mr. KERR. I'd rather not specify them, if I can. But there were not very many.

Senator KERRY. Did BCCI employees know of that?

Mr. KERR. No, they did not.

Senator KERRY. No employees anywhere in BCCI were aware of this?

Mr. KERR. No. Officials in the bank were not aware of the use that we were putting the accounts to.

Senator KERRY. Was that true initially of First American also?

Mr. KERR. Well, First American is quite a different matter, after all, a U.S. bank with domestic accounts where—

Senator KERRY. Oh, I understand. I'm just curious.

Mr. KERR. Certainly, they knew that there were ACI accounts. First American did. I mean, they are open, acknowledged accounts. Is that fair? [Pause.]

Some of them are.

Senator KERRY. Now you say that under no circumstances, you have said that First American was a target?

Mr. KERR. Yes.

Senator KERRY. And BCCI became a target when?

Mr. KERR. The mid-1980's, 1983, I think. Yes.

Senator KERRY. So, given Mr. Abedi's contacts within the intelligence community or given his perception that something was happening with respect to his bank—i.e., I think he felt that people were following him, questions were being asked of people, somehow there was an interest in the bank—it would not be inconsistent for him to say, which he is alleged to have said by a number of people, Mr. Bert Lance, Mr. Sakhia, and Mr. Rahman have all said Mr. Abedi felt the bank was on the CIA watch list. So, there's a consistency, I take it, between the timeframe of your saying BCCI was targeted and his perception that something was going on with the CIA, as he characterized it, the CIA watch list.

Mr. KERR. I wouldn't accept that at all. I wouldn't accept that connection as at all legitimate.

One, hopefully and presumably, he did not know his bank was being targeted by us. None of his employees did, and we were doing it in a way so that he wouldn't know. That was the whole object of it, nor would anybody in the BCCI. So I think the idea—

Senator KERRY. Well, could there have been a leak through this intelligence network somehow? He seemed pretty sure of it?

Mr. KERR. Well, you'll have to talk to him. It depends on whether you have confidence in what he says or what I'm saying right now. And what I say is that, in fact, it may have been, I mean, we can never, you never say "never," obviously; but, in fact, we know of no connection.

Senator KERRY. Do you know who a Mr. Bruce Rappaport is?

Mr. KERR. Only vaguely, yes. I know the name.

Senator KERRY. Has he had any dealings with the Agency?

Mr. KERR. I don't know the answer to that personally.

Senator KERRY. Do any of your answers behind you know the answer to that? [Pause.]

Mr. KERR. That's an issue we would prefer to talk about in closed session.

Senator KERRY. How about a Mr. Alfred Hartman?

Mr. KERR. Sir, I would rather not go down a list of people and determine whether or not we know them or not. I think that's inappropriate.

Senator KERRY. That's fair. I won't do that. That's fair.

Why don't we go through that part of it during the closed session.

I do have some more questions, but let me turn to my colleague. Senator Brown.

Senator BROWN. Thank you, Mr. Chairman. I have just a couple of questions here.

Mr. Kerr, have you identified who within your organization was charged with dissemination of this 1985 report and made the decision not to forward it to the Federal Reserve?

Mr. KERR. The individual involved? I think we know generally the rationale for why it was disseminated the way it was. Yes.

Senator BROWN. Do we know who made that decision to not identify the Federal Reserve?

Mr. KERR. I don't think I would put it that way. I think it was a decision to notify Treasury, and I'm not sure whether it was a conscious decision not to notify the Federal Reserve at all.

We went to what we thought was our principal customer in that area. So I'm not sure I would phrase the question the way you just did.

Senator BROWN. Let me try again.

We're all products of the training we have. My training was that somebody's supposed to take responsibility——

Mr. KERR. Someone did take responsibility.

Senator BROWN [continuing]. And when a decision is made that is a bad decision, you identify who made it.

Mr. KERR. I'm not sure it was a bad decision.

Senator BROWN. Well, you may feel that a failure to get information about a criminal activity to the Federal Reserve is not; I have a different view of it. That's an honest difference of opinion.

I guess my question is have you identified who made this decision?

Mr. KERR. I have not. I don't think we've identified the particular individual. But we know the group that it came out of. We know the individuals that were involved in it. But the answer is yes, we would be able to—but I'm, I don't know what the point of that question is.

Senator BROWN. Well, the point is very clear. If the decision is made that this kind of conduct of not identifying the appropriate agency is to change, that if your agency is aware of criminal misconduct with regard to banks, an effort to conceal the ownership of banks, that the conduct of the agency in the future should be different. The only way I think you make a change in that is to identify who is in charge of making this decision.

Mr. KERR. Well, in that regard, Senator, I can say, as I mentioned to Senator Kerry earlier, we have looked at our own decisionmaking process about how we disseminate reporting. We are looking at it with the benefit of hindsight. We tend to learn by our

own experiences. So we are going to examine that rather carefully, and you can rest assured that we will look with greater care on that at that time.

However, even in hindsight, I think the decision that was made, to give it to Treasury, that gave it to the Office of Comptroller of the Currency, was a legitimate decision based on our understanding of who the logical people were that had responsibility for it. So we are looking at our own practices, and we will look at our own process. That's one thing our Inspector General, in his review, looking at it, suggested that that's an area where we need to look at our own consistency and our own dissemination of reports, and we are doing that.

Senator BROWN. I guess the question then is—and perhaps you've answered it—is that you have not identified who was in charge of this area and who made this decision, and you have not disciplined him.

Mr. KERR. I am not going to discipline anybody for that mistake. That was an honest mistake, and I wouldn't think of doing that.

Errors of judgment, I might add—

Senator KERRY. Is there a policy change at CIA now as a consequence of this?

Mr. KERR. I wouldn't say a policy change. It is a look. What we are doing is looking, again, at our distribution, how we distribute reports. I said we have worldwide reports on a variety of different issues.

Senator KERRY. Apart from just distributing, I mean, I suppose you could make the decision to just distribute and include six more people on the distribution list. But it doesn't really guarantee that it's going to come to the attention of somebody in that flagged way that says: folks, somebody ought to do something here.

Mr. KERR. That's why we also call specific attention of people to the reports. In fact, we did on this report in 1985, in Treasury. We made a particular point of calling it to their attention. We got specific tasking back on it.

Senator KERRY. Whose attention was it called to in 1985?

Mr. KERR. I'm not sure of the individual at this point in time. But it was discussed with the individual in the intelligence area of Treasury. We got some specific requirements back on it.

So we felt we had done, essentially done, our particular job in this.

Senator KERRY. But did it go to the Secretary level? Did it ever get to sort of a decision—

Mr. KERR. I don't know the answer to that, whether it was called to the attention of the Secretary.

Senator KERRY. My question to you is do you think it should be, now, retrospectively? Do you think that there ought to be a policy change that says: hey, folks, if we come across illegal activity in the course of our intelligence gathering that reflects on U.S. Government law that ought to be enforced, we now have an obligation to give it to so-and-so? Is that there?

Mr. KERR. I don't think, quite simply, that's a practical—given the volume and the nature of the intelligence business, and any general rule about that. It requires judgment, it requires a variety of different things in the process.

I think any general rule that says you give everything in a particular category to a certain group probably would be unwise, given the nature, and the complexity, and the volume of information of the category you're talking about.

So I think you have to have within organizations people who are responsible for making decisions. In this case, we did. Even in hindsight I would say we gave it to the right people. We called it to their attention. We followed up with information. So I feel relatively comfortable about that.

Would I have now preferred to have given it to others? The answer is yes. I mean, hindsight is a marvelous thing, it gives clarity to your understanding.

Senator BROWN. Well, pardon me. But this was criminal behavior.

Mr. KERR. And it was given to the——

Senator BROWN. It doesn't take a genius to figure out when criminal behavior is going on, you let the applicable agency know that something is——

Mr. KERR. And we believe we did that.

Senator BROWN. Well, can you tell us who at Treasury this was sent to?

Mr. KERR. It was sent to the chief of intelligence at Treasury and called to their attention.

Senator KERRY. But intelligence, I mean, this gets back to the training issue that Senator Brown brought up. They're going to see this in intelligence terms. They're going to see this in the context of just sort of a day-to-day missive, are they not?

Mr. KERR. I don't think that's true.

I think a policy organization that has intelligence, just like State's INR, sees their intelligence in policy terms.

Senator KERRY. And evaluates it?

Mr. KERR. That's their job, and that's the nature of the way they look at it.

I think that, again, is quite a legitimate process.

Senator BROWN. We are going to get a copy of the report. I know you're trying to work that out. So I think it's helpful.

But can you give us any idea? Was this flagged in a way that it was noted for attention?

Mr. KERR. It was flagged and noted. Yes.

Senator BROWN. Thank you.

Senator KERRY. Is there a policy—this is a little bit afield, but it's not afield. It's something that has interested this committee over a number of years. In fact, the original investigation of this committee grew out of a sense of this conflict.

We have had witnesses in the Noriega trial who have already testified publicly that they flew weapons one place and flew drugs back, the other. And it was because they were acting sort of under cover of "intelligence"—not official, but, you know, under that cover—that they were able to do that.

There has been a legion of allegations over the years of this confusion between intelligence goals and the need for secrecy, and the need to maintain sources, and the need sometimes to deal with really nefarious types in order to get the information you need to get, and then what they're doing, the activity they're engaged in

and the impact that might have on us of your keeping those sources secret.

Has there been a review of that kind of issue? I mean, I'm really talking about narcotics trafficking. When you have money launderers and narcotics dealers who are also intelligence sources of one kind or another, maybe a third party source to somebody in another country whom you've sourced or something, what happens? Is there a tension there?

Mr. KERR. Certainly there is a tension. It's an issue of constant concern. It's an issue where we have some very specific instructions and direction in terms of our ability to deal directly with narcotics traffickers. There's a very complicated process for that, and a vetting process.

It is, as you say, a very difficult process. It's a little, however, like saying that the police shouldn't deal with criminals. To collect intelligence, you need to deal with people who are the targets.

Senator KERRY. Absolutely.

Mr. KERR. And so, it's a very complex issue. But we have oversight mechanisms that we report to on this issue. We have some very specific guidance as to how we deal and work with people who are involved in narcotics, the trade. And so, it is a very explicit set of guidelines.

If anything, it is prohibitive to the point where it makes it difficult to deal with the narcotics trafficking business. But it is certainly complicated. There certainly is a review process, and it is an ongoing review. I mean, it just doesn't happen once a year or once a month. It happens with every specific activity.

Senator KERRY. Did you receive any information at the Agency regarding BCCI or any other entity or agent of the U.S. handling Public Law 480 transport commodity credits or other things for the Department of Agriculture programs? Did you get any information on that?

I see heads shaking in the back.

Mr. KERR. That's not an issue we would be involved in except in the most peripheral way. I can't think of any specific example.

Senator KERRY. With respect to the BCCI involvement with the financial arrangement of Mr. Ghorbanifar and Mr. Khashoggi in connection with Iran-Contra, there are documents showing \$10 million through two Canadians for TOW missiles that were going to go to the Ayatollah, with \$1 million in additional funds that were going to be generated and split between Khashoggi and BCCI. This is documented as well as testified to. It was aborted when our officials grew wary of Ghorbanifar.

Did the CIA have any information with respect to that transaction or any role in it?

Mr. KERR. That's an issue I really don't know enough about to answer specifically about it. When you say "any role or information," that's one I would have to, it's kind of off this main, principal subject, and I'm just not prepared to answer it, I'm afraid.

Senator KERRY. Well, the reason I think it's part of the subject is it's a BCCI transaction involving secret accounts and involving figures who have already shown up with significant ties about whom our community, I take it, was pretty aware.

Mr. KERR. To my knowledge—and I think that's—

Senator KERRY. If you can't answer it now, Mr. Kerr, I understand.

Mr. KERR. Yes.

Senator KERRY. But what I would like to do is get an answer to that, if we can.

Mr. KERR. Well, we can do that. I was going to see if I could go back to my own notes and see if I could provide a specific on that.

Senator KERRY. Well, are you aware of Mr. Khashoggi sending a New York oil man by the name of Roy Furmark to the CIA?

Mr. KERR. I know that based on testimony and a whole variety of other things. Yes.

Senator KERRY. So you know that Mr. Khashoggi sent a messenger to Langley to warn Mr. Casey that the Canadians were feeling swindled and were going to go public? That took place?

Mr. KERR. I know that. But I'm not sure what the relevance of that is to this issue of BCCI.

Senator KERRY. Well, because this was all part of the same transaction. This was Mr. Khashoggi with the \$10 million that was aborted, and BCCI was a part of that.

So the question I'm asking is whether the Agency had knowledge of or involvement in that particular transaction.

Mr. KERR. Let me go back to my testimony and I will certainly followup and make sure, and that is that CIA was not involved or did not have any knowledge of the use of BCCI for the sale of arms to Iran or the diversion of funds for the Nicaraguan Contras.

Senator KERRY. Or could it be that it had knowledge of this particular transaction, which had nothing to do with those two transactions you just cited?

Mr. KERR. Certainly in hindsight, and there were people who have testified that they had knowledge of it, like Charlie Allen, I believe.

Senator KERRY. Well, if we could, followup on that.

Mr. KERR. If you could give us a specific question, we would be glad to followup.

[The information referred to follows:]

This issue was addressed in closed testimony on October 31, 1991.

Senator KERRY. It is accurate, is it not, that the TOW missiles that were to go to Mr. Ghorbanifar to Iraq were going to come from the U.S. Government? Correct?

Mr. KERR. That's my understanding, again, though I'm not sure how relevant that is to this issue.

Senator KERRY. Well, because, the reason it is relevant—I don't want to give you a sense I'm going off into some tangent here, I'm not—it's a BCCI facilitated transaction, or so it is alleged. I'm trying to understand from our side of the fence what we knew about it. We have documents showing the transaction in its nascent form. The question is to what degree we may have been leveraging that transaction, pushing it, part of it, or what.

Mr. KERR. Again, I go back. We have no evidence and no knowledge of involvement in the use of BCCI for the sale of arms to Iran or in the Iran-Contra issue. So that's about all I can say. Having said that, I can't do much more.

Senator KERRY. Do you have any knowledge or did the Agency have any knowledge of a BR&W Industries, Ltd., and its use financed by BCCI for the shipment of TOW missiles?

None that you think of?

Mr. KERR. No, none that I know of.

Senator KERRY. OK.

Let me ask you this.

While the Agency may not have approved of it formally, and while it may not have been transacted through Agency procedures, do you or does the Agency now have any information that Mr. Casey somehow, in that sort of separate series of transactions that he did, used BCCI in connection with the financial transactions related to the Iran-Contra sale?

Mr. KERR. No, I have no knowledge, although I would question your own assumption of separate transactions because I don't think there is evidence for that, either. But no. The answer is no.

Senator KERRY. Well, on the contrary, there is evidence, significant evidence, of Oliver North having been dealing with Mr. Casey and talking to him and of information that he was aware of outside of the normal loop with respect to the entire thing that has consumed Mr. North's life for the last few years.

Mr. KERR. I wouldn't want to get into a debate or an argument on that, but I think that evidence is primarily hearsay and not evidence.

Senator KERRY. Well, we're just asking the questions.

Kamal Adham could you define to us what you understood Kamal Adham's role to be in BCCI?

Mr. KERR. I'm afraid I have very little information on that other than what's obvious to you and what has been in the public record.

Senator KERRY. So you have no other information through the Agency?

Mr. KERR. It's not an intelligence, subject of intelligence interest, particularly. We can if you, that's a subject that we might explore if you want to pursue that in closed session.

Senator KERRY. Yes, I would appreciate that, if we could.

The other questions I have here really are closed session questions.

With respect to State Department, if I could just ask you gentlemen, do you see any of our interests, policy interests, now impacted as a consequence of the fallout in any of the countries that you've talked about at this point?

Is there a sense that this has that kind of impact, or is it more of a moving event that will not really have an impact? That is, are the central banking funds of such order that are missing in a particular country that we have to be concerned about the fall of a government or about recriminations that somehow would affect outlook, or anything? Is there any sense of that at this point?

Mr. KRECZKO. Senator, I would hesitate to be too categorical because of the ongoing investigations in, primarily in Latin America, Argentina and Peru, for example. But I think generally, as a general matter, your statement is correct, but depending upon the outcome of investigations in those types of countries.

Senator KERRY. Would it be your perception that attitudes have changed in any of these countries or with any of the nations we're

currently negotiating with on financial transactions with respect to bank secrecy and money laundering?

Mr. SMITH. Mr. Chairman, I think that attitudes have changed greatly over a period of time on that subject, as evidenced by the responses of countries which have participated in the Financial Action Task Force, the widespread progress on implementing the recommendations of that task force, the attendance by other countries in the regional meetings which the task force members have promoted, the efforts by European countries to eliminate, pierce the veil of bank secrecy, and to take various other steps which would greatly strengthen the system to prevent this type of thing.

Senator KERRY. Why have we not been more successful in doing that in Panama, for instance? Panama has more money laundering today than it did before we had an invasion.

Mr. SMITH. I would say in the case of Panama that we have recently had one action, which I believe has just occurred this week, which is we have sent to the Senate the Mutual Legal Assistance Treaty which we have negotiated with Panama, which will greatly facilitate our ability to deal with the Panamanian Government on issues deriving from money laundering investigations.

Senator KERRY. Could you share with us, Mr. Pope, what terrorist organizations made use of BCCI? Was it only the Abu Nidal?

Mr. POPE. Senator, I'm afraid in this session I can't be more specific on precisely the identity of those organizations because of concerns that Mr. Kerr has alluded to.

Senator KERRY. OK.

Can you tell us what the nature of BCCI's activity was? Did they actually provide financing in addition to providing banking services?

Mr. POPE. No, sir. To the best of our knowledge, it did not include financial backing.

Senator KERRY. So, to the best of your knowledge, it was really just banking service?

Mr. POPE. That's correct, sir.

Senator KERRY. Was there something that made BCCI particularly attractive to these organizations?

Mr. POPE. Yes, I think there was something. It was a bank with a Middle Eastern reputation. Of course, these terrorist organizations were operating in the Middle East. It may have been a bank that had a reputation for providing secrecy and not asking too many questions.

Senator KERRY. Were they involved in financing any state sponsored terrorism, that you know of?

Mr. POPE. Not to the best of my knowledge, sir.

Senator KERRY. Have you been able to evaluate how extensive the involvement of BCCI was with the central banks of countries, or are you still trying to do that?

Mr. KRECKO. Senator, we do not generally have reports on involvement of central banks. What we can say is that we have reports that in Pakistan, China, Peru, Jamaica, Cameroon, Nigeria, Zimbabwe, and Zambia, central banks or other government agencies may have made reserve deposits with BCCI. But those are reports that we can't necessarily confirm.

Senator KERRY. Now we've had evidence before this committee of BCCI assisting in the movement of nuclear technology and nuclear grade materials.

Have you had, either the CIA or State Department, similar information?

Mr. KRECZKO. I think, Senator, that some of that would have to be handled in closed session. But there is a case that was prosecuted successfully against a Pakistani national by the name of Parvez for an attempt to procure in the United States nuclear related materials, and BCCI was involved in the financing of that. That's a matter of public record.

I don't believe that there is an indication that BCCI was involved in illegal activity, necessarily. But BCCI was involved in the financing.

Senator KERRY. Mr. Kerr?

Mr. KERR. I think that's, I know nothing beyond what was described.

Senator KERRY. Let's go on, then.

Mr. KERR. I know about the case. Quite simply, I did not know that BCCI was involved in that particular case. But we may have had information on it.

Senator KERRY. Did you have any information, either of your departments, with respect to a sale of jets to Iraq, to Saddam Hussein, through Argentina?

Mr. KERR. No.

Mr. KRECZKO. No.

Senator KERRY. Did you have any information, either of you, with respect to BCCI's involvement with Rajiv Gandhi and his government?

Mr. KRECZKO. No.

Senator KERRY. Did you have any information with respect to BCCI's involvement with government figures in Sri Lanka?

Mr. KRECZKO. No.

Senator KERRY. With respect to Latin America, did you have any information with respect to BCCI's involvement with Alan Garcia in Peru?

Mr. KRECZKO. Senator, we have someone from the Latin America bureau. If I could, I'd ask her to join the table.

Senator KERRY. If you could just identify yourself. Everybody is willing to give up their microphone, I see.

Ms. JACOBSON. I'm Roberta Jacobson. I'm the Deputy Director of the Policy Planning and Coordination Office of the Bureau of Inter-American Affairs.

Our information on Alan Garcia in Peru has come primarily through recent news reports over the past year or so out of Peru. He's been alleged—

Senator KERRY. I realize what he's been alleged to, in the newspapers, but did you have any information from your sources or yourselves with respect to that?

Ms. JACOBSON. We had no information at the time or since then, through our own information.

Senator KERRY. Mr. Kerr.

Mr. KERR. Senator, I think going, again, going through a list is somewhat of a problem for us—

Senator KERRY. You want to do it in private session.

Mr. KERR [continuing]. Either negatively or positively.

Senator KERRY. Well, I'm not sure. I mean, if you say that we had some information, we don't have to go into what it was. But I think it would be helpful to have a sense of it.

I think it's helpful to know that you didn't have a lot of the information. It indicates something. I mean, it either indicates that—well, I won't get into what it might indicate. [General laughter.]

Leave that alone.

Did you have any information regarding the sale of arms to Iraq at any time, anybody?

Mr. KRECZKO. No.

Senator KERRY. Senator Brown, do you have anything further? [Pause.]

I am just advised by staff that apparently the Fed has already said publicly that you folks provided some information on Kamal Adham. I just wanted to confirm that since they've said it publicly, or not. We won't go into the details of what you may have provided.

But do you recall providing the Fed information on Kamal Adham?

Mr. KERR. I don't know the answer to that.

Senator KERRY. This was before the Fed approved the, this was way back when Financial General Bankshares was in the takeover process, and in the original effort to seek permission for the investors to come in since Kamal Adham was one of the original investors, there was testimony that people checked with intelligence sources, and there was some evidence to the effect that, according to the Fed, that they received information from you, from the Agency—not from you personally—with respect to that.

Does anybody have a recollection of that?

Mr. KERR. We responded, I understand, to a request from them for information, which we subsequently passed. I can't—

Senator KERRY. Is there a record of what might have been passed on?

Mr. KERR. I would assume there would be. Yes.

Senator KERRY. Would you be willing to check that, please—

Mr. KERR. Certainly.

Senator KERRY [continuing]. And see if we could ascertain that? I think it would simply be helpful in completing the record. It's no great issue, but it would help complete the loop here.

[The information referred to follows:]

CENTRAL INTELLIGENCE AGENCY,
WASHINGTON, DC,
November, 22, 1991.

The HON. JOHN F. KERRY,
Chairman, Subcommittee on Terrorism, Narcotics and International Operations,
U.S. Senate, Washington, DC. 20510

DEAR MR. CHAIRMAN: Forwarded herewith is the transcript of DDCI Richard Kerr's open testimony presented to your Subcommittee on Terrorism, Narcotics and International Operations on October 25, 1991. Minor textual corrections are noted as requested. This letter also addresses the followup issues from that hearing noting that most of those issues were subsequently addressed in Mr. Kerr's closed testimony to your committee on October 31, 1991. Finally, we have noted several points of correction/elaboration in the open testimony which were addressed in Mr. Kerr's formal statement to the closed hearing or in his commentary there.

Concerning the followup issues:

a. On page 48 it was agreed that a general characterization of the reporting and numbers of reports would be made available. That material was provided in the closed testimony.

b. On page 51 a specific date was requested relative to learning of BCCI's involvement in financing international arms trade. That date is 1987.

c. On page 59 data on Bruce Rappaport's relationship was requested. That was addressed in closed testimony.

d. On page 70 the question of a BCCI connection with funds for the Contras was addressed. This issue was addressed in closed testimony.

There are four issues from the text—items a through d—requiring either correction or clarification that were addressed in Mr. Kerr's statement at the closed testimony. Item e was addressed in the Q and A in the closed testimony.

a. Pgs. 45–46. It should be noted that in 1988 a member of President Carter's advance team was briefed prior to a trip abroad by the former President about the involvement of BCCI in illegal activities.

b. On page 54 lines 1–4 it should be noted that in contrast to the negative response, the Agency did have a small number of reports on BCCI involvement in third world corruption.

c. On page 54 lines 19–21 the Agency did have some reporting on BCCI being used by third world regimes to acquire weapons and transfer technology.

d. Elaborating on the response on page 79 lines 18–25 and page 80 lines 1–16 it should be noted that the Agency responded to requests from both Treasury and the Federal Reserve in the 1980–81 time period for biographic trace information on the Arab shareholders in Financial General Bankshares. The information provided was basic biographic information, which included no derogatory information except to note that one individual had been named in a U.S. court as one of those making allegedly illegal purchases of Financial General Bankshares.

e. On page 18 lines 16–19 it should be noted that in early 1985 the Agency advised the Department of the Treasury that BCCI had gained control of a Washington D.C. based holding company. Our records indicate that three months later Treasury had identified the bank as Financial General Bankshares.

STANLEY M. MOSKOWITZ,
Director of Congressional Affairs.

Senator KERRY. Senator Brown.

Senator BROWN. Mr. Kerr, I know you dealt with this in opening statements and by reference. But I thought it might be worthwhile to go back through with what specifics we had with regard to Mr. Lance's allegations about the Central Intelligence Agency.

Specifically, what he had referred to before the committee was that Mr. Abedi and BCCI had, in effect, turned into the Bank of the CIA. We don't have a lot of specifics relating to this charge, but what we do have are three things: one, the allegation by Mr. Lance that Mr. Abedi was on the CIA watch list with regard to this specific. Do you know if that is the case?

Mr. KERR. No, that's not true.

Senator BROWN. It's not the case?

Mr. KERR. It's not the case.

Senator BROWN. He also had indicated that Mr. Abedi had been placed in CIA holding rooms during some of his visits and harassed by the CIA. One can only hope that's not sexual harassment. But do you know if that's true?

Mr. KERR. Whatever it was, it's not true.

Senator BROWN. He also alleged that, in 1984, the treatment—

Senator KERRY. Is that one of those CIA blanket denials, "whatever it was, it wasn't true?" [General laughter.]

Senator BROWN. He also alleged that in 1984, the treatment changed with the implication that that was when they became, developed a working operation with the CIA.

Any comment on that charge?

Mr. KERR. Well, seeing that the first wasn't true, the second is not true. It didn't change because there was none in the first place.

Senator BROWN. There was no change.

Well, I appreciate your going through those specifics with me—

Mr. KERR. I understand.

Senator BROWN [continuing]. Because, obviously, I think it's helpful to have a clear denial or a clear setting of the record straight on those, what specifics we do have.

Thank you.

Senator KERRY. I might say that we need to go into the closed session in order to go through some of those personalities and other aspects of it that I hope can give us a full sense of that.

One thing that has attracted a lot of attention in this is this whole, so-called "black network," which we have not heard a significant amount of evidence on. We've read about it, but always through indirect sources, et cetera.

Individual bank officers have testified to incidents of threats and to efforts to intimidate them or keep them quiet, or so forth.

My question to you is that was a pretty extensive network that was outlined and some fairly dark activities. To what degree does your intelligence data correspond or document that kind of activity with respect to the BCCI bank?

Mr. KERR. We probably can expand on that in closed session. But it seems to me that the most obvious answer and the accurate answer in this session would be that the things that we have described to you earlier as illegal activities obviously constituted a fairly sizable activity on the part of the bank.

There also, presumably, you know, was a legitimate side of banking operations—loans, et cetera. So I think part of it is seeing this kind of two-sided organization as seen by the nature of the intelligence that we collected over that extensive period of time to show that there was, in fact, a group, a side of that which practiced in, if not illegal—well, it certainly was illegal—but also kind of shady activities. My assumption is that there is also a more formal legal side of it. Whether it was, quite simply, a neat line between the two, I personally don't know. My instincts would tell me that's probably not the case.

We can expand on that, if you wish, in closed session.

Senator KERRY. I would appreciate it.

Mr. KERR. But that's, I think, a fair statement.

Senator KERRY. I would appreciate it.

Now, in sort of larger fashion, as we wrap up the open session part of this, there was a lot of information floating around, obviously, some of it really going back. And I understand 20-20 hindsight is what it is. But you go back to the early struggle. You did have some regulators who were saying: don't do this. One, in particular, in Virginia, had to literally be overruled because he was so concerned about the lack of financial data, about the obvious joint ties.

Now that's more financial than it is your business [indicating] or your business [indicating]. But early indications in England and elsewhere were that there were problems in 1978, in 1977, in 1979, and so forth. You began to get wind of those in the 1980's, and, by the mid-1980's, there was evidence of narcoterrorism, narcotrafficking, money laundering, involvement with terrorist groups, arms trafficking, and, obviously, of an illegal ownership.

From 1985 on, until there was the one effort in Miami, in Tampa, excuse me, that this sort of just went on. It grew, got larger, a new bank was bought in America, National Bank of Georgia, and their branching and agencies grew in this country.

What happened?

I mean, is it fair to say something went wrong, that something that should have happened didn't?

Mr. KERR. Well, you're in a better position, quite simply, to answer that question than I am.

Senator KERRY. Well, what do you think? I mean, you're a policy person.

Mr. KERR. No, I'm not.

Senator KERRY. I mean, you're running an agency.

Mr. KERR. I am an intelligence officer and I collect information. My assessment, or my companion to you—

Senator KERRY. That's right. We're still arguing whether it's a policy person or not.

Mr. KERR [continuing]. Would be that what I do is collect information systematically based on what I either know to be the requirements or what I interpret to be, or what I see should be the requirements, which is exactly what we did. We saw an—

Senator KERRY. But are you happy with the outcome? I mean, as a person who's done that, do you think your work met the response that it should have met with?

Mr. KERR. I think, I am happy with our collection activity and happy with our output. I'm often not happy with what I see, how I see our information used. But that's bigger than my—

Senator KERRY. Well, was it used, used at all?

Mr. KERR. You're in a better position, quite honestly, to know how well it was used. We certainly had follow-up questions to it. People paid attention to it. We issued a lot of information. We provided a lot of information.

Senator KERRY. Well, what really should have happened never happened. The bank should have been shut down. It didn't happen until the Bank of England shut it down in 1991, correct?

Mr. KERR. I'm afraid you'd have to talk to the regulators and those who deal with the other side of this business.

Senator KERRY. State Department, do you have a comment?

Mr. KRECZKO. From our standpoint, Senator, the bulk of the information that we were receiving fell into the two areas that we mentioned, which is terrorism and money laundering, where we believe we took appropriate steps in response.

We were not receiving information about foreign reserves being deposited in the bank or about the bank's insolvency, or even, with a few exceptions, about corruption within the bank.

Senator KERRY. Well, obviously, you know, 20-20 is 20-20. I don't want to be unfair about it. But, on the other hand, an awful lot of

information was being given to people, including by this committee, incidentally, as early as 1988. It just seems like nobody wanted to respond, nobody, for whatever reason. And I'm not assigning any conspiracy to it, and it obviously didn't involve you, any of you at this table, because that's not your job.

But the information you were generating was not being responded to. It's hard to understand how so many different pieces of what is now this enormous banking scandal that was sitting in front of everybody didn't come.

Now, maybe there needs to be a real overhaul of the evaluative, final product process, as you have suggested, you have undertaken to a degree within your agency—but some means of pulling this stuff together or something. I don't know. Maybe the Financial Crimes Center will have that capacity through its computer and so forth. I don't know.

But it's obviously very disturbing to people and I'm sure extraordinarily disturbing to those people who consider themselves the victims of this, quite publicly, that there were so many levels of knowledge. And yet, it never reached a point of having something happen.

Mr. SMITH. Mr. Chairman, if I could add on that, I was looking back at the timing. I don't know the exact date of when the investigation began. But I do note that in the report we published in 1989, we referred to the Customs Investigation as a 30-month investigation. That report, our report was published in early 1989. So that would take the investigation back to having started in 1986.

Now, that is not prompt action—if the reports originated in the early 1980's. But it does indicate that an investigation was underway as early as 1986, and it was a very lengthy, detailed investigation which resulted in indictments 30 months later.

Senator KERRY. Let me just say to you that that will open a whole series of larger questions, which are not your area of concern, specifically. But since this committee has had an enormous amount to do with that investigation and with what has happened since, I'll just share with you, since you raise it, that the Operation C-Chase did not grow out of any communication that came from the CIA or from a department. There was no initiation of that investigation from Washington, DC, or from any United States agency. It happened because some people happened to stumble on it who were good Customs agents down in Tampa. They started it on their own. They have complained publicly. In fact, one of them resigned because he was so disgruntled with the lack of resources and lack of commitment to follow through on it.

So the simple reality is that that happened, indeed, and people are trying to claim credit for it as evidence of some terrific effort. But the tapes that were turned over by this committee, the communications that were turned over by this committee, the articles that were written in major newspapers about ownership of the bank that was illegal were met with stony silence and lack of action.

Now it is not your fault [indicating], not your fault [indicating]. It has no bearing on this thing. But since you raised the point and try to assert that that was an outgrowth of it, I have to counter you and say it had nothing to do with it. It just didn't.

You know, that's why it's hard to understand with all of this.

Now, I promised you at the outset that this is not a session to berate, and it's not. We didn't come here to rehash all of that.

I think you've well served us, Mr. Kerr, today in giving us a lot of the sense of this and in clearing up a lot of things. I think it's been very helpful to have you on record doing that.

I appreciate it enormously.

Do you have anything to add to anything?

Do you have any questions that you want to ask?

Senator BROWN. Just that I would like to ask the State Department—I guess Mr. Pope might be the one to respond—to give us some idea of what you all did or didn't do in terms of advising the other countries that have been, in effect, victimized here, of the intelligence we have on BCCI? Did the State Department see it as their responsibility to advise other governments of BCCI's activities?

Mr. POPE. Senator, I can speak to the issue from a counterterrorism point of view.

As I've tried to outline, we did work with other governments when we received information about the front companies that were associated with the Abu Nidal organization, and in that connection there was a great deal of cooperation with foreign governments that was designed to counter, to dismantle, that network, as that information came to us.

Senator BROWN. It may be that a significant portion of what we're concerned about here probably doesn't fall into the terrorism area. So perhaps it would be for someone else in the Department to respond.

Mr. KRECZKO. As I said, Senator, the bulk of the information that we were receiving came in either in the money laundering or the terrorism areas. And in those specific areas, there was cooperation with foreign governments.

But we did not go out and take an initiative at any point to inform states generally that there was a BCCI problem that I am aware of because we were not receiving information that suggested that the bank was insolvent, that the bank was about to be closed, that there was going to be an impact on local depositors.

Mr. POPE. If I could just add, Senator, our concern was with the terrorists and their activity, not with the bank. The bank was very much a byproduct of our concerns.

Senator BROWN. Can you all give me a feel for what the State Department's policy is in terms of sharing information on a commercial activity that appears to be based on fraud? It may not be in your area of expertise or knowledge. But I think part of the question here is simply a commercial venture that appeared to be fraudulent.

Is that the sort of thing we take the initiative to share with other countries?

Mr. KRECZKO. We do have mutual legal assistance treaties with countries that are primarily executed through the Justice Department, and there would be law enforcement cooperation through that channel. But I think it would be case specific, and in this particular case, we were not getting the information that would have led us to do that, other than in the two specific areas mentioned.

Senator BROWN. Thank you.

Thank you, Mr. Chairman.

Senator KERRY. Mr. Kerr, if I could ask you, could we do the closed session next week, do you think? Would you be able to be available?

Mr. KERR. I'll certainly try to be available next week. I will be here. I'm not sure of a schedule, but we can work something out.

Senator KERRY. If we can find a time that works, I don't think it will be that long a session. But I would like to do that.

Mr. KERR. That would be fine.

Senator KERRY. OK. That's great.

Now normally, folks, we swear people in at the beginning of a hearing. But because it's been a long week, the chairman is excused for doing it at the end of the hearing today. I do want to ask you if you would just rise so I can swear you for your testimony today.

Mr. KERR. Does this commit me forever, now, to this?

Senator KERRY. Do you swear to tell the truth—do you swear that you have told the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. KERR. I do.

Mr. KRECZKO. I do.

Mr. SMITH. I do.

Mr. POPE. I do.

Senator KERRY. Thank you very much. At this time, I would insert some background information pertinent to today's hearing into the record.

[The information referred to follows:]

Central Intelligence Agency



Washington, D.C. 20505

23 July 1991
 OCA 1535-91/1

The Honorable John F. Kerry
 Chairman
 Subcommittee on Terrorism, Narcotics and
 International Operations
 Committee on Foreign Relations
 United States Senate
 Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to your letter of May 14, 1991 regarding the Bank of Credit and Commerce International (BCCI). I apologize for the length of time it has taken to respond.

Your letter requested a copy of a memorandum prepared by CIA that was made available to former Customs Commissioner William Von Raab, and information on CIA's relationship with BCCI. We have now located a 1986 working paper prepared on BCCI, and an update of that paper prepared in 1989. While we cannot be certain, we believe it is likely that the 1986 paper is the document reviewed by Mr. Von Raab. The updated version of this paper was clearly disseminated to the Customs Service. Because of the extremely sensitive nature of this information, we will make it available to you through the Senate Select Committee on Intelligence. I have provided the two documents to Mr. George Tenet, Staff Director of the Intelligence Committee, and I have asked him to make them available to you or appropriately cleared members of your staff for review in the Intelligence Committee's secure space.

Our Inspector General is currently reviewing the matter of any CIA use of BCCI, and will provide a report of his findings to the House and Senate Intelligence Committees.

If we can be of any further assistance in this matter, do not hesitate to contact us.

Sincerely,

William H. Webster
 Director of Central Intelligence

12TH STORY of Level 1 printed in FULL format.

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November 17, 1977, Thursday. Final Edition

SECTION: First Section; A1

LENGTH: 380 words

HEADLINE: Helms as Consultant;
Helms to Operate An International Consulting Firm;
A Go-Between for Iranian Businesses

BYLINE: By Bill Richards, Washington Post Staff Writer

BODY:

Former Ambassador to Iran Richard M. Helms has opened an international consulting firm here which he said yesterday will concentrate on developing business interests in the United States for Iranian companies.

Helms, 64, said, "I might be a go-between or represent Iranian interests who would want to do something in this country." He said he named his new consulting business the Safear Company because Safear means "ambassador" in the Persian language of Farsi.

Helms was fined \$2,000 and given a two-year suspended sentence Nov. 4 after he pleaded no contest in federal court here to two counts of failing to testify fully and accurately before a Senate committee considering his nomination to be ambassador to Iran in 1973.

The charges against Helms were related to his testimony on two occasions before the Senate Foreign Relations Committee. He testified that the Central Intelligence Agency, which he formerly headed, had not interfered in political affairs related to the late Chilean President Salvador Allende.

Helms' new role as prospective "go-between" for Iranian interest seeking business in the United States could possibly embroil him with the U.S. regulations governing conflicts of interest for former federal employees.

The U.S. Criminal Code prohibits former government employees from taking part for at least one year in proceedings involving foreign individuals or corporations which might have fallen under their official responsibility.

Helms officially resigned from his Iranian ambassadorship Jan. 31 of this year. Legal experts were unclear yesterday whether Helms' role as ambassador would have given him specific responsibility under the U.S. code for Iranian firms or persons doing business here.

Helms said he formed his consulting firm Oct. 3 in association with Iranian businessman Rahim M. Irvani. Irvani is an executive of the Melli Industrial Group in Tehran. The consulting firm has not yet accepted any clients, and Helms said he has not registered here as a lobbyist.

"I'm quite different from a lobbyist," he said. "I'm not trying to influence our government or our country. All I'm trying to do is help our balance of payments."

Shareholder List of CCAN

(CCAN owns CCAI)

Percentage Ownership

		<u>In Current Application</u>	<u>In Previous Application</u>
<i>3.82</i>	1. Sheikh Kamel Adham	20.0% ✓	24.0%
	2. Abdullah Darwaish (for Mohammed bin Zaid al Nahyan a minor)	14.67	24.0
<i>4.78</i>	3. Abu Dhabi Investment Authority	9.33	
	4. Stock Holding Company (for Sheikh Rashid bin Saseed al Maktoum)	9.33	
<i>3.44</i>	5. Abdul Raouf Khalil	9.33 ✓	
<i>1.42</i>	6. Crescent Holding Company (for Sheikh Mohammed bin Rashid al-Maktoum)	9.33	
	7. Mashrig Holdings (for Sheikh Hamad bin Mohammed, al Sherqi)	6.67	
	8. Sheikh Humaid bin Roshid al Naomi	5.33	
<i>2.11</i>	9. Faisal Saud al Fulaij	4.67 ✓	12.0
	10. Ali Mohammed Shorafa	4.67	
	11. Mohammed Hussain Qabazard	3.33	
	12. Gulf Investment and Real Estate Company	1.67	5.0
	13. Real Estate Development Company	1.00	
<i>.84</i>	14. El Sayed El Sayed El Gohari	.67	
	Total In Current Application	100.00%	
	1. Mohammed Rahim Motaghi Irvani ^{1/}		5.0
	2. Other Investors to be determined		30.0
	Total In Previous Application		100.00%
<i>16.90</i>	^{1/} Mr. Irvani was not one of the Middle Eastern Investors who became party to the Consent Decree with the SEC. Mr. Irvani is an Iranian citizen who left Iran after the fall of the Shah because he feared action against him by the new regime in Iran. Mr. Irvani is believed to be living in Switzerland though his actual whereabouts is unknown.		

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The New Republic (c) 1986 IAC

To manage his rapidly expanding financial portfolio, the Swami turned to Donald Fraser and W. Ernest Miller, two Canadian businessmen who eventually set him on the path to Iranamok. In the winter of last year, while his American holding company, Triad America Corp., was experiencing a financial squeeze, Khashoggi recruited Fraser and Miller to invest in his 'ailing empire. One of Khashoggi's former lieutenants, Ebanue Floor, says that Miller was a devoted disciple of the Swami. Miller would clasp his hands and bow whenever he entered the holy man's presence, says Floor. The CIA took a slightly less beatific view of Miller and Fraser. In a 1986 memo to CIA Director Casey, Miller was described as a 'tough and sleazy individual,' and Fraser as 'a financier who operates out of the Cayman Islands.'

Floor says he flew with Khashoggi to the Carmanas in March of last year to discuss with Miller and Fraser further financing for Khashoggi's troubled American company. At one point a dispute arose as to precisely how many millions the Canadians had invested with Khashoggi. According to recent testimony by Floor in a bankruptcy proceeding, only one person could resolve the dispute: 'We had to get the guru on the telephone.'

IT WAS DURING these meetings that Khashoggi, who by now was serving as Ghorbanifar's banker on arms deals with Tehran, persuaded the Canadians to put up \$10 million toward financing yet another shipment of TOW missiles to the Ayatollah. Khashoggi promised the Canadians a profit of at least \$1 million. But the deal was aborted in midstream when American officials grew wary of Ghorbanifar, the middleman who repeatedly failed CIA lie detector tests, registering deception on every question but 'What is your name?' By October 1986 events were starting to spin out of control. On the surface, the Swami was still living it up, attending his 38th birthday party that was thrown by Khashoggi in Beverly Hills (now the Swami's U.S. headquarters) and celebrating with such luminaries as Cary Grant, Liz Taylor, Donald Nixon, Mary Hart, and Representative Marvyn Dymally. But beneath the surface, the Canadians were becoming distinctly nervous about their investment. Thus began the crude attempt to blackmail the administration, invoking, as one lever, the awesome power of Chandra Swami Maharaj.

All this might seem somewhat incredible were the facts not immortalized in CIA files recently released by congressional investigators. The files, buttressed by closed-door testimony before the Iran-contra committees, tell the following story: Khashoggi dispatched New York oilman Roy Furmark to the CIA's Langley, Virginia, headquarters. Furmark, who conveniently was an old friend of Director Casey and is alleged to have received an \$80,000 'commission' on the arms deal, told agency officials that the Canadians felt they had been 'swindled' and were about to go public unless they were made whole. Furmark claimed the Canadians had retained a high-priced Washington law firm to file suit against the U.S. government. They also were about to inform liberal Democrats on Capitol Hill about the administration's shenanigans, he warned.

Casey's senior advisers were petrified. 'We have a festering sore for which no treatment has been prescribed,' wrote Charles Allen, national intelligence officer and one of the agency's chief Iran analysts, in an October 14, 1986, memo to the CIA chief. 'We face a disaster of major proportions.' Three days later, in another memo to Casey, Allen reported Furmark's assessment that the Canadians were not to be trifled with. They 'have a reputation for dealing roughly with those who do not meet their obligations,' Allen stated.

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DISK 2 PAGE 354
MESSAGE # 533
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27TH MARCH 1986

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C.C. MR. S.M. SHAFI
GENERAL MANAGER
LATIN AMERICA REGION
BCCI MIAMI

MR. AKHTAR ANIS
EXECUTIVE IN CHARGE INTERNATIONAL DIVISION
BCCI LONDON

SUBJECT: EURO BANK CORPORATION, GEORGE TOWN, GRAND CAYMAN

REFERENCE YOUR TELEX LDN/4709/03G OF DATE, WE ADVISE YOU AS
UNDER:-

EURO BANK IS A LOCAL SMALL BANK OPERATING ONLY OFFSHORE BUSINESS AND
THEY DO PLACE FUNDS WITH US BETWEEN DLRS 1,000,000/- - DLRS 3,000,000.00
TIME TO TIME.

WE WERE APPROACHED BY ONE OF THE DIRECTORS OF THE SAID BANK WITH
THE PROPOSAL THAT THE BANK WILL DEPOSIT USDLRS 10,000,000.00 WITH US
IN THE NAME OF A COMPANY WHICH IS UNDER FORMATION IN THE CAYMAN
ISLANDS AT THE REQUEST OF MR. ADNAN KHASHOGGI, AND THAT COMPANY
WOULD LIKE TO HAVE CREDIT LINE AGAINST THESE DEPOSITS WHICH WILL
BE UNDER LIEN TO US TO WHICH WE HAVE NOT MADE ANY COMMITMENT.

THE ABOVE MATTER WAS DISCUSSED WITH US ONCE IN THE FIRST WEEK OF
MARCH AND AFTER THAT NO FURTHER COMMUNICATION HAS BEEN MADE BY THEM.

IN CASE THE ABOVE BANK REVERT TO US AGAIN, WE SHALL REFER THE MATTER
TO YOU FOR YOUR PERUSAL AND GUIDANCE WITHOUT ANY COMMITMENT TO THEM.

BEST REGARDS,

S.M. AKBAR
BCCI GRAND CAYMAN
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TEL NO 4161

THE DANABFA

ECC MONTE CARLO

RE: ROMAN KHASHOGGI ACC. NO. 1003729

WE ARE IN RECEIPT OF CHECK OF US\$100,000.00 PAYABLE TO EASTERN AIRLINES. WOULD APPRECIATE IF YOU WOULD KINDLY BLOCK \$100,000.00. WE ARE SENDING YOU CHECK BY DHL AND YOU ARE KINDLY REQUESTED TO CREDIT THE PROCEEDS BY TELEGRAPHIC TRANSFER TO SECURITY PACIFIC INTERNATIONAL NEW YORK FOR ACCOUNT OF ECC MIAMI FOR ACCOUNT OF EASTERN AIRLINES. VALUE 19 MAY 1966.

RGDS.

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 DUE 7-3-86 PLS PAY USD 30.000.- TO CITIBANK
 8 - 5TH AVENUE NEW-YORK CITY 10019 FOR CREDIT
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 INWARD
 TELEX MESSAGE

MAR 5 1986

 BANK OF AMERICA & COMMERCE INTL
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BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A.
 NEW YORK AGENCY 330 PARK AVENUE NEW YORK, NY 10022

OUR REF. PAY.

DATE:

PAYING BANK

The Bank of New York
 110 Washington Street
 New York, N.Y. 10015
 Attn: Paying And Receiving Dept.

ORDERING BANK

Dear Sir:

To the debit of our account No. 91-2158 with you, please effect the following payment today in CHIPS/FEDERAL FUNDS.

Amount in figures \$ 30,000.00

Amount in words US Dollars Thirty thousand only

Pay To: Citibank, 640 5th Ave, New York, N.Y. 10017

For account of 04605128599 of AKOAP.

Yair Ref: S/O: Adnan Khashoggi

Very truly yours,

Authorized Signature

PHONE: (212) 715 2888
 Incorporated in Luxembourg

Authorized Signature

TELEX: 48888 BCCI NY NY CABLES: BANCORCOM
 A Subsidiary of BCCI Holdings (Luxembourg) S.A.

NY 0020776
 CONFIDENTIAL

ACT-48

25

-GTH 0829 EDT 03/05/86

1 05 1986 0831
 25808A BCCINY MT

CI 469183MC

NO 5535 TS/GE DTD 5-3-86
 BCCI NEW-YORK
 BCCI MONTE-CARLO

ST NO ~~0460512859~~ FOR USD 30.000.- DTD 5-3-86

UE 7-3-86 PLS PAY USD 30.000.- TO CITIBANK
 8 - 5TH AVENUE NEW-YORK CITY 10019 FOR CREDIT
 AKORP A/C NO 0460512859 B/C ADNAN KHASHOGGI.
 REF : OTT/MC/NY/058/86 (.)

DS

CI MONTE-CARLO
 25808A BCCINY MT.

CI 469183MC
 PLY VIA ITT

EY DISC.

posed time 00:01:24

INTED AT 0830 EDT 03/05/86

PYT

3375/L

FORWARD
 TELEX MESSAGE

MAR 5 1986

STATE STREET & COMMERCE INTL.
 NEW YORK

TEST AGREED

A22909

NY 0020777
 CONFIDENTIAL

Deposited in Envelope 5000, 1000, 1000, 1000

UNCLASSIFIED

1 Mr. Miller's understanding was. There was some confusion
2 about how Mr. Miller and his associates would participate in
3 some profits.
4 And so when Mr. Macdonald came back, we explained
5 to him what our understanding of the transaction was. In
6 other words, Mr. Miller, it's a joint venture, what's also in your
7 name's yours is also, we're going to be partners. And so in
8 that sort of jargon and he accepted a transaction in
9 which--and he explained how the \$10 million dollars of cash
10 would come from Triad International Marketing--
11 Q Maybe we can walk through the document as he drew
12 it so we'll have what you're talking about. You're pointing
13 to a square at the top of the page?
14 A Yes, there's a square at the top that has TIR,
15 Triad International Marketing, and he said that the money,
16 the \$10 million dollars, would go into a joint venture and
17 that the \$10 million dollars would go--and he had a box with
18 a "Y", and he said, "This is where we buy the arms." Then he
19 drew an arrow down to a box in which he put the words
20 "Tiram". Then he drew a line back up through a box in which
21 he wrote the name "Macdonald". He wrote a line ar-
22 row was trying to pronounce it and he wrote it out and, you
23 know, it's obviously the name of ~~Macdonald~~ Macdonald.
24 And he was right, he wrote "Macdonald" and he
25 wrote \$10 million dollars back into the joint venture, and

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Encl. 57
4 P.O. 500

UNCLASSIFIED

1 then the \$10 million dollars became the \$11 and then the
2 square equally shares with "Credit Referee". In other words
3 \$10 million dollars from Credit Referee goes into this
4 venture, the venture keeps the same, the same are shipped to
5 him, from pay for the arms, except that the money came
6 back through, it's \$11 million dollars, and there was to be
7 a profit. Part of the profit was to go to Triad
8 International Marketing and part of the profit was to go to
9 others, including something that he described as TIR, and
10 then he put \$40 million dollars, "40,000" and underlined it
11 and indicated that this \$10 million dollars would go through
12 four times providing \$40 million dollars of sale and
13 therefore, additional profit.
14 Following his laying out of this transaction, we
15 then wrote the document and everybody went off to have
16 lunch and the attorney and I busily worked at rewriting the
17 document to create the entity, Triad International, and
18 from the joint venture which the document contemplated.
19 Then we even went so far as to prepare the preliminary agreement
20 where Mr. Macdonald would be the managing director and then
21 Triad would own the money to Mr. Macdonald, and so had
22 other documents that were involved.
23 Q All right. Let me interrupt you. The company
24 you're referring to is Mr. May?
25 A Yes, Graham P. May.
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Encl. 57
4 P.O. 500
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Deposited in Envelope 5000, 1000, 1000, 1000

UNCLASSIFIED

3 Another question. You're referring to the joint venture as Trivert in the subsequent agreement. The name is the one that you have indicated in the joint venture--

Mr. Chesapeake has a different name. Do you know what that name is?

A Mr. Wall, he referred to some vehicle. I thought he used the word Garret, the name Garret.

3

5. For the Triest name, actually what happened on the top where "TR" is, he got a box and he put an "r" in it and that was going to be the joint venture. The point he made was that Triad International Marketing had the agreement because of this financing, where Triest would have it. Just because of this financing, where Triest would have it. Just so Triest took the place of Triad International Marketing. It is my understanding of this document.

Q That is, Tiled and Vertices--Is that the derivation?

A Yes, that's how they came up with the name.

Now, the box with the two is the

100.

Q Did he say anything to indicate who that person or entity was?

Q No, it was the source--and I'm not sure whether it was one source or several sources--that's just--the weapons were going to come from it.

Q Okay. Now, did he ever mention the involvement of

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the Farrell government or Farrell elections?

A. Not in my presence. I have no idea what he said to Mr. Miller especially but not in my presence.

on the following day on Monday morning the 10th of June 1864.

A Yes, sir., He referred to his associates two or three times. He said, "These are my associates," and when he

Wrestling down, he said some more but I can't recall what it was.

Q Now, at those meetings in the Cayman Islands or at any future time, did he indicate the identities of any other individuals involved in the arms transactions?

11

• 344 to over indicate the involvement of United

Lettering Machine

7. **Not that I really.**

Q Did he ever make mention of involvement of a

• If you are a new customer, we will

Q So, as far as you know, there was no direct

transmission to him but you did not know the source or the
~~Plumley~~ ^{Plumley} ~~Shirley~~ ^{Shirley} ~~for~~
 was involved other than ~~Reynolds~~ ~~Shirley~~

A That is correct, but it was not just a transaction, there were to be a series of transactions and Mr. Khandrovi

and physical security controls over the policy on youth on the part of

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B. R. & W. INDUSTRIES LTD.

Telephone: Stoke Goldington
(090 855) 486 or 553 550

Long Barn House
Ravenstone
Olney
Bucks
MK46 5AS

Telex: 826324/BRWIND G

21st November 1985

Afrique Consultant Est.) And ORLETON TRADER INC
74 Auelestrasse Via Espana y calle Colombia
VADUZ Apartado 1824
Lichtenstein PANAMA 1
Republic of Panama

PRO-FORMA INVOICE NO. WO119

For the supply and delivery of 1250 units BCM 71A
TOW MISSILES

Place of Manufacture - U.S.A.

Date of Manufacture - 1980/81

All brand new and in manufacturers original packing

Price per unit - 7,500 USD. C AND F Destination

Total Cost - 9,375,000 USD.
(Nine million, three hundred and
seventy-five thousand USD.)

Delivery - Immediate, from stock

Terms of payment -

By a Letter of Credit, confirmed in London by an acceptable
Bank. L/C to be irrevocable, transferable and divisible
nominating purchase of Lift Trucks.

Amount payable within 48 hours after arrival of goods at
destination against presentation of shipping documents,
invoices, inspection and acceptance certificates signed by
the Buyer's Representative and counter-signed by the
Seller's Representative, who will accompany the aircraft.

The Buyer to undertake in the Letter of Credit confirming
that the aircraft will be refuelled free of charge for
return journey.

Letter of Credit to become firm subject to Buyer receiving
a Performance Bond for the sum of 175,000 USD. against
delivery of goods

Bankers - Bank of Credit & Commerce International S.A.
140/141 Park Lane, London W 1

...*Ben Banerjee*...
Ben Banerjee
For & on behalf of

LG/33

2071-2000000-2102

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117/34 1919 1918 ISS303

TLX REF LUN 0787/12K 27.12.85

REDIT SUISSE

ZURICH BRANCH SWITZERLAND

NIL

(DATED 27.12.85)

ZURICH OFFICE

L/C NO BT/68R/211365/85

WE REQUEST OF B.R. AND (B) INDUSTRIES LIMITED WE CONVEY WITHOUT
 ENGAGEMENT OR LIABILITY ON OUR PART THE FOLLOWING MESSAGE FOR
 TRADE LTD BERN AIRPORT 3123 BERN SWITZERLAND

O T E

CONSIGNEE UNDER BANK MELLI IRAN LONDON L/C NO 000027 LUN
 15/85 DATED 24/12/85 HAS GIVEN AN UNDERTAKING TO REFUEL THE
 CRAFT CARRYING THE GOODS SUBJECT OF PROFORMA INVOICE NO WO 119
 ED 25/11/85. THIS UNDERTAKING WAS AUTHENTICATED BY BANK MELLI
 LONDON.

R O O T E

BRANCHES

OF CREDIT AND COMMERCE INTERNATIONAL S.A.

CRECUM LONDON

1271285

IN

1271285



BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME LICENSED DEPOSIT TAKER
LEADENHALL STREET BRANCH 100 LEADENHALL STREET LONDON EC3A 3AQ

20th December, 1985

National Westminster Bank Plc
International Banking Division
Bonds and Guarantees Department
Overseas Branch
National Westminster Tower
25, Old Broad Street
London EC2M 1BQ

Dear Sir,

RE: OUR COUNTER GUARANTEE NO. 3380/85 FOR US\$175,000/-
IN FAVOUR OF SEPAH PASSDARN TEHRAN, C/O BANK MELLI
IRAN, 4, MOORGATE, LONDON EC2R 6AL

We request you to issue your Performance Bond Guarantee in favour of Messrs. Sepah Pasdarn Tehran, C/O Bank Melli Iran, London on account of BR & W. Industries Limited, reading as under:

QUOTE:

With reference to the proforma invoice no. WO. 119 dated 25th November, 1985 relating to 1,250 lift trucks concluded between BR & W Industries Limited, (hereby known as Supplier) and Messrs. Sepah Pasdarn (hereby known as purchaser) and by the request of Sepah Pasdarn for the good performance of the undertaking accepted in accordance with the said proforma invoice no. WO.119 in respect of Lift Trucks we hereby guarantee and undertake, if it is noticed by Sepah Pasdarn that the Supplier has defaulted from their liabilities under the contract to pay immediately after receipt of the first written demand to or to the order of Sepah Pasdarn up to a total of US\$175,000/- (United States Dollars: One hundred and seventy five thousand only) any amount in respect of the guarantee under any subject of reason ascertained by Sepah Pasdarn without any need for issuance of declaration form or execution of any action through administrative legal or other authority or proving the neglect untruth of correctness.

This Letter of Guarantee is valid until the official closing time on 4th January, 1986 and is extendable for any period requested by Messrs. Sepah Pasdarn. Should the bank not be able or willing to extend the validity hereof or the guarantee party should not provide the necessities of the extension and obtain the concurrence of the bank of the extension then the bank undertakes to pay without need for a second demand the said sum in favour or to the order of Messrs. Sepah Pasdarn. UNQUOTE

While forwarding the Performance Bond to Bank Melli, Iran London, please notify them that the Performance Bond issued by you is in respect of the following consideration, and therefore it will become effective and valid only on fulfilment of the conditions mentioned here in below:-

LEADENHALL STREET BRANCH 100 LEADENHALL STREET LONDON EC3A 3AB
 OVERSEAS EXCHANGE LICENSED DEPOSIT TAKER

EXHIBIT No. 133

27th December 1985

Midland Bank International
 110 Cannon Street
 London EC4N 6AA

Attention: Mr. Taylor

Dear Sirs

At the request of our customers Messrs. B.R. & W. Industries Ltd. we hereby advise that we hold their irrevocable instructions to pay you US\$175,000 United States Dollars One Hundred and Seventy Five Thousand, (after deduction of bank charges) for the credit of account number: 68802925 held with yourselves, only after negotiation and receipt of payment (without any reserve) by us for account of B.R. & W. Industries Limited under letter of credit number 000027 Lon 20745/85 dated 24th December 1985 issued by Bank Mellat Iran, London.

This advice is valid up to 22nd January 1986, which is the validity date of the above mentioned Letter of Credit.

Thanking you

Yours faithfully

AUTHORISED SIGNATURE 1365

AUTHORISED SIGNATURE 1012

498

INTERNATIONAL
 SOCIETE ANONYME LICENSED DEPOSIT TAKER
 (LEADENHALL STREET BRANCH 100 LEADENHALL STREET LONDON EC3A 3AQ)

20th December, 1985

National Westminster Bank Plc
 International Banking Division
 Bonds and Guarantees Department
 Overseas Branch
 National Westminster Tower
 25, Old Broad Street
 London EC2N 1HQ

Dear Sir,

RE: OUR COUNTER GUARANTEE NO. 3380/85 FOR US\$175,000/-
 IN FAVOUR OF SEPAH PASSDARN TEHRAN, C/O BANK MELLI
 IRAN, 4, MOORGATE, LONDON EC2R 6AL

We request you to issue your Performance Bond Guarantee in favour of Messrs. Sepah Passdarn Tehran, C/O Bank-Melli Iran, London on account of ER & W. Industries Limited, reading as under:

QUOTE:

With reference to the proforma invoice no. WO. 119 dated 25th November, 1985 relating to 1,250 lift trucks concluded between ER & W Industries Limited, (hereby known as Supplier) and Messrs. Sepah Passdarn (hereby known as purchaser) and by the request of Sepah Passdarn for the good performance of the undertaking accepted in accordance with the said proforma invoice no. WO.119 in respect of Lift Trucks we hereby guarantee and undertake, if it is noticed by Sepah Passdarn that the Supplier has offended from their liabilities under the contract to pay immediately after receipt of the first written demand to or to the order of Sepah Passdarn up to a total of US\$175,000/- (United States Dollars: One hundred and seventy five thousand only) any amount in respect of the guarantee under any subject of reason ascertained by Sepah Passdarn without any need for issuance of declaration form or execution of any action through administrative legal or other authority or proving the neglect untruth of correctness.

This Letter of Guarantee is valid until the official closing time on 4th January, 1986 and is extendable for any period requested by Messrs. Sepah Passdarn. Should the bank not be able or willing to extend the validity hereof or the guarantee party should not provide the necessities of the extension and obtain the concurrence of the bank of the extension then the bank undertakes to pay without need for a second demand the said sum in favour or to the order of Messrs. Sepah Passdarn. UNQUOTE

While forwarding the Performance Bond to Bank Melli, Iran London, please notify them that the Performance Bond issued by you is in respect of the following consideration, and therefore it will become effective and valid only on fulfillment of the conditions mentioned here in below:-

Amendments



: - Page 2 - :

(a) An Irrevocable Letter of Credit for US\$11,250,000/- (United States Dollars: Eleven million, two hundred and fifty thousand only) issued by Bank Melli Iran, London of the enclosed text of Format, which were exchanged between BR & W Industries Ltd and Messrs. Sapah Pasdarn and approved by both of them.

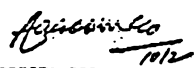
(b) The Letter of Credit as stipulated under clause (a) above must reach us by 24th December 1986 evidencing the delivery date C&F Tehran dated not later than 4th January, 1986 and expiry 22nd January, 1986.

On receipt of the above Letter of Credit by us and our notification to you about the foregoing your Performance Bond Guarantee will become operative.

However, we hereby indemnify you from all consequences in respect of your issuing the guarantee on our behalf and further undertake to pay to you your charges in consideration of your so doing.

Yours faithfully,


(7)
AUTHORISED SIGNATURE.


AUTHORISED SIGNATURE.

BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIÉTÉ ANONYME LICENSED DEPOSIT TAKER
100 LEADENHALL STREET, LONDON EC3A 3AD

IRREVOCABLE
DOCUMENTARY CREDIT

Number LG/3380/85

Shah Paszdam

4th December, 1985

Iran,

in,

Bank Melli Iran,

Moorgate,

London E.C.2.

Sirs,

Our Guarantee No. LG/3380/85
USD 175,000/- in your favour

reference is made to the agreement between B.R. & W. Industries Ltd, Lombard House, Eaststone, Olney, Bucks (the seller) and Sepah Paszdam, Tehran, Iran (the buyers) concerning the purchase of 1250 Units Lift Trucks (Proforma Invoice No. W0119 dated 1 November 1985), we hereby irrevocably undertake to pay to you on your first demand any amount up to a maximum of ~~U.S.~~ Dollars 175,000/- (say US Dollars one hundred and seventy five thousand only), upon receipt of your written confirmation that the amount claimed, has fallen due.

Written confirmation must reach us at the latest by 18th December, 1985, after which date our Guarantee will automatically cease to exist and our payment obligation will expire.

Guarantee becomes operative and will be valid only after receipt by us of an irrevocable and confirmed Letter of Credit for the sum of USD 1,250,000/- in favour of B.R. & W. Industries Ltd, and acceptable to them.

Guarantee is construed and governed in accordance with English Law and is subject to the jurisdiction of English Courts in the event of any disputes.



BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME LICENSED DEPOSIT TAKER
 LEADENHALL STREET BRANCH 400 LEADENHALL STREET LONDON EC3A 3AD

Midland Bank Plc,
 196A Piccadilly,
 London, W1.

30th December, 1985.

Dear Sirs,

At the request of our customers M/S B.R. & W. Industries Limited, we hereby advise that we hold their irrevocable instructions to pay you US\$175,000/- (United States Dollars: One Hundred and Seventy Five Thousand), (after deduction of bank charges) for the credit of account no. 69026529 held with yourselves, only after negotiation and receipt of payment (without any reserve) by us for account of B.R. & W. Industries Limited under Letter of Credit No. 000027 LON 20745/85 dated 24th December, 1985 issued by Bank Mellat Iran, London.

This advice is valid up to 22nd January, 1986 which is the validity date of the above mentioned Letter of Credit.

Thanking you.

Yours faithfully,


AUTHORIZED SIGNATURE. 1365


AUTHORIZED SIGNATURE.

Telephone: Stoke Goldington
(090 855) 466 or 543

Telex: 826324/BRWIND G

Long Barn House
Ravenshoe
Olney
Bucks
MK46 5AS

PRO-FORMA INVOICE NO. W0119

For the supply and delivery of 1250 units BCM 71A
TOW MISSILES

Place of Manufacture - U.S.A.

Date of Manufacture - 1980/81

All brand new and in manufacturers original packing

Price per unit - 7,500 USD. C AND F Destination

Total Cost - 9,375,000 USD.
(Nine million, three hundred and
seventy-five thousand USD.)

Delivery - Immediate, from stock

Terms of payment -

By a Letter of Credit, confirmed in London by an acceptable
Bank. L/C to be irrevocable, transferable and divisible
nominating purchase of Lift Trucks.

Amount payable within 48 hours after arrival of goods at
destination against presentation of shipping documents,
invoices, inspection and acceptance certificates signed by
the Buyer's Representative and counter-signed by the
Seller's Representative, who will accompany the aircraft.

The Buyer to undertake in the Letter of Credit confirming
that the aircraft will be refuelled free of charge for
return journey.

Letter of Credit to become firm subject to Buyer receiving
a Performance Bond for the sum of 175,000 USD. against
delivery of goods.

Bankers - Bank of Credit & Commerce International S.A.
140/141 Park Lane, London W.1

.....
Ben Banerjee
For & on behalf of
B. P. AND W. INDUSTRIES LTD.

VAT Registration No. 335 3724 62

Company Registration No. 1188017

ACBLSA

Telephone: Stoke Goldington
(090 855) 466 or 843 350

Long Barn House
Ravenstone
Olney
Bucks
MK46 5AS

Telex: 826324/BRWIND G

27th November 1985

Arabian Gate General Trading Co
P.O. Box 5611
DUBAI, U.A.E.

PRO-FORMA INVOICE NO. 85/1118

Reference Your Order No. 0002-AD-ENG-85

To Supply:

1. 5,000 Rockets Type PG-7WM - 150 USD. each	750,000 USD
2. 20 Strella 2M Anti-Aircraft Missile - 37,000 USD each	740,000 USD
3. Launcher for Strella 2 Units - 8,000 USD each.	16,000 USD
4. 2,000 Automatic Rifle ARMS 175 USD each	350,000 USD

TOTAL : 1,856,000 USD

(One Million, eight hundred and fifty-six thousand USD)

All items F O B Poland

Terms of Payment - By irrevocable, confirmed Letter of
Credit payable to our account.
Our Bankers - Bank of Credit & Commerce International S.A.
140/141 Park Lane, London W.1

Packing Detail attached.

Ben Banerjee
.....
Ben Banerjee
For and on behalf of
R. AND W. INDUSTRIES LIMITED

Yours faithfully

AUTHORISED SIGNATURE 1365

AUTHORISED SIGNATURE 1012



BANK OF CREDIT AND COMMERCE INTERNATIONAL
SOCIETE ANONYME LICENSED DEPOSIT TAKER
 LEADENHALL STREET BRANCH 100 LEADENHALL STREET LONDON EC3A 3AD

20th December, 1985

National Westminster Bank Plc
 International Banking Division
 Bonds and Guarantees Department
 Overseas Branch
 National Westminster Tower
 25, Old Broad Street
 London EC2N 1HQ

Dear Sir,

RE: OUR COUNTER GUARANTEE NO. 3380/85 FOR US\$175,000/-
IN FAVOUR OF SEPAH PASDARN TEHRAN IRAN, C/O BANK MELLI
IRAN, 4, MOORGATE, LONDON EC2R 6AL

Agency for International Development
Washington, D.C. 20523

Case

SEP 17 1991

INFORMATION MEMORANDUM FOR THE ADMINISTRATOR

THRU: AA/FA, John F. Owens, Acting
FROM: FA/FM/C, Michael G. Usnick *M/Usnick*
SUBJECT: A.I.D. Funds and the Bank of Credit and Commerce International (BCCI)

Background: In early August, questions began to arise over whether any A.I.D. funds were affected by the BCCI scandal. On August 10, GC and FM issued a worldwide cable instructing missions to refrain from making deposits or extending credit on behalf of contractors or grantees or making any new commitments of any kind to BCCI or its affiliates without obtaining advance approval of AID/Washington. The cable also instructed missions to provide a summary report on the status of any current activities which may involve BCCI with A.I.D. financing.

This memorandum summarizes the responses received from the missions. Since the August 10 cable did not ask for negative responses, I am sending a follow-up cable to the field asking for (1) confirmation from each mission regarding current activities, and (2) a listing of any U.S. dollar transactions through BCCI or its affiliates over the past five years. The second item will improve our data base, since FM has only been tracking cash transfers and sector grants centrally by bank and account number for the past two years. This data will be useful if BCCI stays in the headlines.

Findings

1. Only four countries -- Cameroon, Bangladesh, Yemen and Botswana -- have A.I.D. funds that are affected by BCCI activities.
2. In the case of Cameroon, a 1989 agriculture sector grant in the amount of \$10 million was deposited in BCCI/New York in a separate, non-commingled account in the name of the Government of Cameroon, as requested by that government. The funds were used to finance the importation of fertilizer. USAID/Cameroon was advised by the Central Bank of Cameroon in May, 1991 that the BCCI/New York account was closed out in February, 1991, and that the residual balance of \$143 thousand was transferred to Standard Charter Bank

of New York and subsequently used in April to liquidate Cameroonian debt. The Director General of the Central Bank has agreed to provide copies of the bank statements to USAID/Cameroon.

In Cameroon itself, \$10 million equivalent of local currencies owned by the Government of Cameroon are on deposit at the BCCC, the local affiliate of BCCI. These local currencies were made available by the Government of Cameroon, from its own resources, to match the U.S. dollar transfers made to BCCI/New York. The Government of Cameroon selected the BCCC as its fiduciary bank in Cameroon, with USAID concurrence. These local currencies are jointly programmed by the Government and the USAID, and BCCC will only release these funds to mutually agreed upon recipients with USAID concurrence. Although the August 6 Wall Street Journal article on BCCI and the Cameroon stated that these local currencies were frozen, USAID/Cameroon reports that these accounts are open and functioning.

3. In Bangladesh, a U.S. grantee, Pathfinder International, has \$167 thousand of A.I.D. advances frozen in its account in BCCI/Dacca. The advances relate to an OFDA-funded cyclone disaster assistance grant. The grantee has been advised that it must fully execute the terms of the grant, notwithstanding actions by BCCI to freeze all accounts. Since prolonged delay would adversely affect relief and rehabilitation, OFDA has issued a budget allowance for an additional \$167 thousand for the project. Pathfinder will reimburse A.I.D. for this amount once its account is unfrozen.
4. A similar situation exists in Yemen, where two contractors -- John Snow, Inc. and Academy for Education Development -- have accounts with BCCI/Sanaa for their local support operations. Both accounts are maintained by the contractors primarily against USAID advances, and together total approximately \$200 thousand in local currency. The contractors immediately opened new accounts with other local banks for their local operations, and have been advised that A.I.D. is not responsible for the frozen bank accounts maintained in BCCI.
5. APRE has reported that Botswana has two small sub-loans outstanding (totaling \$35 thousand) that are guaranteed by BCCI under the Private Sector Revolving Fund. Under the

- 3 -

terms of this specific program, A.I.D. disbursed \$150 thousand to Security Pacific National Bank in 1989, which then set up a letter of credit arrangement with BCCI to allow BCCI to provide loans to overseas borrowers. The Botswana loans are the only loans against the \$150 thousand. Since the loans carried a 50% guaranty, our contingent liability is approximately \$17.5 thousand. However, there may not be any loss if the borrowers repay the loans, even if BCCI goes under. Nevertheless, APRE informed FM that it intends either to (1) reduce the letter of credit to a much lower level, or (2) transfer the loans to another bank.

Conclusions

On balance, A.I.D. has very little exposure with BCCI. Cameroon appears to be the only A.I.D. recipient country in which A.I.D. funds, other than contractor advances, have been deposited in BCCI or affiliated accounts.

FM is taking additional steps to ensure that this information is complete and accurate.

cc: AA/OPS, Tim Fry, Acting
AA/AFR, Scott Spangler
AA/ENE, Carol Adelman
AA/APRE, Henrietta Holsman Fore
AA/LAC, Jim Michel
XA, Stephen Hayes
LEG, Ray Randlett
IG, Herbert Beckington
GC, John Mullen

The Abu Nidal Terror Network

July 1987

The Abu Nidal Terror Network

Preface

The purpose of this paper is to contribute to public discussion and consciousness of the terrorist threat faced by the United States and other countries. We have sought to illustrate the nature and magnitude of this threat by describing in some detail the Abu Nidal organization (ANO), one of the world's deadliest terrorist organizations. It is not our intent to present an exhaustive catalogue of all information available to us on the activities or relationships of this organization. The detail provided in this paper is, however, sufficient to allow the reader an informed understanding of how ANO operates. To do more would only detract from our ultimate objective—to end the operations of this and other terrorist organizations. Our success in this endeavor depends importantly on preserving sensitive sources of intelligence, as well as the cooperation of other countries willing to shoulder the burdens of an uncompromising struggle against terrorism.

JUL 1 1987

The Abu Nidal Terror Network

Executive Summary

The Abu Nidal organization (ANO) is one of the world's most dangerous terrorist organizations. ANO attacks have killed or injured almost 900 people from at least 20 countries. Although ANO is thought of as a Middle Eastern organization, the group has operated on three continents, and almost two-thirds of ANO attacks have occurred in Western Europe. Prominent among the almost 90 terrorist attacks that we believe ANO has carried out since 1974 are the Rome and Vienna airport attacks in December 1985, the Neve Shalom synagogue attack in Istanbul, and the Pan Am Flight 73 hijacking in Karachi—both in September 1986. The ANO also has heavily targeted Palestinians and other Arabs.

State support has been an important element in ANO's success. This terrorist organization has received assistance from Iraq, Syria, Libya, East Germany, and Poland. Until very recently, and perhaps still, ANO has operated businesses in Warsaw and the Soviet sector of Berlin ("East Berlin"). These businesses, which have dealt principally in arms, have functioned with the knowledge, consent, and assistance of the Polish and East German Governments. This government-assisted arms trafficking has helped ANO receive weapons.

We have discussed this information with various governments. The Governments of Poland and East Germany have denied all knowledge of such activities in spite of the fact that we are aware of the names of the companies, the identities of important officers in those companies, the addresses of the companies, as well as their telephone and telex numbers. We also know the names and positions of at least some of the Polish and East German officials who have dealt with the ANO front men and specifics of some of their transactions.

The ultimate goal of the ANO is the destruction of the state of Israel and the establishment of a Palestinian state in its stead. As an interim goal, the ANO has sought to supplant Yasir 'Arafat's Fatah as the focus of the Palestinian movement. The ANO is committed to the use of violence to accomplish these goals.

The ANO is headed by Sabri al-Banna whose *nom de guerre* is Abu Nidal. Sabri al-Banna split with 'Arafat and founded his organization, largely as a response to 'Arafat's professed ban on Palestine Liberation Organization (PLO) participation in terrorist attacks outside Israel and the occupied territories.

1

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The Abu Nidal Terror Network

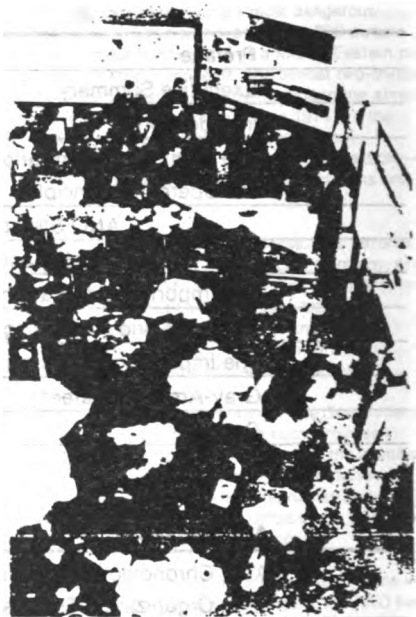
Introduction

The Abu Nidal organization (ANO) is among the most dangerous of the radical Palestinian terrorist groups, carefully planning its operations and maintaining tight compartmentation. The clandestine cadres of the ANO may number as many as 400, organized in small cells worldwide. There is also a support structure of several hundred more, drawn primarily from Palestinian students around the world; the ANO has a militia in Lebanon that is growing as the group actively recruits from other Palestinian organizations.

The ANO has conducted about 90 terrorist attacks since its inception in 1974—almost half of them since the beginning of 1984 (see appendix A for a chronology of the most significant ANO terrorist activities). At least 300 people have died and more than 575 have been wounded in ANO attacks. Despite its Middle Eastern roots, the ANO has conducted almost three-quarters of its attacks outside the Middle East, almost two-thirds of them in Western Europe. It has staged attacks in over 20 countries on three continents and has cells in cities in many countries outside the Middle East (see foldout map in back).

The ANO claims that its enemies are Israel and its supporters, as well as moderate Arab governments and leaders, whom it considers traitors. However, the victims of ANO's indiscriminate terror are often innocent bystanders and are of nationalities other than the intended target (see tables 1 and 2). Among the most recent examples are:

- The attempted hijacking of Pan Am Flight 73 in Karachi, Pakistan, on September 5, 1986, which left 21 dead—14 Indians, three Pakistanis, two Mexicans, and two Americans.



Rome, Italy, December 27, 1985. Italian security officials survey the scene in the aftermath of the ANO attack on the El Al ticket counter in the terminal of Fiumicino Airport; 12 victims died.

- The attack on the Neve Shalom synagogue in Istanbul on September 6, 1986, killed 22 worshippers—20 Turks and two Israelis.

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Table 1
Nationalities of ANO Victims, 1985-87 *

Country/Nationality	Wounded	Dead
Algeria	0	1
Argentina	1	0
Australia	2	0
Austria	3	1
Canada	0	2
Egypt	4	12
Greece	11	15
India	0	14
Iran	2	0
Israel	3	4
Italy	21	2
Jordan	2	1
Kuwait	90	8
Mexico	0	4
Nigeria	3	0
Pakistan	2	3
Palestinian	3	11
Philippines	3	11
Spain	25	1
Turkey	6	20
United Kingdom	34	0
United States	50	8
West Germany	2	0

* Data are incomplete. At least 188 more were killed or wounded, but their nationalities are unreported.

The Man, the Organization, the Operating Principles

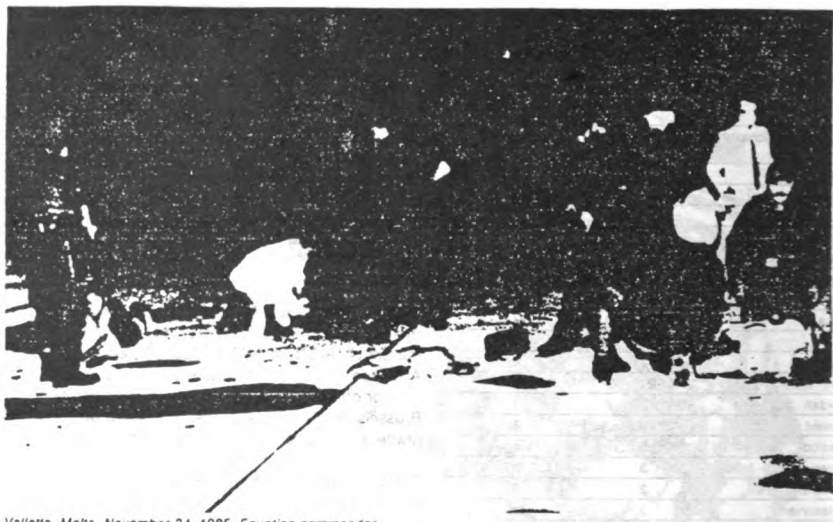
The organization is most commonly referred to as Abu Nidal from the *nom de guerre* of its leader Sabri al-Banna, who created it from elements that broke away from Yasir 'Arafat's Fatah organization in the 1970s. The ANO is committed to the destruction of the state of Israel and the use of violence to abort any political or diplomatic efforts that might reconcile Israel and the Arab states. The ANO considers any who choose negotiation to be traitors and directs terrorist attacks against PLO officials, including 'Arafat, when they move in that direction.

Sabri al-Banna (Abu Nidal)



Sabri al-Banna was sentenced to death in absentia by the Fatah command in 1974 for planning the murder of 'Arafat and other PLO officials, including Abu Iyad. ANO terrorists have attacked PLO officials or offices in London, Kuwait, Paris, Islamabad, Brussels, Rome, Lisbon, Athens, Ankara, and Belgrade, killing at least 11 leading Fatah members.

Al-Banna has publicly threatened Western and moderate Arab nations with terrorism and assassination for what he sees as their part in preventing a Palestinian homeland. The ANO has called for the destruction of moderate, or in its terms, "reactionary" Arab governments. Jordan, Kuwait, the United Arab Emirates (UAE), and Egypt have been prominent on the ANO's target list, and each has suffered a number of attacks on its officials, airliners, and other interests throughout the Middle East and Europe. The ANO has also attacked US and British targets, striking civilian targets such as airlines and hotels as well as diplomats—including the British Deputy High Commissioner in Bombay, whom they murdered in 1984. Abu Nidal staged a series of attacks against Jordanian targets in 1984-85 when Jordan's King Hussein joined PLO Chairman 'Arafat in efforts to revive Middle East peace negotiations. The ANO publicly condemned Romania in November 1996 for hosting a meeting between the PLO and members of an Israeli peace group. In June 1987 Hungary served as the venue for a similar meeting, and the ANO reiterated its threats.



Valletta, Malta, November 24, 1985. Egyptian commandos search among the surviving passengers of Egyptian Flight 648 for the hijackers. The incident claimed 56 victims.

Sabri al-Banna formed his organization in 1974, largely in response to 'Arafat's professed ban on PLO participation in terrorist attacks outside Israel and the occupied territories. Al-Banna—who was the PLO representative in Baghdad at the time—disagreed, arguing that any operation that advances the Palestinian cause is justifiable and any location is acceptable. These radical views found favor with the Iraqi regime. Al-Banna's close ties to Iraqi intelligence proved beneficial—Baghdad provided al-Banna with a base for his operations and helped him create his organization, officially called Fatah-Revolutionary Council. By choosing this name, al-Banna broadcast his claim that his organization, rather than the one led by 'Arafat, was the legitimate Fatah. He has similarly created an organizational structure with titles that mirror 'Arafat's Fatah.

Although most noted for his international terrorist network, al-Banna wants to supplant 'Arafat's organization as the main focus of allegiance for the Palestinian people. In recent months, the ANO has renewed its attention to intra-Palestinian politics. Although Sabri al-Banna remains under death sentence by 'Arafat's Fatah, the ANO joined preliminary sessions of the Palestine National Council in Algiers in April 1987. ANO has begun building a militia within the refugee camps in Lebanon. These efforts are in addition to—not a substitute for—al-Banna's basic strategy of using violence and terrorism to bring down Israel and punish any who support or negotiate with its government.

الطريق



Cover page of *Al-Tariq*, ANO's internal, policy magazine. The magazine is disseminated on a highly restricted basis, and members may not retain copies.

ANO members suspected of committing security infractions; collecting targeting and casing information for potential operations; and conducting terrorist operations.

The Political Department is the overt arm of the ANO. It performs liaison and propaganda functions. This department publishes *Filastin al-Thawra*, the ANO's glossy international news weekly, which contains items of interest to Palestinians. It is distributed to ANO members around the world, often clandestinely, because it is banned in many Arab and other countries. The Political Department also produces *Al-Tariq*, an internal, typewritten document reportedly written by Sabri al-Banna. *Al-Tariq* contains policy recommendations, future plans, ideological discussions, internal criticism, and personnel matters. It is tightly held, and members who are allowed to read it may not retain it. In recent months, the Political Department may have achieved increased prominence because the ANO has begun emphasizing its political agenda as a part of its maneuvers within the Palestinian movement, particularly in the wake of the Palestine National Council meeting in Algiers.

The Lebanon Affairs Department is responsible for ANO activities in Lebanon and relations with the various organizations and movements in Lebanon. It oversees the five military districts into which the ANO divides responsibility for Lebanon. It was formed in early 1986 because of the growing importance of Lebanon, particularly the south, as a base of operations. The department also assumed responsibility for all ANO military activities in Lebanon from the former Military Department, which was relegated to an office after an internal ANO political squabble. The prominence of ANO armed units in the camps war in Lebanon has undoubtedly raised the importance of the Lebanon Affairs Department within the overall organization.

Training and Operations

Despite increased attention to Palestinian politics and to military affairs in Lebanon, the ANO's primary tool against Israel and within the Palestinian movement remains its terrorist apparatus. ANO terrorist operatives are carefully screened and trained. The ANO does not require large military training camps, although operatives have received paramilitary-style training at camps in Lebanon and Syria. Some of these camps are controlled by other organizations, such as the Popular Front for the Liberation of Palestine-General Command (PFLP-GC), which use the camps to train Palestinian militias for urban guerrilla warfare. Many of the weapons and techniques are equally applicable to terrorist operations. ANO operatives at such camps have been trained in the use of small arms, grenades, and other weaponry for terrorist operations. Before Syria closed ANO offices in Damascus, the organization used the PFLP-GC camp at Ayn Sahab, north of Damascus, to train its operatives. The current status of ANO activities that have been located in the Bekaa Valley and elsewhere in Lebanon is unclear.

An important component of ANO training is political indoctrination, with heavy stress on loyalty and obedience to the organization. It is clearly understood that "defectors" will be killed; each ANO member signs a statement upon entry into the

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Istanbul, Turkey, September 6, 1986. The interior of Nave Shalom synagogue attacked by two ANO gunmen; 22 victims died.

The ANO's move to Syria coincided with a dramatic increase in its terrorist attacks. Between 1983 and 1986, the ANO struck at US, British, pro-'Arafat Palestinian, moderate Arab, Turkish, and Israeli targets. Between late 1983 and late 1985, the ANO conducted 16 attacks against Jordanian targets including Jordanian diplomats, as part of a Syrian campaign to disrupt Jordanian initiatives in the Middle East peace process. The attacks against the Jordanians ceased following a Jordanian-Syrian rapprochement.

The current major ANO supporter in the Middle East is Libya. ANO's relationship with Libya has intensified since about 1985. The Libyan press reports that Sabri al-Banna met with senior officials in Libya at

least three times in 1985. Libya provides training assistance, safehaven, and financial support to the ANO. Tripoli gives the ANO close support for selected operations as well. In September 1985, an ANO operative was arrested in London after he was seen collecting four handgrenades in a bag from a Libyan contact. Libya is believed to have been involved in the bloody ANO hijacking of Egyptair Flight 648 in November 1985, and Tripoli provided the passports to ANO members who attacked the El Al counter at the Vienna airport in December that same year. Many ANO personnel expelled from Syria appear to be relocating to Libya.

activities, but also can be used for operational support. With such a network in place, the clandestine ANO terrorist operatives have access to a readymade mechanism to move and hide funds; to buy, ship, and cache weapons; to arrange meetings; and to serve as accommodation addresses. ANO company personnel are thus available to perform a wide range of terrorist support functions worldwide under commercial cover if called on to do so.

The ANO commercial network comprises several businesses created over the past seven years with the long-term goal of establishing legitimate trading enterprises in various countries, gaining experience in commercial trade, and making a profit for the group. Such profits permit the organization some freedom of operation—beyond the control of its state benefactors. Most of the companies deal in a variety of manufactured goods that are sold primarily to Arab countries, but a key segment of the network deals extensively in the international arms market, with assistance from gray-arms dealers and certain Warsaw Pact countries.

The general manager of the commercial network and the principal agent in gray-arms transactions is Samir Hasan Najm al-Din (Samir Najmeddin). He has directed many of ANO's commercial activities, both licit and illicit, from his offices in the INTRACO building in Warsaw, Poland. He brokered arms sales on behalf of Warsaw Pact and Middle Eastern governments even before the ANO companies were established, and commissions from such deals have been a continuing source of income for the ANO. Najm al-Din established a permanent residence in Warsaw at 3 Ulica Bagno, apartment 24, in 1983 or earlier.

The managers of the group's several companies report to the Board of Directors, which includes ANO leader Sabri al-Banna; his de facto deputy for commercial matters, Samir Najm al-Din; financial manager Shakir Farhan; and a fourth official named Kamal Hasan Khalil. Organizationally, the Board of Directors falls under the purview of the ANO's Finance and Economic Department. In reality, the commercial network is run by Najm al-Din, who reports directly to Sabri al-Banna.

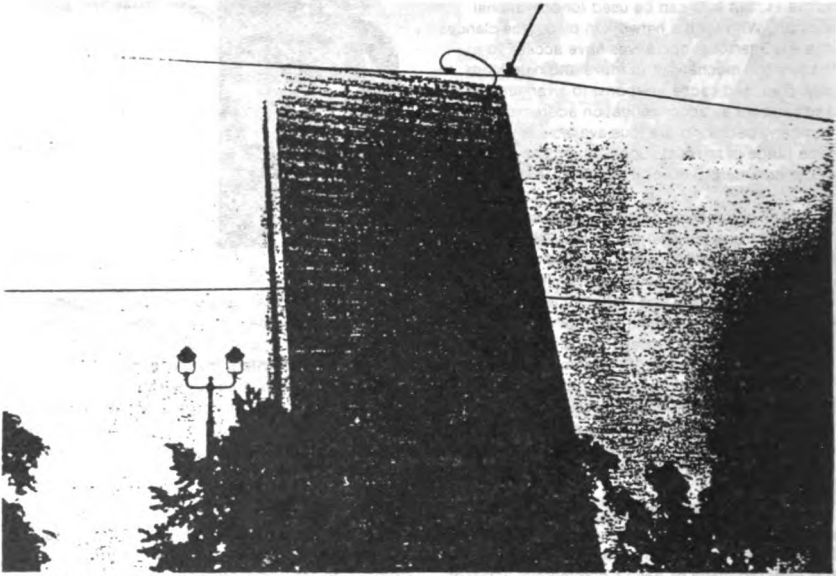


Samir Hasan Najm al-Din

Najm al-Din has maintained all of the companies' records at his Warsaw office. He has maintained a general account at a major West European bank from which he transfers money to individual company accounts at local banks. He maintains joint control of each company's bank accounts along with the company manager, and he is responsible for forwarding all major contracts to Sabri al-Banna for final approval.

Members of the ANO commercial sector generally do not interact with those involved in its political and terrorist operations. The managers of the ANO companies are primarily businessmen. This facilitates interaction with potential clients and provides plausible denial to businessmen or governments that are aware that the companies are controlled by ANO but would be embarrassed should their involvement with these enterprises become public.

Although ANO businessmen are not members of the terrorist wing of the organization, the group's leadership considers them integral members of the ANO, and they must undergo the same stringent screening process as do terrorist operatives. They regularly receive issues of ANO publications, including the news magazine *Filastin al-Thawa* and the internal policy document *Al-Tariq*. They attend meetings hosted by senior ANO officials, in which they are briefed on current issues of interest and are reminded of their contribution to the ANO cause.



The SAS company has maintained its headquarters on the 25th floor of the INTRACO building at Stawki 2, in the Nowe Miasto section of Warsaw.

manager of SAS, the most profitable ANO company, and he has maintained offices in the INTRACO building. SAS has been represented in Warsaw by the Polish firm Maciej Czamecki and Co., whose director is Jerzy Dziubinski.

- Zibado Foreign Trade and Consultants
International Trade Center
1086 Friedrichstrasse, P.O. Box 99 1HZ
German Democratic Republic-Berlin
Telephones: 206-2951, 206-2952, and 206-1627
Telex: 112009 ZIBAD DD

Zibado's headquarters were established in the Soviet sector of Berlin ("East Berlin") in 1983. The "East Berlin" office had three employees—the manager, an East German named Hans Hoffmann, and

an East German secretary. It was managed by Kamal Hasan Khalil before it closed in late 1986. Zibado company officials dealt directly with Guenther Hausman, managing director for exports in IMES. IMES is an East German Government foreign trade organization active in the arms trade. Zibado claimed to be able to deliver a wide range of goods, including entire industrial plants, building machines and materials, research laboratories, pianos, livestock, and frozen seafood. In 1983, the Zibado company established a branch in Damascus, located on the fifth floor of the Nahas building, on Abu Sa'id Street, and managed by Abdullah Salah (Abu Hisham). The Damascus branch has served as an office for ANO Financial Director Shakir Farhan.

Western Europe for operations. Depending on the nature of their arrangements with the ANO, the East European governments obtain hard currency, access to embargoed weapons, and/or guarantees against ANO terrorist activities on their soil.

A salient feature of the commercial network has been its intricate relationship with Poland and East Germany. ANO commercial organizations in Warsaw (SAS Foreign Trade and Investment) and in "East Berlin" (Zibado) have been staffed not only by ANO commercial representatives, but also by Polish and East German nationals who act as brokers between government export companies and foreign buyers. They have dealt heavily but not exclusively in arms trading in the Middle East and Africa. The SAS company in Warsaw has served as the hub of much of this activity.

SAS has worked closely with the official Polish arms exporter CENZIN to broker arms transfers for the Polish Government. Andrzej Marchewka has been the chief Polish contact for SAS commercial activities. He has functioned as a representative of both CENZIN and SAS and has negotiated a number of weapons deals for SAS with Middle Eastern governments. He is believed to be a Polish intelligence official, and the ease with which he has expedited visas and customs clearance for ANO travelers to Warsaw certainly suggests close ties to Polish security officials. Najm al-Din pays Marchewka \$600 per month—\$500 goes to the Polish Government and \$100 to Marchewka.

The ANO has maintained a close commercial relationship with East German foreign trade organizations in three areas: manufactured goods, weapons, and embargoed technology. Unlike SAS, which has been the ANO's focal point for all business deals in Poland, Zibado was responsible only for trade in manufactured goods, and it dealt directly with East German manufacturing firms. Najm al-Din personally handles the weapons and technology transactions. For these, he has dealt directly with IMES, a state-run foreign trade organization primarily responsible for the sale of weapons and other military equipment. East German officials have also turned to the

ANO commercial network for assistance in establishing contacts in several African and Middle Eastern markets the East Germans have not otherwise been able to penetrate.

In Warsaw and "East Berlin," the local employees and the export firms ANO has dealt with have extensive ties to responsible party, government, and commercial officials. These employees and local export firms also have ties to high-level intelligence offices, which have facilitated ANO travel and dealings with state bureaucracies.

Polish and East German connections help the ANO in other areas as well. After his expulsion from Iraq in 1983, Sabri al-Banna went to Poland. He may have resided in Poland from late 1983 until early 1985, and he continued to maintain a residence in Warsaw afterward. The ANO holds general business meetings in Warsaw; Sabri al-Banna presided over two such meetings in 1983 and 1984. In December 1983, meetings were held at the Solec Hotel and at the Novotel Hotel near Warsaw's airport. In September 1984 the meetings again were held at the Novotel Hotel. In June 1987, several officials from ANO companies in Europe traveled to Warsaw, evidently for consultations with Najm al-Din.

The ANO's ties to Poland date to at least 1979. Sabri al-Banna and the Polish Government entered an agreement whereby the ANO pledged not to undertake terrorist activities on Polish soil or against Polish interests in return for freedom to conduct ANO propaganda activities in Poland and for scholarships for ANO members. A senior official of the Polish Ministry of Education met the first group of ANO students at the Warsaw airport. The ANO has continued sending students to Poland each year and has maintained a liaison officer in Warsaw, Najah 'Abd al-'Alu Muhammad 'Adas—himself a former student there—to oversee the scholarship program.

The East German Government reached a similar arrangement with Sabri al-Banna in early 1983. Again, the reciprocal agreement involved a pledge by ANO not to undertake operations in East Germany or against East German interests abroad in return



Alkastronic office in Vienna, Austria, March 1987

deals that work to the advantage of Warsaw Pact and Middle Eastern states, as well as to the ANO itself:

- In 1986 Najm al-Din assisted East Germany in obtaining 115 Enfield antiriot weapons from the United Kingdom by designating an African country on the end user certificate. The shipment was diverted to East Germany once it reached Rotterdam. The East German Government purchased 100 of the weapons and the remainder were retained by the ANO.

- In 1984 Najm al-Din handled a contract worth \$500,000 under which East Germany sent more than 4,000 Kalashnikov assault rifles to Libya. The rifles were shipped via Poland in order to conceal East German involvement in the transaction.

- In 1985, Najm al-Din observed a live fire demonstration of weapons that the East Germans hoped to market. One was a shortened East German-made Kalashnikov assault rifle that could be equipped with a silencer. The other was a 9-mm Finnish Jatimatic submachinegun that the East Germans recommended for "street fighting." Both would be useful additions to any terrorist's arsenal.

The East German Government also looks to the ANO gray-arms network to help provide weapons for other terrorist groups supported by "East Berlin." In early 1984, the East German Government trading company IMES approached Najm al-Din to handle arms sales on its behalf and provide weapons for the two radical Palestinian groups, the Popular Front for the Liberation of Palestine-General Command (PFLP-GC) and the Democratic Front for the Liberation of Palestine (DFLP).

Through ties to the official Polish company CENZIN and arms dealings on behalf of other Palestinian groups, the ANO gray-arms network intersects with that of Munzir Qassar. Like the ANO, Qassar procures weapons for terrorist groups, falsifies end user certificates, and provides support that obscures the trail back to the Warsaw Pact suppliers (see inset on the Qassars).

Munzir Qassar, a notorious arms and narcotics trafficker, has extensive commercial links to the Polish Government, which provides him with office space, special services, and staff. Qassar is recognized in Warsaw as one of the primary arms brokers for the Polish Government, although he also services other Warsaw Pact governments. Qassar brokers millions of dollars in arms sales and arranges shipping and financing between Warsaw Pact states and various Middle Eastern clients, including terrorist groups.

Munzir Qassar works directly with SAS, the ANO company in Warsaw.

- Documents found in Qassar's Alkastronic office in Vienna in 1985 recorded the sale of ammunition and pistols—some equipped with silencers—to SAS in Warsaw.
- Qassar and ANO commercial director Najm al-Sin have worked together in brokering arms deals.

Outlook

Recent ANO attacks have been increasingly violent. The Pan Am Flight 73 hijacking, the massacre at the Neve Shalom synagogue in Istanbul, and the Rome and Vienna airport attacks suggest that future ANO attacks may also cause high numbers of casualties among people with no connection to the Middle Eastern conflict. Past actions and current trends suggest that the ANO is likely to conduct more terrorist attacks. The ANO continues to espouse violence as the only effective way to achieve a Palestinian homeland in present-day Israel. The ANO's attacks in 1986 continued a trend toward

operations designed to cause a maximum number of casualties with no concern for the innocence of the victims.

The ANO frequently launches attacks aimed at freeing imprisoned members (see table 3 on pages 20 and 21). Al-Banna publicly threatened the United States with retaliation if it extradites to Israel a Palestinian who claims to belong to Fatah; he was arrested in New York in May 1987 on murder charges filed by Israel. In 1986 an ANO political spokesman warned, "Some of our people are imprisoned in Europe. We are going to liberate them before long; that we can guarantee."

The ANO has demonstrated its willingness to follow through on its threats. For example, since March 1984, it has conducted a series of bombings and assassinations against British targets in an unsuccessful attempt to force the release of members imprisoned there. The ANO has also sought to intimidate other governments that hold ANO prisoners by conducting attacks against third-party targets on their soil. Such intimidation may precede or follow ANO attempts to negotiate deals with those holding its members.

Table 3 (continued)

Country/Total in Custody	Name	Date of Incident	Sentence (in years)	Remarks
Kuwait—1	Mustafa Mahmud Mustafa Sa'id Biyari	July 11, 1985	Death	Arrested for the bombings of two cafes in Kuwait City.
Malta—1	Muhammad Ali Abd al-Rizq	November 23, 1985	...	Arrested for participation in Egyptian hijacking in Valletta.
Pakistan—5	Wahdud Muhammad Hafiz al-Turk Zayd Hasan Abd al-Latif Musud al-Safarini Muhammad Abdullah Khalil Hussain al-Rahayyal Jamal Sa'id Abd al-Rahim Muhammad Ahmad al-Munawar	September 5, 1986	... ... ... ... ... ...	Arrested for attempted hijacking of Pan Am Flight 73 in Karachi.
Spain—2	Sa'id Ali Saliman and an accomplice	March 3, 1980	24	Jailed for the murder of Spanish attorney Adolfo Cotejo Villareal in Madrid.
United Kingdom—4	Husayn Ghassan Sa'id Murwan al-Banna Nawal Nagib Misih Rusan Rasmi Awad	June 3, 1982 September 22, 1985	30 30 35 25	Jailed for the attempted murder of Israeli Ambassador Argov in London. Arrested for conspiring to cause explosions in London.
United States—1	Mahmud al-Abid Ahmad (aka Mahmud Mahmud Ata)	April 12, 1986	...	Arrested on provisional arrest warrant, pending extradition to Israel. He is wanted in connection with an attack on a passenger bus at Dayr Abu Mithal Junction. (Claims to be member of Fatah.)

Appendix A

Chronology of Significant Abu Nidal Organization Terrorist Activities, 1974-86

1974

November 22

United Arab Emirates (UAE): Four terrorists, armed with machineguns, handgrenades, and pistols, hijack British Airways plane en route from Dubai to Tunis . . . two people wounded during takeover . . . plane took off with approximately 46 hostages, refueled in Tripoli, Libya, and went on to Tunis . . . one passenger killed on ground; hostages later released.

Late 1974

Location unknown; probably Lebanon: Murder planned by Sabri al-Banna against Yasir 'Arafat, Salah Khalaf (Abu Iyad), and other prominent Palestinian leaders uncovered by Fatah intelligence . . . al-Banna sentenced to death in absentia in October.

1976

September 26

Syria: Four terrorists, armed with machineguns and grenades, take over Semiramis Hotel in Damascus, taking 90 hostages . . . Syrian troops storm hotel . . . one terrorist killed and three captured; four hostages killed and 34 wounded.

October 11

Pakistan: Grenade attack on Syrian Embassy and Syrian Ambassador's residence in Islamabad.

November 17

Jordan: Four Palestinians attack Intercontinental Hotel with handguns and grenades, killing two employees and taking hostages . . . Jordanian troops counterattack, killing three terrorists and wounding one . . . two soldiers, one hotel guest killed; four hotel guests wounded.

December 2

Syria: Syrian Foreign Minister 'Abd al-Halim Khaddam seriously wounded in assassination attempt in Damascus.

1977

October

UAE: Assassination attempt against Syrian Foreign Minister Khaddam in Abu Dhabi results in death of UAE Minister of State.

1978

January 4

United Kingdom: PLO representative killed in London.

February 15

Cyprus: Two gunmen attack Afro-Asian People's Solidarity Organization meeting in Nicosia and kill the organization's secretary general, Yusuf as-Siba'i, a confidant of Anwar El-Sadat . . . leave country on aircraft with 11 hostages but refused permission to land in Libya, Kuwait, Somalia, Ethiopia, and the People's Democratic Republic of Yemen (South Yemen) . . . subsequently return to Larnaca Airport . . . Egyptian counterterrorism force assaults aircraft . . . resulting firefight kills 15 and wounds 16.

June 15

Kuwait: PLO official murdered in Kuwait.

August 3

France: Two gunmen attack PLO office in Paris and kill PLO representative to France.

August 26

India: UAE Consul General in Bombay escapes injury in assassination attempt.

September 16

Pakistan: Attempted assassination of Kuwaiti Consul General in Karachi.

September 18

Spain: First secretary of Kuwaiti Embassy assassinated in Madrid; driver wounded.

October 9

Italy: Grenade and machinegun attack against synagogue in Rome kills a child and wounds 10 persons.

December 8

Greece: Kuwait Airways offices bombed in Athens; no casualties.

1983**April 10**

Portugal: Issam Sartawi, prominent PLO moderate and close friend of 'Arafat's, killed in Lisbon.

August 20

Greece: Murder of aide to high-ranking Fatah official Khalil al-Wazir.

September 23

UAE: Gulf Air Boeing 737 en route from Karachi, Pakistan, to Abu Dhabi, crashes, killing all 111 passengers and crew . . . crash may have been caused by bomb aboard aircraft.

October 25

India: Jordanian Ambassador wounded in assassination attempt in New Delhi.

October 26

Italy: Jordanian Ambassador and driver wounded in assassination attempt in Rome.

October 31

Jordan: Car bomb detonated outside main Jordanian Army officers' club in Az Zarqa; no casualties reported.

November 7

Greece: Two security guards of Jordanian Embassy in Athens attacked; one killed, one wounded.

November 12

Jordan: Discovery of car bomb in residential area in Amman.

December 19

Turkey: Car bomb discovered midway between French cultural center and U.S. officers' club in Izmir.

December 20

Turkey: Car bomb injures one person and causes extensive damage to apartment building near PLO office and living quarters in Ankara.

December 29

Spain: Two Jordanian Embassy employees attacked in Madrid; one killed, one wounded.

1984**February 8**

France: UAE Ambassador to France assassinated in Paris.

March 24

Jordan: Bomb defused outside British Consulate in Amman.

March 24

Jordan: Bomb defused outside British cultural center in Amman.

March 24

Jordan: Bomb explodes in parking lot of Intercontinental Hotel, across street from US Embassy, damaging two vehicles and slightly injuring two persons. second bomb discovered and defused.

March 28

Greece: British Embassy first secretary assassinated in Athens.

July 24

Turkey: First secretary at Jordanian Embassy assassinated in Ankara.

August 8

Greece: Bomb explodes in kitchen of London Hotel in Athens, wounding 13 tourists.

August 24

Turkey: Bomb discovered in PLO office in Ankara.

August 30

Greece: Palestinian arrested in Athens for plotting assassination of Jordanian Ambassador.

September 3

Greece: Two grenades thrown at swimming pool at Glyfada Hotel in Athens. . . 19 British tourists wounded.

September 16

Italy: Grenades thrown at Cafe de Paris in Rome, injuring 38 tourists.

September 18

Greece: Palestinian magazine publisher murdered in Athens.

September 22

United Kingdom: British authorities arrest an ANC member found in possession of four handgrenades and charge him with conspiracy to cause explosions and to endanger life . . . grenades provided by Libyan contact . . . target identity unknown.

September 25

Italy: Bomb explodes at British Airways office in Rome, killing one and injuring 14.

November 23

Malta: Three gunmen seize Egyptair Boeing 737 en route from Athens to Cairo and force it to land in Valetta, Malta . . . when hijackers' demand for refueling refused, they begin shooting selected passengers . . . ultimately, 56 passengers and two terrorists killed; 23 passengers and one terrorist wounded . . . on November 24, Egyptian military commando unit storms plane.

November 24

Jordan: Husayn al-Bitar murdered in Amman as a result of financial dispute over his house, which was allegedly owned by Sabri al-Banna.

December 27

Austria: Three gunmen attack El Al counter at Vienna's Schwechat Airport with grenades and AK-47s, killing two and wounding 39 . . . one terrorist also died and two were wounded.

December 27

Italy: Four gunmen attack El Al ticket counter at Rome's Fiumicino Airport with grenades and AK-47s, killing 12 and wounding 72 . . . three terrorists also died, and one was injured.

1986**September 5**

Pakistan: Four men armed with automatic weapons, handguns, and grenades storm Pan Am Boeing 747 in Karachi, killing 21 and injuring over 100 others.

September 6

Turkey: Two gunmen attack Neve Shalom synagogue in Istanbul with grenades and machine-guns . . . 22 killed and six wounded.

LIST OF PAYMENT GUARANTEES UNDER THE GSM-102 PROGRAM: BCCI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEES BANK
FIBS

U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
BANK OF CREDIT & COMMERCE	COLOMBIA	BANCO DE CREDITO Y COMERCIO DE COLOMBIA	1615-754.00	J. MC. RODRIGUEZ AND CO.,
			11,015.00	INDUSTRIAL CO. A.C.
	JAMAICA	BANK OF JAMAICA	9,721,034.00	RICHCO GRAIN, A.C.
			1194-358.00	BREWSTER, LTD. A.C.
FIRST AMERICAN BANK OF GE			9259-700.00	PASTERMAR BAUM INTERNATIO
			9132-300.00	PASTERMAR BAUM INTERNATIO
			1500-000.00	UNIVERSAL LEAF TOBACCO CO
			1759-869.00	ALLIANCE GRAIN, INC.
			1744-800.00	CENTRAL AMERICAN, INC.
			9184-934.00	PASTERMAR BAUM INTERNATIO
			97-840.00	ALLIANCE GRAIN, INC.
			9313-600.00	PASTERMAR BAUM INTERNATIO
			149-047.00	ALLIANCE GRAIN, INC.
			9105-500.00	CONTINENTAL GRAIN CO.
			872-108.00	CONTINENTAL GRAIN CO.
			9100-952.00	CONTINENTAL GRAIN CO.
			9680-659.00	OVERSEAS GRAIN CORPORATION
			9774-690.00	ALLIANCE GRAIN, INC.
			9255-374.00	ALLIANCE GRAIN, INC.
			9689-920.00	ALLIANCE GRAIN, INC.
			9298-352.00	ALLIANCE GRAIN, INC.
			9659-720.00	ALLIANCE GRAIN, INC.
			9271-748.00	ALLIANCE GRAIN, INC.
			91-467-001.00	ALLIANCE GRAIN, INC.
			9680-659.00	PASTERMAR BAUM INTERNATIO
			9862-600.00	PASTERMAR BAUM INTERNATIO
			945-101.00	PILCH, INC.
			9352-800.00	PASTERMAR BAUM INTERNATIO
			9217-540.00	PASTERMAR BAUM INTERNATIO
			9282-240.00	PASTERMAR BAUM INTERNATIO
			998-700.00	PASTERMAR BAUM INTERNATIO
			983-300.00	PAC YOUNG SEED AND GRAIN
			9398-268.00	SCHOUTEN INTERNATIONAL, I
			951-450.00	WISCONSIN LIVESTOCK EXCHA
END OF REPORT			915-803-288.00	

LIST OF PAYMENT GUARANTEES UNDER THE SM-102 PROGRAM: DCI,
FIRST AMERICAN BANK FIRST NATIONAL BANK OF GEORGIA AND U.S.
ASSIGNEE BANK

10/01/71

U.S. BANK	COUNTRY	DATE OF CREDIT & COMMERCE	DEBITING BANK	GUARANTEED VALUE	U.S. EXPORTER
BANK OF CREDIT & COMMERCE	COLUMBIA	BANCO DE CREDITO Y COMERCIO DE COLUMBIA	ACION S.A.	5251-019-00	CONTINENTAL GRAIN CO.
				927-037-00	OVERSEAS GRAIN CORPORATION
	GUATEMALA	BANCO CACABERO BANCO DE EXPORT- BANCO DEL ALBO	ACION S.A.	9267-646-00	SIEGEL CHEMICAL EXPORT CO
				9193-323-00	PASTERNAE, BAUM AND CO.,
				9193-323-00	PASTERNAE, BAUM AND CO.,
				920-515-00	PASTERNAE, BAUM AND CO.,
				9193-323-00	PASTERNAE, BAUM AND CO.,
				9115-714-00	PASTERNAE, BAUM AND CO.,
	JAMAICA	BANCO DEL CAFE, S.A. BANCO GRANA, S BANK OF JAMAICA	TOWNSON SA	9115-714-00	PASTERNAE, BAUM AND CO.,
				91,394,822-00	SIEGEL CHEMICAL EXPORT CO
				9549-332-00	LUDWIG REITER & CO., INC
				931-589-00	MAPLE LEAF MILLS, INC.
FIRST AMERICAN BANK OF GE	COLUMBIA	BANCO DEL ESTADO		91159-232-00	MAPLE LEAF MILLS, INC.
				91165-517-00	MAPLE LEAF MILLS, INC.
	HONDURAS			91976-386-00	MAPLE LEAF MILLS, INC.
				91152-041-00	MARUBENT AMERICA CORP.
				9291-949-00	PASTERNAE, BAUM AND CO.,
				9238-075-00	PASTERNAE, BAUM AND CO.,
				9429-932-00	THE MCCINNIS LUMBER CO.,
				9184-927-00	OVERSEAS GRAIN CORPORATION
		BANCO DE OCLIBENTE		935-767-00	AGROPEC INTERNATIONAL CORP.
				989-200-00	PETOSUED EXPORT COMPANY
END OF REPORT				939-200-00	R.C. YOUNG SEED AND GRAIN
				9265-400-00	SCHOUTEN INTERNATIONAL, I
				9374-240-00	SCHOUTEN INTERNATIONAL, I
				9342-626-00	SCHOUTEN INTERNATIONAL, I
				912-933-337-00	

LIST OF PAYMENT GUARANTEES UNDER THE CSN-102 PROGRAM: BCCI,
FIRST AMERICAN, AND FIRST AMERICAN BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
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U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
BANK OF CREDIT & COMMERCE	COLUMBIA	PANCO DE CREDITO Y COMERCIO DE COLOMBIA	982,482.00	CONTINENTAL GRAIN CO.
			912,480.00	BAKER COMMODITIES, INC.
			9169,050.00	BAKER COMMODITIES, INC.
			9999,600.00	BWALING-BELMARE COMPANY,
			9699,720.00	BARLING-BELMARE COMPANY,
			9172,431.00	BARLING-BELMARE COMPANY,
			9461,925.00	PETERSON MANUFACTURING CO
			9461,925.00	PETERSON MANUFACTURING CO
			9490,000.00	TOWNE AMERICA, INC.
			9514,500.00	BAKER COMMODITIES, INC.
			9999,600.00	PETERSON MANUFACTURING CO
			9439,847.00	PETERSON MANUFACTURING CO
			9490,000.00	TOWNE AMERICA, INC.
			9374,430.00	CHAMBERLAIN INTERNATIONAL, I
			9576,438.00	CARGILL, INC.
			96,980,745.00	
FIRST AMERICAN BANK OF GE	HONDURAS	BANCA DE EL AHORRO HONDURENO S.A.		
		BANCO DE OCCIDENTE		
		BANCO LA CAPITALIZA- DORA HONDURENA SA		
END OF REPORT				

LIST OF PAYMENT GUARANTEES UNDER THE GSM-102 PROGRAM: BCCI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSUREE BANK 10/01/91

U.S. BANK	COUNTRY	OPENING DATE	GUARANTEED VALUE	U.S. EXPORTER
BANK OF CREDIT & COMMERCIE FIRST AMERICAN BANK OF GE	JAMAICA	BANK OF JAMAICA BANCO AGRICOLA CO- MERCIAL DE EL SALVADOR	657,253.00	CASCILL, INC.
			687,732.00	ALLIANCE GRAIN, INC.
			687,732.00	BAKER COMMODITIES, INC.
			618,186.00	BAKER COMMODITIES, INC.
			635,665.00	BAKER COMMODITIES, INC.
			674,318.00	BAKER COMMODITIES, INC.
			644,117.00	BAKER COMMODITIES, INC.
			651,498.00	BAKER COMMODITIES, INC.
			612,788.00	BAKER COMMODITIES, INC.
			612,788.00	BAKER COMMODITIES, INC.
			612,788.00	BAKER COMMODITIES, INC.
			612,788.00	BAKER COMMODITIES, INC.
			661,505.00	BAKER COMMODITIES, INC.
			664,138.00	BAKER COMMODITIES, INC.
			648,750.00	BAKER COMMODITIES, INC.
			621,531.00	ALLIANCE GRAIN, INC.
			621,531.00	ALLIANCE GRAIN, INC.
			652,485.00	BAKER COMMODITIES, INC.
			626,441.00	BAKER COMMODITIES, INC.
			649,952.00	BAKER COMMODITIES, INC.
BANCO CAPITALIZADOR			624,500.00	UNIMARKETING, INC.
			671,809.00	ALLIANCE GRAIN, INC.
			671,809.00	ALLIANCE GRAIN, INC.
			682,451.00	BAKER COMMODITIES, INC.
			681,103.00	BAKER COMMODITIES, INC.
			674,740.00	BAKER COMMODITIES, INC.
			691,523.00	BAKER COMMODITIES, INC.
			691,523.00	BAKER COMMODITIES, INC.
			674,700.00	BAKER COMMODITIES, INC.
			601,543.00	BAKER COMMODITIES, INC.
BANCO CUSCAN			677,479.00	BAKER COMMODITIES, INC.
			613,766.00	BROWN SWISS ENTERPRISES, INC.
			635,462.00	CHRYSLER CREDIT CORP.
			635,462.00	CHRYSLER CREDIT CORP.
			635,462.00	CHRYSLER CREDIT CORP.
			635,462.00	CHRYSLER CREDIT CORP.
			635,462.00	CHRYSLER CREDIT CORP.
			635,462.00	CHRYSLER CREDIT CORP.
			635,462.00	CHRYSLER CREDIT CORP.
			635,462.00	CHRYSLER CREDIT CORP.
BANCO DE DESARROLLO BANCO DE OCCIDENTE BANCO DEL CAPE, S.A. BANCO INDUSTRIAL, SA	GUATEMALA	E. INVERSTON SA BANCO DE OCCIDENTE BANCO DEL CAPE, S.A. BANCO INDUSTRIAL, SA	633,044.00	ARROW ACRES FARM, INC.
			608,784.00	PASTERNAK, BAUM AND CO.,
			608,784.00	PASTERNAK, BAUM AND CO.,
			608,784.00	PASTERNAK, BAUM AND CO.,
			608,784.00	PASTERNAK, BAUM AND CO.,
			608,784.00	PASTERNAK, BAUM AND CO.,
			608,784.00	PASTERNAK, BAUM AND CO.,
			608,784.00	PASTERNAK, BAUM AND CO.,
			608,784.00	PASTERNAK, BAUM AND CO.,
			608,784.00	PASTERNAK, BAUM AND CO.,
BANCO INMOBILIARIO BANCO INTERNACIONAL CREDITO HIPOTECARIO	GUATEMALA	NACIONAL DE GUATEMALA	61,994,153.00	PASTERNAK, BAUM AND CO.,
			61,994,153.00	PASTERNAK, BAUM AND CO.,
			61,994,153.00	PASTERNAK, BAUM AND CO.,
			61,994,153.00	PASTERNAK, BAUM AND CO.,
			61,994,153.00	PASTERNAK, BAUM AND CO.,
			61,994,153.00	PASTERNAK, BAUM AND CO.,
			61,994,153.00	PASTERNAK, BAUM AND CO.,
			61,994,153.00	PASTERNAK, BAUM AND CO.,
			61,994,153.00	PASTERNAK, BAUM AND CO.,
			61,994,153.00	PASTERNAK, BAUM AND CO.,
BANCO DE DESARROLLO BANCO DE OCCIDENTE BANCO DEL CAPE, S.A. BANCO INDUSTRIAL, SA	HONDURAS	BANCO DE OCCIDENTE	648,400.00	PETOSCED CO., INC.
			648,400.00	PETOSCED CO., INC.
			648,400.00	PETOSCED CO., INC.
			648,400.00	PETOSCED CO., INC.
			648,400.00	PETOSCED CO., INC.
			648,400.00	PETOSCED CO., INC.
			648,400.00	PETOSCED CO., INC.
			648,400.00	PETOSCED CO., INC.
			648,400.00	PETOSCED CO., INC.
			648,400.00	PETOSCED CO., INC.

LIST OF PAYMENT GUARANTEES UNDER THE GSM-102 PROGRAM: DCCI:
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK 10/01/91

U.S. BANK	COUNTRY	OPENING DATE	GUARANTEED VALUE	U.S. EXPORT EXPORTER
FIRST AMERICAN BANK OF GE	HONDURAS	BANCO DE OCCIDENTE	923,709.00	SCHOUTEN INTERNATIONAL, I
			913,020,163.00	

END OF REPORT

LIST OF PAYMENT GUARANTEES UNDER THE CSR-102 PROGRAM: BCEI,
FIRST AMERICAN, AND FIRST INTERNATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEES BANK

U.S. BANK		COUNTRY		OPENING DATE		GUARANTEED VALUE		U.S. EXPORTER	
BANK OF CREDIT & COMMERCE		JAMAICA		BANK OF JAMAICA					
				10/01/91					
FIRST AMERICAN BANK OF GE EL SALVADOR	FIRST AMERICAN INTERNATIONAL	EL SALVADOR	BANCO AGRICOLA CO- MERCIAL DE EL SALVADOR	BANCO AGRICOLA CO- MERCIAL DE EL SALVADOR					
		HONDURAS	BANCO DE DESARROLLO E. INVERSION SA	BANCO DE FORTENTO ACROPECUARIO DE EL SALVADOR					
			BANCO LA CAPITALIZA- DORA HONDURENA SA						

LIST OF PAYMENT GUARANTEES UNDER THE GSM-102 PROGRAM: BCCI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK

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10/01/91

U.S. BANK	COUNTRY	OPENING DATE	GUARANTEED VALUE	U.S. EXPORTER
			927,136,273.00	

END OF REPORT

LIST OF PAYMENT GUARANTEES UNDER THE GSR-102 PROGRAM: BECI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
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U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
BANK OF CREDIT & COMMERCE	JAMAICA	BANK OF JAMAICA		
			\$28,231.00	A. CUSHER, INC.
			\$43,679.00	A. CUSHER, INC.
			\$44,722.00	A. CUSHER, INC.
			\$247,400.00	A.B. BRANNOCK, LTD.
			\$28,103.00	ADM MILLING CO.
			\$20,595.00	ADM MILLING CO.
			\$232,404.00	ADM MILLING CO.
			\$1,284,584.00	B. TERFLOTH & CO. (USA).
			\$997,959.00	B. TERFLOTH & CO. (USA).
			\$48,245.00	B. TERFLOTH & CO. (USA).
			\$1,554,770.00	B. TERFLOTH & CO. (USA).
			\$172,587.00	B. TERFLOTH & CO. (USA).
			\$340,104.00	B. TERFLOTH & CO. (USA).
			\$260,812.00	B. TERFLOTH & CO. (USA).
			\$1,549,340.00	B. TERFLOTH & CO. (USA).
			\$91,028.00	B. TERFLOTH & CO. (USA).
			\$30,490.00	B. TERFLOTH & CO. (USA).
			\$347,417.00	B. TERFLOTH & CO. (USA).
			\$104,997.00	CANADA PACIFIERS (U.S.A.) I
			\$1,454,819.00	CARCILL AMERICAS, INC.
			\$1,564,404.00	CARCILL AMERICAS, INC.
			\$1,582,879.00	CARCILL AMERICAS, INC.
			\$1,551,781.00	CARCILL AMERICAS, INC.
			\$1,514,482.00	CARCILL AMERICAS, INC.
			\$1,479,753.00	CARCILL AMERICAS, INC.
			\$1,077,230.00	CARCILL AMERICAS, INC.
			\$1,435,811.00	CARCILL AMERICAS, INC.
			\$395,735.00	CARCILL AMERICAS, INC.
			\$141,895.00	CARCILL RICE, INC.
			\$249,312.00	CARCILL, INCORPORATED
			\$234,220.00	CARCILL, INCORPORATED
			\$215,710.00	CENTRAL INTERNATIONAL CO.
			\$86,485.00	CHAMPION EXPORT, INC.
			\$557,328.00	CHAMPION EXPORT, INC.
			\$147,353.00	CHAMPION EXPORT, INC.
			\$203,019.00	CHAMPION EXPORT, INC.
			\$180,120.00	CHAMPION EXPORT, INC.
			\$28,024.00	CONTINENTAL GRAIN CO.
			\$20,114.00	CORONA PACIFIC CORP.
			\$1,212,150.00	CULF SOUTH FOREST PRODUCT
			\$212,116.00	CULF SOUTH FOREST PRODUCT
			\$238,545.00	CULF SOUTH FOREST PRODUCT
			\$1,383,413.00	CULF SOUTH FOREST PRODUCT

LIST OF PAYMENT GUARANTEES UNDER THE CSM-102 PROGRAM: BCCL,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK

U.S. BANK	COUNTRY	OPENING BANK	QUANTIFIED VALUE	EXPORTER	U.S. EXPORT
BANK OF CREDIT & COMMERCE	JAMAICA	BANK OF JAMAICA			GULF SOUTH FOREST PRODUCT
			\$2,329,750.00	INCOTRADE INC.	
			\$744,725.00	INCOTRADE INC.	
			\$291,502.00	ELUMB LUMBER COMPANY	
			\$198,352.00	ELUMB LUMBER COMPANY	
			\$25,854.00	L. OPPENHEIMER & CO., INC.	
			\$62,338.00	L. OPPENHEIMER & CO., INC.	
			\$1,588,772.00	LOUIS BREVYUS CORPORATION	
			\$779,137.00	LOUIS BREVYUS CORPORATION	
			\$525,802.00	LOUIS BREVYUS CORPORATION	
			\$110,954.00	LOUIS BREVYUS CORPORATION	
			\$1,187,794.00	LOUIS BREVYUS CORPORATION	
			\$729,132.00	LOUIS BREVYUS CORPORATION	
			\$420,319.00	LOUIS BREVYUS CORPORATION	
			\$410,598.00	LOUIS BREVYUS CORPORATION	
			\$415,014.00	LOUIS BREVYUS CORPORATION	
			\$434,590.00	LOUISIANA PACIFIC CORP.	
			\$234,445.00	LOUISIANA PACIFIC CORP.	
			\$210,210.00	LOUISIANA PACIFIC CORP.	
			\$3,650,351.00	M.E. FRANKS, INC.	
			\$1,752,785.00	MAPLE LEAF MILLS, INC.	
			\$1,295,906.00	MAPLE LEAF MILLS, INC.	
			\$1,324,731.00	MAPLE LEAF MILLS, INC.	
			\$594,545.00	MAPLE LEAF MILLS, INC.	
			\$179,751.00	MISSHO IWAJ AMERICAN CORP	
			\$1,542,721.00	P.S. INTERNATIONAL, LTD.	
			\$1,437,437.00	P.S. INTERNATIONAL, LTD.	
			\$178,850.00	PASTERNA, BAUM AND CO.	
			\$186,200.00	PASTERNA, BAUM AND CO.	
			\$279,604.00	PASTERNA, BAUM AND CO.	
			\$91,282.00	PASTERNA, BAUM AND CO.	
			\$268,425.00	PASTERNA, BAUM AND CO.	
			\$268,425.00	PASTERNA, BAUM AND CO.	
			\$73,990.00	PASTERNA, BAUM AND CO.	
			\$616,912.00	PEAVEY COMPANY	
			\$34,160.00	THE PILLSBURY COMPANY	
			\$316,504.00	THE PILLSBURY COMPANY	
			\$18,475.00	THE PILLSBURY COMPANY	
			\$42,501.00	TRANSCO TRADING (USA) INC	
			\$225,575.00	TRANSCO TRADING (USA) INC	
			\$390,024.00	TRANSCO TRADING (USA) INC	
			\$73,194.00	TRANSCO TRADING (USA) INC	
			\$1,193,330.00	U.S. TRADING CORPORATION	
			\$68,453.00	U.S. TRADING CORPORATION	
			\$27,893.00	U.S. TRADING CORPORATION	

LIST OF PAYMENT GUARANTEES UNDER THE CSR-102 PROGRAM, PCCL,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
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U.S. BANK	COUNTRY	OPENING BANK	GUARANTEE VALUE	U.S. EXPORTER
BANK OF CREDIT & COMMERCE	JAMAICA	BANK OF JAMAICA	90,719.00	U.S. TRADING CORPORATION
			920,119.00	U.S. TRADING CORPORATION
			9435,784.00	U.S. TRADING CORPORATION
			8162,295.00	U.S. TRADING CORPORATION
			951,899.00	U.S. TRADING CORPORATION
			8416,425.00	U.S. TRADING CORPORATION
			91,007,733.00	WESTWAY MERIURIA CORP.
			8416,425.00	WESTWAY MERIURIA CORP.
			8416,425.00	WESTWAY MERIURIA CORP.
			91,441,335.00	WESTWAY MERIURIA CORP.
			9353,584.00	WETERHAUSEN COMPANY
	MEXICO	BANCA SERFIN, S.B.C.	9451,464.00	INTERTRADE
			9743,782.00	SOUTHWEST GRAIN CO., INC.
FIRST AMERICAN INTERNATIO	EL SALVADO	BANCO DE CREDITO POPULAR	91,559,057.00	ALCANTARA, INC.
			1481,812.00	CARGILL AMERICAS, INC.
			9589,000.00	CONTINENTAL GRAIN CO.
			91,589,291.00	CARGILL AMERICAS, INC.
			91,274,000.00	EURO-MACHRIA, INC.
			91,799,685.00	SCHOUTEN INTERNATIONAL, I
			91,507,912.00	SCHOUTEN INTERNATIONAL, I
			9631,404.00	CUT FARRS INTERNATIONAL
			9631,404.00	CARGILL AMERICAS, INC.
			9580,356.00	CIC NORTH AMERICA, INC.
			9580,356.00	CIC NORTH AMERICA, INC.
			927,468.00	CIC NORTH AMERICA, INC.
			9580,913.00	CIC NORTH AMERICA, INC.
			9580,913.00	CIC NORTH AMERICA, INC.
			9587,933.00	CIC NORTH AMERICA, INC.
			9245,262.00	SCHOUTEN INTERNATIONAL, I
			91,166,666.00	SCHOUTEN INTERNATIONAL, I
			984,174,705.00	

END OF REPORT

LIST OF PAYMENT GUARANTEES UNDER THE CSM-102 PROGRAM: BCCI,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
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U.S. BANK	COUNTRY	OPENING BANK	GUARANTEED VALUE	U.S. EXPORTER
FIRST AMERICAN INTERNATIONAL	EL SALVADOR	BANCO AGRICOLA CO- MERCIAL DE EL SALVADOR	166,338.00	ALLIANCE CRAIN, INC.
			158,825.00	ALLIANCE CRAIN, INC.
			158,339.00	INDIAN RIVER INTERNATIONAL
			172,275.00	INDIAN RIVER INTERNATIONAL
			157,997.00	GERSONY-STAUBS CO., INC.
			149,046.00	ARBOR ACRES FARM, INC.
			145,246.00	ARBOR ACRES FARM, INC.
			158,185.00	ARBOR ACRES FARM, INC.
			153,945.00	GERSONY-STAUBS CO., INC.
			115,640.00	GERSONY-STAUBS CO., INC.
			1642,586.00	PASTERNAK, BAUM AND CO.,
			1398,576.00	CARRAC CRAIN CO., INC.
			198,176.00	GERSONY-STAUBS CO., INC.
			1240,947.00	GERSONY-STAUBS CO., INC.
			42,299,749.00	

END OF REPORT

LIST OF PAYMENT GUARANTEES UNDER THE GSM-102 PROGRAM: BCL,
FIRST AMERICAN, AND FIRST NATIONAL BANK OF GEORGIA AS U.S.
ASSIGNEE BANK
FY91

U.S. BANK	COUNTRY	OPENING DATE	GUARANTEED VALUE	U.S. EXPORTER
FIRST AMERICAN INTERNATIONAL	EL SALVADOR	BANCO AGRICOLA CB- MERCIAL DE EL SALVADOR	927,788.00 927,788.00 920,638.00 990,238.00 4678,828.00 4388,000.00 1802,405.00 4359,827.00 144,010.00 6627,200.00 4300,869.00 4928,315.00 8154,504.00 91,150,345.00	ALLIANCE GRAIN, INC. ALLIANCE GRAIN, INC. ALLIANCE GRAIN, INC. GERSONT-STAUBS CO., INC. GERSONT-STAUBS CO., INC. GERSONT-STAUBS CO., INC. CARCILL AMERICAS, INC. CARCILL AMERICAS, INC. CARCILL AMERICAS, INC. ARBO AGRES, INC. GERSONT-STAUBS CO., INC. GERSONT-STAUBS CO., INC. ALLIANCE GRAIN, INC. ALLIANCE GRAIN, INC. CARCILL AMERICAS, INC.
		BANCO CUSCATLAN		
		BANCO DE COMERCIO DE EL SALVADOR		
		BANCO DE DESARROLLO E. INVERSION SA		
		BANCO HIPOTECARIO DE EL SALVADOR		
		BANCO SALVADORENO		
		CITIBANK N.A.		
			86,189,920.00	

END OF REPORT

Gentlemen, if we could do the closed session, hopefully, really as soon as possible, and I'd just ask your cooperation in helping us to do that, that would be very good.

Thank you all.

[Whereupon, at 12:05 p.m., the committee adjourned, to reconvene at 9:05 a.m., November 21, 1991.]

HEARING ON NARCOTICS AND FOREIGN POLICY IMPLICATIONS OF THE BCCI AFFAIR

THURSDAY, NOVEMBER 21, 1991

U.S. SENATE,
SUBCOMMITTEE ON TERRORISM, NARCOTICS, AND
INTERNATIONAL OPERATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:05 a.m., in room SH-216, Hart Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry, Brown, and Wofford.

Senator KERRY. The hearing on the Subcommittee on Terrorism, Narcotics and International Operations will come to order. Would you stand and raise your right hand. Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God.

Mr. MAZUR. I do.

Senator KERRY. Good morning. This is the 11th hearing the subcommittee has held in the BCCI scandal in recent months. The first hearing on BCCI this year was held in the Subcommittee on Consumer and Regulatory Affairs of the Banking Committee. And the Justice Department testified at that hearing.

Since that testimony, there has been a significant amount of public discussion regarding the events and revelations about the Bank of Credit and Commerce International. Most notably, the bank has been seized or closed in a majority of locations where it operated around the world. And also there has been evidence produced about the bank's ties to various intelligence agencies, including the CIA, which used it as a passthrough to various drug smugglers, drug dealers, terrorists, and arms dealers.

There have also been indictments now and civil money penalty fines imposed on the bank. And I think it is fair to say that at this point in time, the knowledge of BCCI is growing substantially. And the facts are becoming much clearer.

The New York district attorney's office indicted key officers of the bank in July. The Federal Reserve simultaneously announced a \$200 million civil suit. And in September, the Federal Reserve levied fines against Mr. Ghaith Pharaon and other BCCI front men. The Justice Department has recently announced indictments of key BCCI officers, in September. And most recently, a civil suit that names Ghaith Pharaon.

So, where one year ago most Americans did not know very much about BCCI, now a lot of Americans know that something bad hap-

pened, though not everybody can put their finger on exactly what that was.

This committee thinks it is important to remind people that while an individual depositor in the United States did not lose money yet—and I emphasize yet because they may still—the fact is that BCCI engaged, systematically, in criminal activity around the world, buying banks illegally while laundering money, while simultaneously cultivating relationships with the best and the brightest of political and economic figures in every country in which it operated. It is that dual activity of BCCI that is interesting. And the combination of its vast web of organized crime with its seeking of political influence that combined to create this scandal in so many countries.

People sometimes say so, it was a criminal bank and it bought the largest bank in Washington. So what is the impact to all of us? Well, I think that that is part of what we are going to examine here today. And we are going to hear from an agent on the front lines who can describe why that is important, and how this relates to everyday life in the streets of America.

What we cannot turn away from is the fact that you have a drug-corrupted criminal enterprise. Organized crime, if you will, white-collar organized crime that infiltrated our country in a secret process, bought up legitimate businesses, as organized crime does, did deals with some of our most distinguished citizens almost as if it had a license to do crime. And after 10 years it was caught. But the ultimate exposure of BCCI's secret ties, and its networks—some of which we are still learning about—came about not so much because of a specific targeting or a specific heeding of some of the indicators, but came about partly as a coincidence, and partly because of one individual, or two individuals rather extraordinary efforts.

Today we are going to hear from one of those individuals. A person who opened up the BCCI window, if you will, and who started this investigation, and who as much as any other individual, I think, is responsible for helping to uncover the culture of criminality that I refer to. I have never met DEA agent Robert Mazur until a brief encounter yesterday, but I have heard a lot about him. I have had a chance to read some of the things that he has written and said about this case. I am not sure about all of what he will say here before us today.

DEA agent Mazur, and others, risked their lives on a number of different occasions in order to uncover corrupt practices, money launderers, and to bring drug dealers to justice. I think there is not a person sitting in the U.S. Senate or in Congress who has not praised the efforts of those who were in Iraq and in the desert in Desert Storm. That was a short war, folks.

This has been a long, difficult, tedious war—the war on drugs. And the fact is that agent Bob Mazur is one of a number of individuals who have been fighting a rather extraordinary war here at home. One has only to witness the headlines about Mexican police agents shot by, apparently, Mexican troops with purpose and intent, in the last days, to understand the dangers that people go through. Apparently evidence that two of those individuals were

shot in the back, and one had powder burns on his face with a frontal shot directly through his mouth and head.

Those are real dangers that our agents face on a daily basis in this country. And for two decades agent Bob Mazur has been fighting this war on drugs, and I think has done so with a commitment that has been unequalled and unsurpassed by many. Now while our Government rightly gave soldiers abroad every means of support—the best technology, the best communications equipment, the best general—I regret that I cannot say that we have done the same for those men and women who are fighting the war on drugs.

And I think we should never lose sight of the fact that BCCI at its core was nothing more than a drug money launderer, a drug facilitator. And for the cartel, for General Noriega, and for too many others around the world, it was the way for them to reap their profits.

District attorney Bob Morgenthau of New York says that he puts some 35,000 or 25,000 drug abusers in jail every year. But to him, BCCI was vastly more important. In the critical battle in the war on drugs, Bob Mazur did not have a lot of fancy technology. He had a tape recorder. He did not have an army at his disposal. He was alone, or with one or two other agents. At times he did not even have someone to transcribe the tape conversations that he had made. He did not have assistants to go through boxes and boxes of documents that needed to be read.

But he made an important case. A case, however, smaller than the case that I think he wanted to make, and that is regrettable. After he and others successfully brought down the major drug kingpins in BCCI, there was obviously no parade. There was no great pat on the back from the United States. There really was not public recognition. But the fact is that I think it was as significant an accomplishment as we have seen in law enforcement in recent times.

I am delighted that he is able to be here today. I regret that there has been a delay in being able to make him available, but that is behind us now and we are here to listen to his testimony and to understand how this process evolved. And it is my hope, truly, that we can constructively learn, and I emphasize constructively, how we can do better at this. What we need to do to be able to guarantee that whatever errors were in fact made, if there were some, that they are not going to be repeated.

We will hear from the Justice Department and welcome their testimony. Yesterday I had expected to be able to speak on the Barr nomination, but frankly it was moving so rapidly that for those who were not on the floor for about 10 minutes, that was not possible. What I would have said had I spoken then, was simply that we have a new Attorney General, and I believe that new Attorney General has already made efforts in the last days to try to guarantee that we have a smooth process. And I respect that and I appreciate that.

And it is my judgment that the Justice Department is serious about this, that they want to make the case that is available to them. This is not, today, an effort to try to create some kind of contentious finger-pointing session. While automatically, there will be some judgments made that at some point in time some of us dis-

agreed with some judgments that were made earlier, hopefully that too is in the past, and hopefully this case will now be brought to a successful fruition in every respect.

It is in fact known that I was critical of the plea at the time that the plea took place. I do not walk away from that. That is the way I felt. It was my judgment at the time. But I think that, again, what is important is to try to build a foundation from which all of us can do better jobs and have a better understanding of how we proceed forward.

I would also like to say that I think Mr. Jackowski and Mr. Kehoe, who are the prosecuting attorney and the attorney who negotiated the plea and who are Justice Departments representatives, worked long and hard and often equally thankless hours in this effort under very difficult conditions. And I do not support the idea that either of them did not want to do everything possible to go after BCCI. I think that is ridiculous. But I do think it is obvious that the 6-month trial of BCCI required significant preparation and work by them without respite. And a lot of people do not understand how tough that can be on personal life, family life, and so forth.

But legitimate questions, nevertheless, remain about the overall allocation of resources and the overall judgments that were made regarding this case. And it is a matter of record that some of us have also been critical about that. One of the difficulties in this case is that it is hard for us in Congress to make some judgments and to have oversight when an investigation is ongoing. And I acknowledge that.

But I think both our bodies, our institutions, need to work out a process whereby we can do better at the communication process between institutions of Government, so that both of our interests are served. The interest of the public to know that all is being done on issues that they want to have things done, and the need of the executive to be able to guard and preserve certain kinds of information which obviously are important to them.

That being said, Mr. Mazur, let me welcome you here today. And let me make a quick explanation of what we have going on here. The reason we have this screen, and the reason the public was restrained from being present until you were seated and sworn in, and you have been sworn in, is really to protect you. And the committee obviously is not interested in putting you in any position of jeopardy. And we respect the balance here between our need to know and the clear need to guarantee that you are not placed in any kind of jeopardy as a consequence of appearing here today. I take it you are satisfied that this screen, and this process adequately do provide you with whatever security and protection that you do need. Is that a fair statement?

Mr. MAZUR. Yes Senator, I appreciate it.

Senator KERRY. Thank you. Well, we appreciate your being here, and I apologize—we are just going to check on the voice here. It is necessary to have a voice modulation here which will somewhat alter the voice of the witness, so that that also is protected. We are just going to make sure that that is occurring.

The reason for this is not to hide you from people because we do not want them to know who you are, it is really to protect your

capacity to perform your responsibilities for the DEA and for the country. And we clearly do not want to put you in a position of jeopardy with respect to that.

We are going to take a recess for a minute until we are sure the voice box is set up appropriately. We will just stand in recess for a few minutes.

[A brief recess was taken.]

Senator KERRY. The hearing will come back to order. My apologies for the delay but obviously we wanted to be sure that the voice modulation is in fact working correctly, and now it is.

I am joined by my ranking minority member, Senator Hank Brown. Senator, do you have any opening statement you wish to make?

Senator BROWN. No thank you, Mr. Chairman.

Senator KERRY. At this point, Mr. Mazur, do you have an opening statement you wish to make?

Mr. MAZUR. No, sir.

Senator KERRY. Well, let me begin, Mr. Mazur, by sort of drawing you through this event and story a little bit, if I can. Let me go back and start at the beginning. Give us a little sense of your background and who you are and how you come to be here today.

TESTIMONY OF SPECIAL AGENT ROBERT MAZUR, UNDERCOVER AGENT FOR OPERATION C-CHASE, DRUG ENFORCEMENT ADMINISTRATION; ACCOMPANIED BY KATHLEEN P. MAHON

Mr. MAZUR. Yes, sir. I began my career as a special agent with the Internal Revenue Service Criminal Investigation Division in 1972, worked for that agency for a number of years, 11 years, at which time I transferred to Customs as a special agent and in this past year, June 1991, resigned from Customs and assumed a position as an agent with the Drug Enforcement Administration.

Senator KERRY. So you have had almost 20 years experience as a law enforcement officer?

Mr. MAZUR. Yes, Senator, and at least 12 years of which has been focused solely on drug money laundering cases.

Senator KERRY. Where have you been principally stationed with respect to the money laundering and drug cases?

Mr. MAZUR. Initially, in Manhattan and subsequently in Tampa, up until the time that I left Customs.

Senator KERRY. Share with us, if you will, your background in money laundering operations themselves, or investigations.

Mr. MAZUR. I have held just about every type of position in a case. I've been a case agent responsible for coordinating international drug money laundering cases. I functioned as an undercover operative in long-term undercover operations like that in the BCCI case.

Senator KERRY. And did you participate in a case called Operation Greenback?

Mr. MAZUR. Yes, sir, I was one of the agents assigned to Greenback and operated in Tampa primarily.

Senator KERRY. What year was that?

Mr. MAZUR. During the early 1980's.

Senator KERRY. Now, at some point in time, did you write a memorandum to create a proposal, if you will, for something called Operation C-Chase?

Mr. MAZUR. Yes, sir, I did.

Senator KERRY. Would you describe how you came to write that and what this was all about?

Mr. MAZUR. Yes, sir. I actually wrote the document in the summer of 1986. But prior to writing to it, there was a substantial amount of work that went into what I would term the setup of the operation. That is, I spent about 2 years, 2½ years establishing identities and companies that were ultimately used in the undercover operation.

But when the opportunity through an informant arose that this operational plan could be implemented, then that prior work that was used to set up the undercover front was incorporated into a written plan and implemented with the assistance of the informant.

The informant had come forward in May 1986, but the anticipated use of that style of undercover operation had been discussed between myself and my superiors for a number of years prior to that. The use of an undercover operation that would offer services to the Colombian cartels for the laundering of drug proceeds and thereby infiltrating the drug and money laundering world and using that association, then become capable of having relationships with other money laundering organizations and gathering intelligence and evidence that would lead to future prosecutions after a number of years of the undercover operations operation.

Senator KERRY. This was the outgrowth, then, of a generalized view within Customs that it was important to try to get into the banking structures and the money laundering mechanisms themselves?

Mr. MAZUR. Yes, certainly within the money laundering structures. Whether it would take us to an institution or a business or an individual that was servicing the cartels, it was certainly anticipated that we would, once accepted, have the opportunity to meet other individuals involved in that type of activity.

I would say the majority of the emphasis that led to creating the undercover operation should be credited probably to one of the prior assistant special agents in charge in Tampa, who is now assigned to Seoul, Korea, for whom I worked. His name is Paul O'Brien.

Senator KERRY. And he was suggesting this kind of approach in general terms? Is that what you are saying?

Mr. MAZUR. Yes, sir.

Senator KERRY. Now, draw for us a little bit, if you will, a picture. This is 1984 or 1985 when you first got the sense of thinking about this kind of approach.

Mr. MAZUR. Yes, sir, I would say it really began to be discussed in depth in 1984.

Senator KERRY. What was the picture at that point with respect to drugs and money laundering down in the Florida area?

Mr. MAZUR. The conditions we had experienced in the 8 years or so prior to that clearly showed that there was a massive amount of currency being generated from the sales of drugs in the United

States that were serviced on behalf of the cartels by professional money launderers, who did nothing but handle funds for a number of drug organizations.

There had been some prior undercover operations that had been undertaken by various agencies to try to deal with this problem. I had participated in one prior long-term undercover operation where I assumed the identity of a member of a drug group. That led to a number of prosecutions.

But on the whole I would say there were literally dozens of major cases involving this massive flow of funds out of the United States from the large sales of cocaine in the United States.

Senator KERRY. When you say massive, what do you mean?

Mr. MAZUR. I guess I can best give you an example from the undercover operation we're speaking about here, C-Chase. One of the clients who ultimately came to use our services had gross receipts within the United States during 1988 of roughly \$200 million per month in currency that needed to be removed from the United States on his behalf and placed in investments throughout the world.

Senator KERRY. And this money was being removed in what form? Actually shipped out in bulk as well as transferred through accounts or what?

Mr. MAZUR. Literally every conceivable method had been discovered as being used, from the simplest forms of depositing currency in banks, which either occurred in large sums due to relationships with individuals in the banks, or whether it be by what is commonly termed in the law enforcement community as smurfs, dozens of people who would be given several hundred dollars a day to go around the banks and deposits amounts under \$10,000 so that funds could get into the banking system.

And also the use of private aircraft, where tens of millions of dollars would be flown out of the country on one occasion to haven countries where the deposits could be hidden due to bank secrecy laws. And even the concealment of currency in commercial goods, such as cutting out the insides of air-conditioning units and filling them with cash and shipping them to different areas of the world, the Colon Free Zone in Panama, and other areas.

Senator KERRY. Is this kind of transaction still going on?

Mr. MAZUR. Unfortunately, yes.

Senator KERRY. In significant form?

Mr. MAZUR. Yes, sir.

Senator KERRY. You say \$200 million a month for one customer. You are absolutely confident of that sum of money?

Mr. MAZUR. Yes, sir. I personally met with underlings of that individual on a number of occasions in the United States, in Costa Rica, and in France, where we had lengthy discussions, all of which were recorded, concerning the gross receipts that were being handled by their boss.

Senator KERRY. And he was one of how many you were dealing with?

Mr. MAZUR. There were at least six or seven clients and probably more. To be completely accurate, I would need to go back to the case files. But in general, I would say somewhere in that area. There were six or seven very large clients.

Senator KERRY. So you submitted a memorandum in response to what was going on around you and to this need or desire that had been expressed to get inside. And that memorandum suggested something called Operation C-Chase. Is that accurate?

Mr. MAZUR. Yes, sir.

Senator KERRY. Could you describe what you set forth in that. What did C-Chase stand for, first of all?

Mr. MAZUR. In the Federal Government, at the time when these types of operations are created, it is common that a handle or a name of some sort is attached to it that it's commonly termed to. I had quite a bit of difficulty coming up with a catchy name that this could be called.

One of my colleagues took note of the fact that one of our undercover apartments was located at an apartment complex called Caliber Chase and happened to look down at a receipt and taking off everything after C in the first name and adopting the second, said, why don't we use C-Chase?

Senator KERRY. And that was the beginning?

Mr. MAZUR. Yes, sir.

Senator KERRY. Now you began to run all the aspects of that undercover operation, correct?

Mr. MAZUR. In concert with several other agents and with Mark Jackowski, who was the assistant U.S. attorney assigned to the operation right at its inception. In particular, there were four or five individuals who I think contributed equally in the case. Mr. Jackowski certainly was a major contributor.

Two of my undercover partners, one who assumed the identity of Emilio Dominguez, and another who assumed the identity of Kathleen Ericson, and an IRS agent who was an affiant in most of the search warrants, were probably the individuals who were most involved in the developments of the case, although there were other agents as well.

I can't stress enough that it was a true team effort.

Senator KERRY. I appreciate that and I am sure it was. According to a memo you wrote in June 1989, at that point in time I believe, you were running all aspects of the undercover operation.

Mr. MAZUR. With respect to the undercover operation, yes. The covert team—

Senator KERRY. As of April 1987, correct?

Mr. MAZUR. Yes, sir.

Senator KERRY. OK. And what was your particular undercover operation in C-Chase, you particularly? What was your occupation?

Mr. MAZUR. My role was that of a businessman who coordinated a number of investment companies and mortgage businesses which were used in the eyes of the defendants as a cover for the laundering of drug proceeds.

Senator KERRY. And you enhanced your capacity to play that role, I take it, through the use of confiscated assets?

Mr. MAZUR. In part, yes, sir.

Senator KERRY. Airplanes, cars, and other sorts of things?

Mr. MAZUR. Yes. There was a seized Cessna Citation II jet that was at times used in the undercover operation in conjunction with an air charter service that the defendants were led to believe I was an officer of.

I probably should also mention that there were a number of citizens who, because of their concerns of this problem, the massive drug problem that we face and the world faces, decided to allow me to assume a position within their businesses in an unwitting way amongst their employees. And I think those citizens involvement was a major contributor to the success of the case.

Senator KERRY. Now tell us how you set out to make this thing work. What happened? Give us a little unfolding, if you will, of the events that led you down the path here.

Mr. MAZUR. After the undercover front was established and ready to withstand scrutiny, the informant, who had been brought into the operation by another officer who worked with the informant in other cases, the informant made contact with his Colombian associates who were already involved in laundering of drug proceeds for the Medellin cartel. He informed them very slowly of our assistance to him in laundering funds here in the United States.

As we began to launder funds for that individual, we later were provided introductions to people in Medellin who were involved in the drug laundering trade, and through discussions with them, were able to learn more about the source of the funds. And other undercover agents in the United States participated as workers in the eyes of the defendants for this U.S.-based drug money laundering organization.

That is, the agents in various cities actually met with drug dealers in the streets of seven different cities and received from them literally boxes of currency at given times, which were turned over to the undercover operation for the services that were expected to be provided the laundering of the drug proceeds.

In the course of servicing the cartel in this money laundering operation, it became necessary to have accounts at various locations throughout the world. And in Tampa at the time, the only bank I was familiar with that had branches internationally was the Bank of Credit and Commerce International, which had a branch in Tampa.

In an effort to ultimately obtain a Panamanian account in February 1987, I went to the Tampa branch of BCCI and explaining my undercover front, simply that I was a businessman based in the Tampa area with a large number of Colombian clients for whom I transferred funds, I initially opened simply an account in Tampa and had some discussion with the officer about the possibility of needing foreign accounts in the future.

At that very first meeting in February 1987, I was the recipient of what appeared to me to be a rather well-polished pitch by the officer that he could assist and the bank could assist in the secret transfers of funds. That discussion in February 1987 was followed up in April 1987, where that same officer and I and another undercover agent and a money launderer from Colombia met in Tampa and had further discussions about the possible banking through BCCI.

Senator KERRY. Were you talking to any other banks at the time?

Mr. MAZUR. Yes, sir.

Senator KERRY. This was a pretty rampant kind of undertaking in that area, I gather.

Mr. MAZUR. I'm not sure I understand your question.

Senator KERRY. Well, were there not a lot of banks that were sort of known to be on that side of accepting cash and moving it around?

Mr. MAZUR. Yes, there were a number of banks whose history indicates that they are involved in what appears to be money laundering. When I went to BCCI, it wasn't because I had been armed with any particular information that BCCI was expected to be involved in that type of activity. It was initially, in February 1987, more of a convenience because of the location of the branch in Tampa and that being the home base of our undercover operation, that brought me to BCCI.

In June 1987, when it became necessary to open an account in Panama, I went back to the Tampa branch and found that that officer I had first spoken with had left the bank and another officer was now working with me. That officer did establish an account in Panama for me by simply having me fill out paperwork in Tampa in front of him, which he later sent by DHL to Panama.

Shortly thereafter, I had a functioning account in Panama and began to use the account in Panama.

Senator KERRY. Were you surprised by that?

Mr. MAZUR. Yes, I was.

Senator KERRY. I take it at that time your focus was more on the cartel and on the individuals than on the institutional entity.

Mr. MAZUR. I think that would be fair to say. In the beginning it was obvious it would be necessary to facilitate this relationship with the cartel members before it would be possible to take that association wherever it might take us to find other institutions or individuals that might be involved in money laundering.

Senator KERRY. From your experience in the area, if you had walked into the door of another bank, is it your suspicion you would have had just easy a time setting up an account and getting money down to one country or another?

Mr. MAZUR. On the whole I would say it would not be as easy. But I am afraid to say that there are a number of other banks that I think that same experience might have occurred in. I was very surprised at the intense interest that BCCI had in demonstrating to me the unique, what they felt, unique characteristics of their banking were and how it is that they could assist in the laundering of drug money.

Senator KERRY. Did you request at that time, once you had selected the bank and you had an open account there, did you do any runs to other agencies or anything to learn anything they might have on the bank?

Mr. MAZUR. Yes. After I first went to BCCI, as a matter of fact, on the afternoon of the meeting, with the Tampa officer in February 1987, I came back to the office and I met with an IRS agent. That IRS agent was the same agent who was in the search warrant and he and I discussed the experience that I had when I went there.

I explained that I found it rather peculiar that the bank was, had such a polished approach, marketing approach, to haven countries, their locations, everything fit with an institution that might have an ulterior motive for its locations. And we discussed the pos-

sibility that maybe the bank, certainly the individual, from what the individual had said, we suspected the individual to be involved in what we would term a client conspiracy, at a minimum. Whether it went into the bank or not was sheer suspicion at that stage. But it certainly was something that we thought could possibly evolve.

I asked him if he could check out, what, if anything, he could learn about BCCI, and it turned out that there was a prosecutor in Tampa in the organized crime unit that had a case involving a heroin trafficker and that, that case had promoted some information about the possible involvement of BCCI in the laundering of drug proceeds.

I was never told anything beyond that. But I was told of that case.

Senator KERRY. You never learned, then, from any other departments like the CIA or Treasury or anything like that, formally about other knowledge of the bank previously?

Mr. MAZUR. I did not receive any information from my superiors about information the CIA might have, or any other agency might have, beyond the information I received from the IRS agent at the outset.

There did come a time much after the conclusion of the coverup operation when information from the CIA was brought to my attention, but never during the undercover operation.

Senator KERRY. Was that after the indictments had been filed?

Mr. MAZUR. Yes, sir.

Senator KERRY. That was after the indictments?

Mr. MAZUR. Yes, I believe it was sometime in 1989.

Senator KERRY. Now to move the process along here. You then undertook, from what, 1986 through 1989?

Mr. MAZUR. Acting in an undercover capacity, sir?

Senator KERRY. Well, your request for this effort took place in 1986.

Mr. MAZUR. Yes, sir.

Senator KERRY. The approval was when?

Mr. MAZUR. Shortly after that.

Senator KERRY. You began it in 1986?

Mr. MAZUR. Yes, sir.

Senator KERRY. So 1986, 1987, 1988, you were working undercover?

Mr. MAZUR. Yes, sir.

Senator KERRY. And you were ingratiating yourself, doing the things normally that undercover agents do to be able to make a case.

Mr. MAZUR. Yes, I was having extensive contact with members of the bank and people involved in the Medellin cartel, recording their conversations.

Senator KERRY. And I take it at that point, you were the one who was fundamentally directing that undercover effort, is that correct?

Mr. MAZUR. I would say on a day-to-day basis as a team leader of the undercover group.

Senator KERRY. How many people were in the group?

Mr. MAZUR. The primary members are those I mentioned before. There were two other long-term undercover agents assigned to Tampa. There was another undercover agent in Tampa, who on a part-time basis participated.

Those were the primary undercover agents out of Tampa, although I also spoke regularly by phone to the undercover agents operating in New York, Los Angeles, Miami, and Chicago.

In the big picture, there certainly were regular meetings between the undercover operatives and the investigative team and the prosecution team, that provided us with general guidance that those day-to-day decisions that I prompted were made from.

Senator KERRY. Just to add a little, sort of, color to the kinds of things that you would confront in this. Would you describe to the committee an incident that occurred in 1986 in August, in a small apartment near Miami airport?

Mr. MAZUR. In Miami?

Senator KERRY. I think it was. Am I correct? You were secretly taping undercover conversations and did there come a moment when a Customs undercover and a Mr. Mora, surprised you in an apartment?

Mr. MAZUR. That was in Tampa, yes, sir. At that point in time, the need for my long-term role as somewhat the boss in the eyes of the defendant, that undercover role, wasn't necessary in the beginning stages.

For the first 6 months or so, other agents functioned in picking up currency from traffickers in the United States, but the occasion to meet the people behind the money laundering operation didn't come, so during that timeframe I assisted in directing the case behind the scenes.

On that occasion I received a phone call, it was a weekend, I think a Sunday, from my undercover, what became my undercover partner, that informed me that there was a meeting that was going to occur and that he needed some assistance to turn the recording equipment on, which at that time I was more familiar with than him.

I went to the apartment. The equipment was in the closet, the meeting was scheduled to last 45 minutes, so it was agreed that I would be inside a locked closet to turn the equipment on and off. And after the meeting was over, I would wait for his return and provide him with the tapes after authenticating them.

After the meeting was over, he did leave. I waited at the apartment for about 1 hour. He then returned unexpectedly with one of the defendants. I had to jump back into the closet and wait for the meeting to conclude. It was now getting close to midnight and unfortunately the meeting went on for quite a long time, and the defendant, unbeknownst to me while speaking in Spanish had insisted that he spend the night at the apartment.

I was therefore stranded in the apartment until he fell asleep, at which time I tried to leave the apartment. I went into the room the informant was located in, he was asleep and when he woke, wasn't quite sure who it was that was in his room. It took some time to quiet him down and thereafter I left through the apartment window and called my partner to discuss the little difficulty in coordinating that evening.

But yes, that did occur.

Senator KERRY. I am sure that that happened. It is an interesting vignette of the kinds of things that you go through. Not many people picture folks out there spending an inadvertent 5 or 6 hours in a closet, and then confronting their own agents in an effort to explain who they are and so forth, but it is interesting.

Returning to the sequence of events, who was Roberto Alcaino? Is that the correct pronunciation?

Mr. MAZUR. Roberto Alcaino was a distributor of cocaine and a money launderer who operated at a very intense level in the United States for over 10 years. He worked directly with Fabio and Fabito Ochoa out of Medellin, and Rodriguez Gacha.

Senator KERRY. Was he one of the main cash collectors in the United States?

Mr. MAZUR. He was, I wouldn't say a main cash collector, but certainly a significant amount of funds were returned to Colombia through him as a result of the sales of cocaine that he supervised in the United States. There were times when he was responsible for roughly, the distribution of roughly 2,000 kilos of cocaine per month in the United States. He lived in Pasadena, but operated worldwide.

I was introduced to him in April 1987 and began servicing him and his associates through money laundering services and eventually he came to trust me, and speak at length about the drug smuggling operation that he was a part of, so much so that I came to learn the location of the lab in Bolivia that the cocaine was produced in, how it was transported to Buenos Aires, how it was packed in commercial shipments of anchovies and, based on mere conversation, was able to notify our office in New York 24 hours after I was provided by Alcaino with details of one of these shipments.

Within 24 hours, based on the details he shared with me, they were able to find roughly 2,400 pounds of cocaine that they seized in September 1988.

Senator KERRY. Was that seizure part of something called Operation Pisces?

Mr. MAZUR. No, sir, that was directly a part of Operation C-Chase and—

Senator KERRY. Was Alcaino a target of Pisces?

Mr. MAZUR. I wasn't aware that he was a target of Pisces, but I was aware that he had been previously the target of what's termed an organized crime drug enforcement task force case that was, unfortunately, unsuccessful in prior years.

Senator KERRY. Well, did Operation Pisces—which is a separate undercover operation, correct?

Mr. MAZUR. Yes, sir.

Senator KERRY. And that was a separate undercover operation of what agency?

Mr. MAZUR. Drug Enforcement Administration.

Senator KERRY. Was there some way in which Operation Pisces collided with Operation C-Chase?

Mr. MAZUR. Not so much collided, but their events certainly had impact on us, in that, in May 1987, Operation Pisces, which had been operating for a number of years, concluded. The publicity

from the conclusion of Operation Pisces caused the people who I was associated with to have fears that I might be a Federal agent, for a short period of time.

That was about the first time after the initial introductions when their suspicions were heightened.

That problem was compounded the following month, in June, when the FBI's Operation Cash Whip concluded, a similar drug money laundering operation which happened to cause the arrests of a close friend of the main Colombian contact that I was working with. Within a month or so after the conclusion of those operations—

Senator KERRY. Was that Gonzales Mora?

Mr. MAZUR. Yes, sir.

Senator KERRY. So Gonzales Mora, whom you were sort of focused on in dealing with, was a target of Pisces?

Mr. MAZUR. His main associate, a gentleman by the name of Ras-trepo, was a target of Cash Whip, which happened 1 month later. But all of those in Medellin who were heavily involved in the drug trade were generally touched or certainly quite concerned about the law enforcement efforts that were exposed in May and June 1987 and the possible similarities of what we were doing.

It took approximately 60 days or so to allay their fears and to get back to the point where we were.

Senator KERRY. Is there a legitimate question or issue about coordination in terms of what happens if one agency has a big operation going and some of the people overlap into another operation and you have got agents from another agency out there on the line, and then one operation goes down, and boom, there is a lot of publicity, and people get nervous and all of a sudden every—is that a problem that people ought to be thinking about in the coordination of this kind of effort?

Mr. MAZUR. Yes, I believe so. There certainly has to come a time when operations like this, or Pisces, or Cash Whip must conclude, but I think with a lot of discussion between the agencies beforehand. Some of the potential problems can be minimized. I know yesterday you mentioned that there might come a time when you would ask me what, if anything, I might think from my perspective could add to the coordination and whenever we get to that I have one suggestion.

Senator KERRY. You can go ahead. Why do you not do it now? I mean we can. I will have some more questions. I am going to turn to Senator Brown after this for a series and then I am going to come back. But why do you not use this moment, just to share that with us.

Mr. MAZUR. Yes sir. I think that the decision that was made in 1973 when the Drug Enforcement Administration was formed, was a sound one and that it is very necessary to have, as necessary as it is for this committee to have a chairman. It is equally as necessary in the law enforcement community for there to be a chairman. Not a person who has any more importance than another, but one who has a tremendous responsibility to see, that information doesn't fall between the cracks, that there is a coordination.

I have worked with the DEA for many, many years and I am not persuaded by the fact that I have just become a DEA agent in the

last couple of months, but I have come to see in 20 years, that there are a lot of things that have happened in cases and there are things that happened in C-Chase which, unfortunately, fall into the category of what people describe as the agency wars, which the people who suffer from, the public, the people we serve, are the ones, are the greatest losers.

Any time individuals are motivated by something other than to serve the people in these cases, if they are worried about an agency priority or a career priority, it's going to interfere in the interests of—

Senator KERRY. What you are really talking about is turf?

Mr. MAZUR. I am talking about turf battles, they do happen.

Senator KERRY. Turf battles happen.

Mr. MAZUR. They do happen a lot. Most recently I think that has been recognized by a number of agencies, but I think when it comes to drug law enforcement, it's very important for all the agencies that have important roles to be able to look to a chairman, and I wish someone would give some consideration to a vote of confidence to the Drug Enforcement Administration for that.

Senator KERRY. Let me just say to you, Mr. Mazur, I think your recommendation and your perception on that are acute and well taken and I could not agree with you more.

I was deeply opposed to the creation of a separate drug czar. I wanted a drug czar, but I wanted the drug czar to be the chief law enforcement officer of the United States of America, the Attorney General, and the notion that you are somehow going to bring somebody in, with all due respect to Governor Martinez of Florida, the notion that you are going to bring somebody in and you are going to deal with the turf battles between FBI, DEA, IRS, I mean there were 30 agencies, I believe, that have some contact with the drug process of this country, including the military now, and I think you have to have somebody who is first among equals, if you will. And in the protocol and hierarchy of the Cabinet, the Attorney General is one of the highest ranking Cabinet members, certainly above Human Services, above Education, though I am not saying they are above it in terms of the importance of issues, but in terms of capacity.

Moreover, it is fundamentally a law enforcement undertaking, and to have a nonlaw enforcement person somehow supposedly coordinating the most single, important law enforcement effort of this Nation is ridiculous, ridiculous, and either you ought to have the Vice President of the United States or the Attorney General, and that is what I argued. I was very much against it and I was one of the authors of the 1988 and 1986 bills and worked on the task force that did it, I opposed it then and I oppose it now. And I am paused to try to revamp that. I think we need, desperately, to have coordination among the agencies to avoid many more times these kind of problems.

The Attorney General of this country ought to do that job and then I think we would have a whole different effort, frankly. We will get into resources that are allocated or not allocated to it later, but let me turn to my colleague now.

Senator BROWN. Thank you, Mr. Chairman. I would like to go back and re-cover a little bit of the background we just went through.

First of all, in selection of the bank or banks that you contacted to set up accounts and to explore whether or not they were in money laundering, you mention that you did not select BCCI because of a plan or because of some background information, it was simply one of the banks in the area. Did you go to other banks?

Mr. MAZUR. Yes, sir. I made contact with a couple of other banks.

Senator BROWN. And the process you used was simply to open an account and talk with them about the services they offered.

Mr. MAZUR. Initially, and then through conversation about the nature of the transactions it became apparent, especially to those in BCCI, that the nature of the transactions related to drug activity.

My best example of that would be that when the account in Panama was opened in BCCI, the only reason that the bank then came back to try to have a broader relationship with me is that an operations officer in Panama who was one of the defendants in the Tampa case in reviewing the account activity recognized the nature of the transactions and called me, unsolicited, to inform me that he would be in the United States and that he felt that the bank, being a full-service bank, had the type of abilities to keep my transactions conducted in a very confidential way that would enhance the business I was involved in, and when I met with him in Miami it was obvious that he had determined the nature of the transactions just from looking at the activity in the checking account, which is something a person experienced in banking, and certainly in Panama, would be able to do, just from the nature of the checking account.

Senator BROWN. And the nature of the account was what?

Mr. MAZUR. There were large wire transfers that were sent from the United States to Panama into a checking account. The checks drawn on the accounts fell into a category that are generally seen in drug transactions, or the operation of a black money market in South and Central America.

The checks were drawn in the names of very common Spanish names, the equivalents of John Smith and John Doe here in the United States. The checks were—although signed in my undercover name, were typed, sometimes in two different types of typing, with the amounts of money in writing and in numbers would be in one style and yet the payee would be in another, and there was scotch tape put over the numbers that were written in, the number of the value of the check, on a regular basis by the money launderer who distributed them in Columbia, because in effect those checks are handled like currency.

If it is a \$25,000 check, they are passed through the hands of people in Central America and South America almost like currency, because the name is not put into the check until the person who ultimately intends to use it goes to endorse the check. Therefore, you have different types in the check, you have tape over it because people don't feel as though they can trust one another, that the numbers may be changed on the check, and the people

who would come to the bank to deposit or obtain bank checks in exchange for those checks are people who are commonly seen in handling accounts like this and to have a reputation for being involved in drug money laundering of some sort.

Senator BROWN. So the setup involved deposits being made in a U.S. bank, wire transfers to Panama, and checks drawn on Panama that were cashed in Columbia.

Mr. MAZUR. Initially it was, until BCCI offered a more sophisticated plan for the handling of the money.

Senator BROWN. Deposits in the United States, were they in cash exceeding the amount that was supposed to be reported?

Mr. MAZUR. Yes, and they were deposited to accounts at banks that had a knowing relationship with the Government because of the fear that the reports, or the lack of coordination with that bank, could result in compromising the operation.

They were fully aware that the accounts, although in names of companies, were controlled by the Federal Government, and these are banks that have had longstanding relationship with agencies in the United States and have assisted in these types of investigations.

Senator BROWN. Wouldn't using those accounts tip them off?

Mr. MAZUR. If only one bank were used on a repeated basis, I'm sure, but that is constantly changed around. It could be any bank.

Senator BROWN. So the setup did not involve big cash deposits in the Tampa branch of BCCI.

Mr. MAZUR. No, sir, it did not. There were offers by BCCI to accept cash, but it was their opinion at the time, because of the attention that BCCI was receiving primarily by this committee and because of Pisces and other operations, that in their assessment it was too dangerous to receive large cash deposits from us into their local branches, although I do know that they did that for other account holders. It was their recommendation that they receive that currency, money they knew to be drug proceeds, at either their Panama branch or their Luxembourg branch and several locations in the Middle East.

Senator BROWN. This was a recommendation BCCI came back to you with.

Mr. MAZUR. Yes, sir.

Senator BROWN. A proposal for the best way to launder money, in effect.

Mr. MAZUR. In part. If it was necessary to dispose of currency and we couldn't do it on our own, they would accept that cash in that form. The real sophistication that they suggested initially was advised to be by the banker in Panama, Mr. Sayed Aftab Hussain.

He explained that the wire transferring of funds directly from our company in the United States to the account in Panama that serviced the drug dealers was a very direct route, which if traced in the reverse would bring law enforcement authorities to us, and that type of activity by individuals in the past had resulted in the bank being given requests for records in the Pisces case.

He explained to me that some of the account holders who had problems from the Pisces case were involved with BCCI, that their problem arose from their use of the checking account in the fashion I had used it, and their alternative suggestion was that the

wire transfers be sent to a different part of the world, preferably Luxembourg, but in any number of locations they offered where they be placed in a certificate of deposit.

To then provide the money in Panama, they would create a loan in Panama which would have no apparent connection on paper to the deposit in the foreign branches where the moneys were actually placed, and therefore the loan proceeds would be used to put into the checking account and then disbursed out to the drug traffickers.

If anyone tried to trace the checks backward, they assured me that they would demonstrate that the moneys had come from a loan at the bank, and that they would never disclose the true existence of the certificate of deposit that was truly the collateral for that loan. They would give the impression that the loan—and I'm speaking in general now.

They would give the impression that the loan was based simply on the creditworthiness of the corporation that was given the loan, or they suggested that I provide them with property, real estate in the United States, regardless of how heavily mortgaged.

They would create an apparent additional mortgage on a several million dollar piece of property and put that in the file as the alleged collateral for the loan in Panama, and so again there would be a business purpose for the moneys that were disbursed and a deniability that could be offered to law enforcement if anyone tried to retrace the money back in.

It was also their recommendation that if I couldn't handle the cash myself, that they would accept cash in their foreign branches to facilitate this type of activity. The reason that it became difficult to deal with them in cash is that part of my cover was that of being a person who managed a large number of businesses, some of which—many of which were cash-generating, and this was the reason why we, as a money laundering group, were able to provide unique services to the Colombians, so it had to be slowly approached with BCCI to discuss these issues of cash deposit, because it would be somewhat illogical, based upon the cover that they were first aware of.

Senator BROWN. The service they provided, in effect, was as world-class consultants to organized crime.

Mr. MAZUR. I think it could be categorized by some as that. They definitely had a plan by which they felt these transactions could be secretly conducted, and which took into account the countermeasures that law enforcement normally used to try to unearth the source of the funds. They definitely were the architects of the plan.

Senator BROWN. They looked at your pattern of banking and sought you out to provide advice to you. It seems like a strange conversation. They don't call you up and ask you if you're a money launderer. How did that go?

Mr. MAZUR. The call that came in, I received in the Tampa area in November 1987, came in from Panama. The gentleman who called, Sayed Aftab Hussain, initially explained that there was an error on one of the checks. One of the checks had been issued for an amount of money represented in two different amounts—actually, one in writing and one in numbers—and they didn't jibe, and he

called me to advise him of which amount he should pay at the bank.

Of course, that portion of the money laundering service was provided by a Columbian money launderer who thought we were in fact money launderers, and I couldn't tell him which amount should be guaranteed because that bit of information was in the mind of the trafficker or money launderer in Columbia.

After we resolved it through a number of phone calls back and forth to Columbia, he used that as an opportunity to say that he was going to be in the United States and that he recognized these types of errors could be problematic, and that he had some suggestions for us that would help us to avoid these and other types of problems in the future.

The face-to-face meeting with this officer occurred in December 1987 in Miami and was recorded. The transcript is a part of the evidence in Tampa, and he cautiously got into the topic of their money laundering services, but within two meetings to three meetings at most, the nature of the transactions were blatantly discussed. The fact that the moneys were derived from the sales of drugs in the United States on behalf of very powerful drug lords in Columbia was something that ultimately became rather commonly discussed amongst the officers with whom I had contact in BCCI.

I think what occurred here with regard to our account was just one example that was precipitated by a policy in the bank on marketing. The bank on a regular basis encouraged its employees to review the transactions of customers to try to determine how it is that they could suggest additional banking with the customer.

A person such as myself, who is obviously servicing what they would call high net worth clients, Columbian drug lords, would have the potential of suggesting to his clients that they bank with BCCI, and so it would be very advantageous to them under their marketing plan to convince me of security of banking with them, and thereafter hope to encourage me to have my clients come forward and bank with them. That in fact did later happen.

Senator BROWN. What kind of revenue, special revenue, did they request? What was their cut?

Mr. MAZUR. They had variations, depending upon the relationship with the client. I tried not to appear too eager and bargained with them. Their proposal was between 2- and 2.5-percent differential, as it was called, between the interest earned on the certificate of deposit and the interest paid on the loan that would be servicing the moneys that went into the checking account. There were also other fees that at times would be charged.

In all, I think we handled roughly \$14 million through BCCI on behalf of clients. Their earnings from that amounted to \$250,000 in various banking fees, but that was not really their main purpose.

As they described it to me, although they enjoyed that profit, their main goal was to encourage me, as they did their other clients, to make large deposits with them every 6 months at the point at which the balance sheets of the bank were to be calculated, thereby causing their balance sheets to look very strong.

Even if it was only for a short period of only 24 hours, if the funds could be placed on deposit with them it would enhance their marketability in the international banking community and would

facilitate their doing other things. It was important to them, and many officers on several occasions encouraged me to not only place funds that I controlled, but the funds my clients controlled for very short periods of time during balance sheet time with BCCI.

Senator BROWN. It sounds like an effort to generate enormous growth very quickly and make themselves very marketable.

Mr. MAZUR. It sounds like it could be that, and they were certainly growing very fast, and told me that they had purposely done so over the last number of years, and were now going to try to focus their attention not on establishing more branches but perfecting the branches that they had at the time. They had over 400 branches, and they were in at least 70 or more countries. They were at the point of trying to then make those branches viable branches.

Senator BROWN. The people at BCCI you talked to, did they put you in connection with drug dealers, with others?

Mr. MAZUR. We began to get into the conversation of that in the summer of 1988, but did not get to the point of being introduced to people in the drug money laundering business. I was provided with the name of a person in Bogota with whom they dealt on a regular basis and suggested that I have some association with. They also indicated in the summer of 1988 that they were prepared to consider having me collect cash on behalf of a BCCI client, get it into accounts, and then to pass it to them as somewhat of a service.

Those things were somewhat derailed for two reasons. One, the main people with whom I was dealing at BCCI, Mr. Amjad Awan and Mr. Akbar Bilgrami, had their own plans of leaving the bank by November 1988, and aligned themselves with the financial institution based in London. They were going to be running a private bank in Miami on behalf of that institution. And so all of the people who were working toward a longer term relationship with BCCI, at least from them, was refocused over to this new company called Capcom Financial Services Limited in London.

The other officers with whom I dealt, primarily Mr. Nazir Chinoy, the general manager in Paris, did have other discussions about expanding relationship with BCCI. But then, the case was ended in October 1988, and that became a moot point.

Senator BROWN. The other cartel, or the other money laundering you were involved with, that connection came up through other activities that had nothing to do with BCCI?

Mr. MAZUR. It came up initially to me through another connection, but as I came to learn later, they already had an established relationship with BCCI and were laundering money with the assistance of an officer in Panama.

Senator BROWN. One other question. When you went to the various banks to open up accounts and you described the nature of your activities and so on, were the people at BCCI dramatically different from the way people responded in the other banks?

Mr. MAZUR. There was a small number of international banks that I had contact with, and the experience I had with BCCI, I have never experienced or heard anyone describe as a normal experience. It was very unusual. I was introduced through my initial—well, not my initial contact, but the Panama officer, two officers in Miami, who later introduced me to three officers in France and one

in London, and then also to one in Los Angeles, and one in the Bahamas, all of whom I had explicit conversation with about the source of the money being drug proceeds, and all of whom welcomed me with open arms.

Senator BROWN. Were these the presidents of the bank or a secondary level? How widespread do you think knowledge of drug trafficking was and what level of bank personnel do you think were in on this?

Mr. MAZUR. It appeared to me that the knowledge of the source of the funds and the method of seeking out drug proceeds as a source of deposits for the bank was something that was promoted at every level of senior management within the bank. The people with whom I dealt, the highest ranking officer I personally spoke with about these matters was Mr. Nazir Chinoy. He was in charge of all of the branches of BCCI in Europe and North Africa, and was one of the general managers.

I'm not absolutely sure, but I think there were approximately seven general managers for BCCI who were part of a committee. He was certainly a person who had very regular direct contact with the president of the bank, the vice president, and the entire committee, as he led me to believe he had shared the nature of my transactions with the then president of BCCI, Mr. Naqvi.

Senator BROWN. Did you not find it extraordinary that there would be so many people involved in the banking circle that would be aware of it? I mean, this apparently was not just a couple of guys at the top of the bank, but it was a large number of bank officers?

Mr. MAZUR. Yes, sir. It was. And I'm afraid to say that I've come to learn that in the international banking field this may not be as unusual as I'd first thought.

Senator BROWN. Thank you.

Senator KERRY. Thank you, Senator. Mr. Awan, who you just mentioned in answer to questions from Senator Brown, was one of the principal go-betweens in the Miami bank. Is that correct?

Mr. MAZUR. Yes, sir.

Senator KERRY. And he was really Noriega's banker in effect. Is that correct?

Mr. MAZUR. Yes, sir. He was.

Senator KERRY. Now, did the BCCI bank executives actually tell you ways that you could enhance the money laundering efforts you were making?

Mr. MAZUR. Yes, sir.

Senator KERRY. So they literally laid out to you ways that they could take more money and evidenced an anxious, as you have said, a clear desire to do so?

Mr. MAZUR. Yes, sir.

Senator KERRY. And at some time, you told Mr. Awan that you were planning a trip to Europe, did you not?

Mr. MAZUR. Yes, sir. I did.

Senator KERRY. And he offered to provide you with a list of BCCI contacts in Europe, specifically, in Switzerland and Luxembourg?

Mr. MAZUR. Yes. Some of whom he specifically told me would be people who would know the source of the funds and with whom I

could talk more freely, and one of whom he suggested I be much more closed with when I spoke about it.

Senator KERRY. This is 1988, correct?

Mr. MAZUR. Yes, sir. That—

Senator KERRY. Was it also in 1987 or not?

Mr. MAZUR. No. In the beginning of 1988, especially around the time that Panamanian authorities chose to freeze U.S. dollar accounts, and the need within the drug money laundering world to find other havens to supplement Panama arose. I'd engaged in conversation with Mr. Awan and these recommendations were a part of what he suggested I consider.

Senator KERRY. In 1988, then?

Mr. MAZUR. Yes, sir.

Senator KERRY. So in 1988, Mr. Awan is beginning to give you a picture of the BCCI, and you are beginning to gain a picture yourself of the BCCI, which has these broad money laundering tentacles into these other countries?

Mr. MAZUR. Yes, sir.

Senator KERRY. Now, in March 1988, did you pick Mr. Awan up at the Tampa airport in a limousine?

Mr. MAZUR. I'm not sure it was at the Tampa airport—a small fixed base operation near the airport and not in a limousine, but in a Mercedes. It wasn't a limousine, though.

Senator KERRY. It is all in the eye of the beholder. It was a limousine?

Mr. MAZUR. No. It wasn't a limousine, it was a normal car.

Senator KERRY. A normal Mercedes. For most Americans, that is a limo, but that is all right.

Mr. MAZUR. To me as well, sir.

Senator KERRY. Now, did he discuss the investigation of this subcommittee at that time?

Mr. MAZUR. In or around that time. Yes, sir. He did.

Senator KERRY. What did he say to you?

Mr. MAZUR. He informed me that the bank was concerned that the subcommittee was looking into their association with General Noriega. He jokingly referenced that BCCI must be doing something right, because they were named along with seven very prominent international institutions that had that type of association, and he explained that the bank had as one of its attorneys, retained for a number of reasons, Clark Clifford, and that with Mr. Clifford's help, the bank was attempting to find out as much as they could about the potential activities of the Senate subcommittee to anticipate moves.

The bank was certainly cautious. It is what really prompted Mr. Awan's visit to Tampa, because—at least in his eyes, I was a relatively new face and I sensed that he would have been much more comfortable to actually see the operation that I was involved in. And prior to that trip, he and Mr. Akbar Bilgrami suggested that we suspend business until April because of the activities that were going on. After the trip, business was resumed, and I know Mr. Awan, on a number of occasions, told his colleagues that his assessment of our operation was that it was a good and sound operation.

Senator KERRY. Did you know—strike that. Did he tell you at that time that BCCI owned First American Bank?

Mr. MAZUR. Yes, sir.

Senator KERRY. And were you surprised to learn that?

Mr. MAZUR. Yes, sir. I had previously received information, I think, in February 1987, from the officer in Tampa, that there was an association. But it wasn't until Mr. Awan's statements to me that I came to understand that the bank was, in fact, controlled by BCCI.

Senator KERRY. And did you know at that time that some of the funds that you were moving through BCCI were being in turn routed through First American in New York?

Mr. MAZUR. Yes. BCCI had a corresponding bank relationship with First American, and after receiving the funds, would pass them through First American.

Senator KERRY. Now, in a memo you wrote in 1988, you describe the objectives of Operation C-Chase, and you noted that identifying the highest ranking officers of the international bank who are culpable for the laundering of drug proceeds was one objective. Is that accurate?

Mr. MAZUR. Can you direct my attention to—

Senator KERRY. That is a March 1988 memo, I believe, either March 24 or 23. I do not have it right in front of me, but it is either March 24 or March 30, if my memory serves me right.

Mr. MAZUR. I have before me a memorandum dated March 15, 1988, that may possibly be the one you speak of.

Senator KERRY. All right.

Mr. MAZUR. Re: Status of Operation C-Chase, it's entitled.

Senator KERRY. Are there a number of objectives listed there?

Mr. MAZUR. Yes, sir. There are.

Senator KERRY. And the objectives—just tell us without the memo. I mean, what were the objectives that you were setting out to accomplish through this process?

Mr. MAZUR. In part to determine to what extent the higher ranking officers of BCCI were knowingly involved in the laundering of drug proceeds.

Senator KERRY. And I take it that you learned, did you not, that there was an inner circle, as you have testified, of bank officers who were involved in laundering drug proceeds. Is that correct?

Mr. MAZUR. Yes, sir. It appeared that there was a particular group that on a continuing basis dealt with these matters.

Senator KERRY. You specifically reference three bank officers who were communicating with you at that time. Is that right?

Mr. MAZUR. Well, certainly in March 1988, there would have been Sayed Aftab Hussain from Panama, Amjad Awan based in Miami, and Akbar Bilgrami based in Miami.

Senator KERRY. Now, have they been indicted?

Mr. MAZUR. Yes, sir. They were.

Senator KERRY. When were they indicted?

Mr. MAZUR. In—initially in October 1988, in Tampa.

Senator KERRY. In the takedown in Operation C-Chase?

Mr. MAZUR. Yes, sir.

Senator KERRY. Correct. OK. Now, did they tell you at that time, or did you have any idea at that time that the highest officers of the bank were involved in a criminal conspiracy?

Mr. MAZUR. By October 1988, yes, sir.

Senator KERRY. You knew that?

Mr. MAZUR. I knew that, they were telling me that.

Senator KERRY. Were you so reporting and recording in your memos to your superiors?

Mr. MAZUR. Yes, sir.

Senator KERRY. In February, when you mentioned taking that trip to Europe, did you believe at that point in time that it might be possible to bring a RICO action against the bank?

Mr. MAZUR. In February, I did not go to Europe. In May and September 1988, I did, and during that timeframe.

Senator KERRY. And in February, when you were contemplating it, did you at that time believe that it might be possible to bring a RICO action?

Tell the committee what a RICO action would be, with respect to the bank. What is a RICO action?

Mr. MAZUR. Racketeering and Influence Corrupt Organization Act offense, which primarily involves charging a group of individuals or an institution with racketeering, as a result of a pattern of crime, that pattern being certain—what is—predicate of offenses that qualify under racketeering. Certainly under it is included the Money Laundering Control Act, and wire fraud, mail fraud, other types of predicate offenses.

That was openly discussed with Mr. Jackowski in the U.S. attorney's office and really was their ball, but we did have a lot of discussions about the possibility of that occurring.

Senator KERRY. Well, why would a RICO have been a useful tool, or a useful way to indict BCCI?

Mr. MAZUR. Well, let me preface that by saying that I'm not a lawyer, and I know that there are a lot of things that needed to be taken into consideration.

Senator KERRY. No. I understand that. I know, obviously, Justice will have ample to say about it. I am just trying to get it from your perspective, that is all. The reason I ask it—and nobody is playing a game in here. I am not trying to hide anything, the reason I ask it is there were a whole series of memos, one dated April 27, 1988, and this is a memo from the Assistant Commissioner for Enforcement to the Regional Commissioner, in which it says that the officials of BCCI, who have thus far met with the UC agents, will be charged in a racketeering conspiracy. After this European trip, a decision will be possible in charging the bank itself as a racketeering enterprise.

Subsequently in a memo, March 1, 1988, this is from the regional office on C-Chase's monthly status report. Results achieved this month. Paragraph 3, at least 2 or possibly 3 officers of the targeted bank are indictable for multiple 18 United States Code 1956 and RICO offenses. Subsequently, in a memo dated May 10, 1988, from the Assistant Commissioner of Enforcement to the Commissioner, it is the opinion of the U.S. attorney's office that the probative evidence exists to establish corporate criminal liability against BCCI as an institution. Current plans for prosecution are to indict BCCI as an institution under the provisions of the RICO statutes and to indict the criminally liable banking officers.

Subsequently on March 15, there is another memo. I mean, there is memo after memo that sets out, this is RICO, we are going to use

RICO, RICO works, and I take it RICO would work here, because among other things it would have permitted the assets of the bank to be seized. Is that accurate?

Mr. MAZUR. It could have resulted in that, but let me say that although I agree with the content of the memos that you have there, many of them were not written by me, but were written by members of the investigative team who participated with me and other members of the undercover team.

Senator KERRY. But you did write a memo in which you drew the conclusion that you thought RICO would be useful.

Mr. MAZUR. Yes, sir.

Senator KERRY. OK. Why did you think it would be useful?

Mr. MAZUR. Because it appeared as a possibility to thereafter seek forfeiture of a lot of the bank's assets that would be located in the United States. Let me add that I know there are a lot of complexities that could interfere with that, but it seemed, from my level as an agent, that that was something that we would be strongly considering and, certainly, based on the conversations we had at our—I would say probably every 10 days to maybe 2 weeks—we would meet at a mutual site, an apartment, plus I had probably daily, if not at least every other day, spoken with Mr. Jackowski by phone, and that was things that we spoke of in these meetings and/or by phone, as something that we would be seriously considering as time went on, in the undercover operation, and especially beginning in June 19—June or July 1988.

The depth within which we had penetrated the drug and money laundering community was such that it was obvious my time would best be spent virtually 24 hours a day living with traffickers and money launderers, so I somewhat became a little less involved in the final strategies of what was to be decided, because of that need.

Senator KERRY. Do you know why a RICO indictment did not flow in 1988?

Mr. MAZUR. No, sir. I don't.

Senator KERRY. You do not know the answer.

Mr. MAZUR. In fact, I didn't even know the indictment had been returned until several days after it had been returned. Again, I was away 24 hours a day working undercover.

Senator KERRY. Now, ultimately you wound up seeking a new position, is that accurate?

Mr. MAZUR. Yes, sir, it is.

Senator KERRY. Would you describe to the committee what events led you to make that decision? Let me just say that before you did that, you took part in the takedown. You were there through the takedown of the official—of the number of officers, the original arrest, the closing of C-Chase, correct?

Mr. MAZUR. I was there but I was not present at the time of the arrests. There was a difference of opinion between myself and some individuals as to where and how the arrests might be considered to be had. And after seeing to it that the defendants with whom I'd had contact were at the country club—

Senator KERRY. Let me just do this. My colleague Senator Woford has joined us and I want to give him an opportunity, but I also want to close this line of questioning. But I think it is important to have an understanding of sort of how this event sort of was

brought to a close. It is a colorful story. It is a very creative one. It is interesting, and I would like you to tell us how you sort of set up the arrest and what the cover was, and how that event took place.

Mr. MAZUR. Yes, sir. In the summer of 1988, approximately July, there was a meeting at the Customs office in Tampa, where it was decided that October 1988, particularly October 9—it was requested the arrest be orchestrated. That date had been set as early as February 1988. But actually implementing a plan was not put into action until July.

Senator KERRY. Could I ask you why it was important to have an October 1988 date?

Mr. MAZUR. I've had difficulty understanding that myself, at times.

Senator KERRY. Was it fair to say—agent Mazur, is it fair to say that this case was really not completed? That there were significant leads, significant amounts of evidence in October that could have and should have been followed up, that might have resulted in a much larger case?

Mr. MAZUR. Given the change of certain circumstances, yes. And I would like to explain that. There was an operational plan in writing that mandated to the various offices involved how one would go about effecting an enforcement action, that meaning an arrest or a seizure of either drugs or money. It was in writing that to do so should be done in a way not to compromise the main undercover operation. Everyone who participated in it was fully aware of that.

In February or March 1988, it became obvious to me that there were some intended plans, in particular in Detroit, to possibly make arrests and seizures based upon Federal warrants that would otherwise disclose the entire operation. In writing, in March 1988 I recommended that that be reconsidered and that consideration be given to taking the enforcement action the same way it was done previously in areas like Los Angeles, where local law enforcement actually took the action and were in no way in a position to compromise our operation.

Senator KERRY. So you were afraid, I mean there was some fear that something in Chicago might compromise some of the situation.

Mr. MAZUR. In Detroit.

Senator KERRY. But the decision was made notwithstanding that October was the date, was it not? October had been predetermined to be the date.

Mr. MAZUR. Yes, it had been told to me that that would be the timeframe.

Senator KERRY. Did you have any discussion with anybody about whether or not October was the date? Because October 1988 was a Presidential election year. And by having an October takedown it would make Customs be able to present the administration with a sort of present on a platter of a serious drug case and a major money laundering case.

Mr. MAZUR. There certainly was mere speculation that that played a part by people at low levels like mine. But beyond that, I cannot say more.

Senator KERRY. But it went through your head that that might have been a reason that there was such a compulsion to terminate this thing in October.

Mr. MAZUR. I was at a loss for understanding why October. I would say that for sure.

Senator KERRY. Now I know you do not want to, and I did not bring you here to sort of pick on individuals. And I do not want names and I am not looking for that. But I do want to understand what happened here, because it has been a source of public contention. It is an issue, it is alive, and it is out there.

And it appears to me that there were—that the case just was not complete. That there were significant pieces there that could have led you—I mean, the first American piece, the number of high-level officers in the whole series of tapes that had not yet even been transcribed. There was a lot of evidence that had not even been reviewed. Is that not accurate?

Mr. MAZUR. That is accurate. But it is important for me to add that something was done in June 1988 that created a major problem. That is, Federal warrants were in fact issued in Detroit.

Senator KERRY. But let us face it, I mean, they were issued, but they are Federal warrants and this is a Federal investigation. And if people were serious about this bank and what it meant, surely somebody could have federally intervened to deal with Detroit, could they not? There is no reason Detroit had to make what happened in Tampa and Miami happen, is that not right?

Mr. MAZUR. Well, there are a number of things that occurred that I could share with you that, at least from my perspective, made that happen.

For one, the Customs Service at the time had a different chain of command. It was not a straight line authority where Washington mandated nationwide direction in these types of operational matters. There were regional commissioners who had cross-functional civil and criminal responsibilities, who had the ultimate say-so in various parts of the country. Therefore if one of the regional commissioners had, for one reason or another, an ability to be more persuasive about how or why an action should have happened in this within the region, they would be able to pretty much mandate what would be able to occur in the other regions.

And I know a lot of discussion was had in the region that included Detroit as to why it was important, in their minds, that this be a Federal seizure. After the seizure occurred there was some turf battling that was publicized between Federal agencies about the entire matter.

But I think the crux of the problem there was in part remedied when Customs finally decided, very recently, to go to a straight-line authority as the other Federal agencies have. I'm glad to see they've done that, because I think it'll minimize some of these problems. But that certainly was a part of the play.

Another problem was that these very significant criminals were now charged federally. A choice was left in the hands of the Government; let them go or make the disclosure as required by law of the warrants that had been filed. Unfortunately these warrants, at least to my knowledge, were not filed with coordination between the undercover team or prosecutors, to my knowledge. And it caught me by surprise, especially in view of the written recommendation I made in March 1988 that it not be done. But it cast in

stone a very difficult decision. The decision ultimately was we can't let those people go, and we have to end the case.

There were other things that happened in the summer of 1988, such as a surveillance that the Colombians had countersurveillance, Colombian traffickers had countersurveillance and identified law enforcement authorities who were surveilling them. This caused one particular trafficker in Medellin, a very powerful individual by the name of Gerado Moncada, to suspect me of being a Federal agent. Despite that fact that he thought that, his lieutenant suggested otherwise and reported to me that they tried to dissuade him of that.

We lost a little bit of credibility, but then did in fact continue to gain—regain credibility with the Colombian traffickers to the extent that we picked up roughly \$5 million after the seizure in Detroit, and the surveillance which occurred in Detroit.

But those did play into the minds of those, I'm sure, who made the decision about ending the operation. I think the pivotal thing that created the conclusion was the cast-in-stone decision in Detroit to file the Federal warrants, where in effect one could say we somewhat shot ourselves in the foot.

Senator KERRY. Did you have an invitation to meet with other inner-circle BCCI officers in November?

Mr. MAZUR. There was discussion in September 1988 with Mr. Chenoy. And as I explained it to him, it was important for the mythical people behind me to be confident that their support was not based solely on an individual officer's authority. And that I was looking for some assurances that the claims they were making that the bank itself backed this were accurate.

And I pointed out to him that he was, although a general manager and very high, he was not the director of the bank, he was not a president. And that my people would want to meet with higher-ups. He indicated that that was something that would be possible, and expected to try and coordinate that sometime after October. Whether it would have occurred in November or 3 months later, no one will know. But it was discussed as something that could potentially occur.

Senator KERRY. Senator Wofford.

Senator WOFFORD. Mr. Chairman, I want to salute you for your perseverance in pursuing this matter. It is in the service of truth and the need of the Congress and the people to understand the dimensions of the BCCI conspiracy and our Government's role in exposing and prosecuting it. I have a few questions, but just three points seem to me, as I have tried to catch up on the hearings and the facts, to be clear and important.

First, without the dedication and the courage of agent Mazur and his colleagues, there would have been no arrests, no indictments, no convictions in Tampa. And we would be far, far behind where we are now. The murder of DEA agents in Mexico again underscores the danger of their work. And I salute you, agent Mazur, for everything you have done and are doing.

Second, banks such as BCCI that launder drug money are just as responsible for the flow of illegal drugs into this country as are the drug smugglers themselves. And as such, they should be pursued

with the full energy and resources of our law enforcement agencies. And I stress the full energy and resources.

Third, I hope to learn more about, and understand if it is possible to understand, the plea bargain agreement in 1988 which, so far, seems to me a far better deal for BCCI than it was for the U.S. Government and for our people. And I still find it hard to understand why a RICO case was not pursued against BCCI. And I hope we pursue those two decisions further today. May I now ask a few questions? While you were working on the BCCI prosecution phase, did you have adequate resources?

Mr. MAZUR. In my opinion, no, sir.

Senator WOFFORD. What was the impact of not having adequate resources?

Mr. MAZUR. Selfishly, to me first, as an agent trying to prepare for trial, I was confronted with some 1,200 tapes that needed to be perfected for the benefit of defendants, and their fair trial, and certainly for the Government. And there was a difficulty in coordinating the adequate number of people to keep that moving along. I, and a small number of other agents, two or three, spent at times literally 24 hours in a given day transcribing and trying to meet deadlines. And I still was, of course, responsible for being a responsible witness in a courtroom, which is not an easy thing for one to do.

But beside my own selfish needs as a witness, there were things relative to the investigation that I'm sure a lot of individuals would like to have seen energies put toward. But it seemed as though there were no adequate resources to attend to them at a given time. In view of the impending case, there were a number of people, five or six, who worked literally day and night, and I must highlight Mr. Jackowski's contribution because I had to look close in the office to see if there was a bed, and I don't think he ever left that room. He was constantly trying to do not only his job, but others' jobs that couldn't be done because there weren't adequate people there. And three or four other people from the IRS and from Customs worked very, very hard. But we needed more help than we had.

Senator WOFFORD. Could you compare your resources with those of the BCCI lawyers and investigators? How many of them were there?

Mr. MAZUR. Well, I remember an occasion related to me by one of the other agents who attended a pretrial hearing when Mr. Jackowski appeared on behalf of the Government. And some 23 attorneys appeared there on behalf of the defendants. He had the unmanageable task of trying to deal with all of their efforts to distract everyone from the issues at hand.

And that was typical not only of what the prosecutors faced, but what the agents faced. I understand from reports that there was over \$40 million expended in defense on behalf of BCCI. It is unfortunate, but I think if you tallied the amounts expended by our side, we were tremendously outnumbered, but I'm proud to say no one gave up. And the outcome was a success.

Senator WOFFORD. And so you felt outgunned, and I do not use the word lightly, you felt outgunned at least on a legal and investigative side.

Mr. MAZUR. Tremendously.

Senator WOFFORD. Did BCCI investigate you personally?

Mr. MAZUR. Yes, sir.

Senator WOFFORD. Can you tell us some more about that?

Mr. MAZUR. Through a source that I prefer to make reference to possibly in closed session, I came to learn that the principal investigative firm working on behalf of BCCI had, in fact, retained another investigative firm for the sole purpose of investigating me, and the IRS agent who is the affined in the BCCI searches. That was something that not only happened to me, but also happened to many other people who tried to work on behalf of the Government, and in particular, a citizen who showed tremendous courage to allow the Government to use his business in part as their cover, who later became a victim of malicious statements that were made by the investigators that led later to his financial ruin, and it's a shame that that type of thing occurred, but it did.

Senator WOFFORD. In your 20 years in action, have you experienced that kind of investigation from your opponents?

Mr. MAZUR. At times, but not at this level. The level of this kind of investigation was unique.

Senator WOFFORD. Were there any threats to the lives of agents or witnesses?

Mr. MAZUR. Yes, sir.

Senator WOFFORD. Could you say more about that?

Mr. MAZUR. There were a number of times when information concerning threats were conveyed. On two times that was alleged to have emanated from the Colombian traffickers, and at least one and possibly two times, when information was received from Pakistan through Government sources about potential plans to try to affect the Government's case by kidnapping someone.

Senator WOFFORD. No further questions at this point.

Senator KERRY. Thank you very much, Senator Wofford. Senator Brown.

Senator BROWN. Thank you. I would like your reaction to some speculations, and it is indeed speculations, so if you do not want to comment or do not feel comfortable, please say so.

In looking at this scheme, it does not appear that the money laundering would have paid enough to BCCI to be worth the risk, that they must have had other purposes in mind for what they were doing. Do you have any thoughts on that?

Mr. MAZUR. My only thought is that it would appear to me that although there might be other motives, certainly the profit to the institution is very great—potentially great. One need only look at the international institutions that had a presence in places like Medellin and other cities within Colombia, known to be the homes of drug lords, to know that there has to be some common thread for why so many of these international banks seek that flight capital, which moves from continent to continent.

It is massive and if one client, such as Gerado Moncada—as he was a client of BCCI—should be very persuaded by an institution to place funds with them; \$1.2 billion in a given year in gross receipts can certainly generate quite a bit of influence in the financial community.

Senator BROWN. I think that is what I am trying to get at. If you are talking about a couple percent, 2½-percent differential on money you launder, that surely cannot be the purpose of this whole operation, can it? I mean, is not the percentage that money launderers get usually greater than something like that?

Mr. MAZUR. Different elements in the money laundering process get sometimes even less than 2 percent, but in general the owner—the drug dealer who has his money here probably expects to lose anywhere from 10 to 15 percent of their proceeds to have the funds laundered.

Now, yes, the income from fees for handling that money is somewhat small, maybe 2 percent, but the power that can be yielded by having the deposits maintained at one's institution from those individuals translates into much more than the 2-percent fee that's made off of it.

Senator BROWN. I must say, that is the conclusion I am drawn to, that the motivation of BCCI appears to have been to build up massive deposits for another purpose, not that they did not make some money here, but that they must have had something else in mind.

Do you believe the incidents we are talking about—several of them, but the incidents in Detroit and Philadelphia, and New York, were somehow purposely designed to interfere with C-Chase or were the result of just lack of coordination? What observations would you have on that?

Mr. MAZUR. It's impossible for me to say within my knowledge. There are certainly things that I think were done by people in other parts of the country which, although having a detrimental effect on the overall C-Chase operation, may have been done by them with the spirit in mind of doing what they thought was the best for the case in their area. That type of thinking is very faulty to a coordinated law enforcement effort, and is the type of thing that I think can be more readily dealt with, with a chairman agency being more involved.

Whether or not there were ulterior motives behind some of the decisions that went beyond agency concerns and career concerns is unknown to me, but I do know that the principle of thinking what's best for the people, what's best for the case, is not what drove a lot of those decisions. It appeared it was because people didn't understand the big picture of the case. But to say more than that, I can't.

Senator BROWN. You mentioned speculation about the timing in October. What kind of hard evidence with regard to the timing should this committee be looking at? Are you aware of hard evidence other than speculation that would call into question the timing?

Mr. MAZUR. Well, I would think that the people who were responsible for making the decision of the choice of October 1988 would be able to answer presumably what their motives were for choosing it. Not being a part of them and being on the street level and agent level, trying to feed up the chain of command, impressions didn't put me in position to be able to understand what was really going on behind the scenes.

Senator BROWN. One last observation that I would like you to comment on, and again, this is speculation, you do not need to—

well, let me go back. First of all, can you give us names of who you think would be the operatives here that control this process that we ought to talk to about the timing?

Mr. MAZUR. Well, there were primarily three governmental bodies that were involved; the Department of Justice, the U.S. attorney's office, the Customs Service, and the Internal Revenue Service, and it would seem to me that individuals in the agencies from the assistant special agent in charge and above, and in the U.S. attorney's office from the prosecutor above, would be those people who would have had a lot of the detailed conversation, now. There's no doubt in my mind that the thinking that was going on, possibly in offices outside of Florida, the headquarters offices of Customs, may not have included or been on the same line as maybe the prosecutor, but the end result may have been the same.

For example, Mr. Jackowski, and I don't mean to speak for him, may have felt that the Detroit case put him in a position to have to say October, but his answer is October. Whereas, from Customs' upper management, their answer may be October, but it may be for different reasons. I'm not privy to what it is that went on in their minds to do that.

Senator BROWN. But those three agencies and the key decision-makers are where we ought to look?

Mr. MAZUR. Yes, sir.

Senator BROWN. The thesis I would like you to comment on in looking at this from the outside with hindsight—it is always an advantage—it strikes me that the money laundering is the tip of the iceberg. That the real significance is not the money laundering here. The real significance is the ultimate business plan of BCCI and the related arms trafficking and drug smuggling, and the variety of other schemes, that you might get an exemplary, spectacular settlement with regard to money laundering, but that if that settlement which was extraordinarily good for money laundering discouraged an investigation of the other more significant crimes that were going on, then it would harm law enforcement, not help it. Do you have any reaction to that?

Mr. MAZUR. In theory, what you're saying I agree in, but applying it to the BCCI case, I must admit that there are some criticisms of the plea agreement that I've heard spoken of, and seen reported, which I think are not completely accurate and tend to cast a more negative light on the plea agreement than might be fair. Although when we were trying to determine whether a plea agreement was appropriate, I must say that the Department of Justice and Mr. Jackowski went out of his way to hear the opinions of those who were involved in the case, and solicited a list of conditions under which that type of agreement might be considered appropriate by each party.

My list, I know, is a part of your package here, and for reasons of my own, I felt that in view of the final plea agreement, what it was going to be, I saw some advantages in simply including the bank as a defendant only because certain criteria that I hoped the bank could be held to in a plea agreement which is not legally feasible, I was supportive of, trying to discuss a potential agreement. But I have to admit I was, in the long run, of the opinion that we may as well go to trial, in view of the terms. But I don't believe that the

agreement precludes a lot of the followup that some people have suggested that it does.

Speaking as an agent and not as an attorney, it seems to me that the only thing it's bound by here is that the middle district was not in a position to pursue additional charges relative to the bank. But that the other districts, especially those like Miami, the southern district in Florida and in New York, they had a latitude to continue and certainly had a substantial amount of the criminal activity occurring in their districts, and could take advantage of all the information in Tampa, excluding that which might come as alleged cooperation from the bank.

Senator BROWN. So you are saying the agreement did not exclude that kind of followup in the other areas?

Mr. MAZUR. I don't believe that it did.

Senator BROWN. Thank you.

Senator KERRY. Let me pick up on a couple of areas if I can. I want to know some things about Capcom and what happened, but I want to finish up. Senator Wofford asked you the question about resources and it has been something that we discussed briefly yesterday in the office. You know, I was just reading through your memo on the occasion of your resignation, and I am not going to read the whole thing here, but I do want to just emphasize that it strikes me as a fairly remarkable statement. I mean, you came to a point in your career with Customs where for better or worse, you made a judgment that you needed to leave to make a statement. Is that accurate?

Mr. MAZUR. Yes, sir.

Senator KERRY. And, you know, I think it is a very honest and bold kind of statement in which you say it is with mixed emotions that you write a letter and you regret that conditions caused you to think about options in your career that were different. And you hoped to be trying to strengthen Customs against some inadequacies and injustices that you had noticed that you felt brought you to that point, and you said—I am going to read from one paragraph—you said: "I am not a disgruntled agent. I received outstanding evaluations through my 19-year career as a special agent. I have received innumerable awards and I have twice been recognized with national awards from the Association of Federal Investigators. I do not refer to my record for any reason other than to attempt to establish a basis from which an impartial judge of facts can weigh my credibility. And I would certainly weigh your credibility as high."

You also paid tribute appropriately to assistant U.S. attorney Mark Jackowski for his commitment to the effort, and helping to guide it to the pretrial and trial stage, and then you say, and I quote you: "I know that my formally advising you of the deplorable conditions in Tampa could cause some individuals in a professional circle to question my loyalty. But it is simply out of my love for this country and our critical need for ethical government that I think it's appropriate to respond to a request for my candor."

Leaving aside some of the other things that you stated, you come to a point where you say—and I quote you: "If it had not been for the nearly 2 years of achievement prior to March 1988, the ulti-

mate outcome would also have been lost. The ultimate outcome of Operation C-Chase." Is that accurate?

Mr. MAZUR. Yes, sir.

Senator KERRY. Then you say the outcome of the case, while notable, was considerably less than it could have been.

Can you share with the committee what you mean by that?

Mr. MAZUR. Yes, sir.

After the undercover operation was concluded, the Government was confronted with a massive task. Records had been seized from BCCI in Miami, from the homes of several officers in Miami, from the BCCI offices in London and Paris, from the homes of traffickers. And a tremendous task with a tremendous potential benefit faced the Government in using those records and analyzing those records to the best advantage of the Government.

And very little resources of those that were available could be used to deal with those matters because of the tremendous resources that were needed just to attend to pretrial motions and the upcoming trial in Tampa, despite the hopes of trying to get—at least from my perspective it seemed that three seasoned agents who had a lot of experience in these types of cases could ultimately be substantial leaders while the existing team went on with trial.

For one reason or another it was impossible for the Government to locate people who could fill that void or it was in the opinions of those who had the authority to make that decision an unnecessary use of resources, one or the other.

And I think a lot of followup in contacting witnesses and reviewing records that was lost that might have otherwise benefited the case and would have continued an instant momentum from October 1988 on without a time out for trial would have been a great advantage to us all to see the things that are happening in the BCCI case happen more quickly and smarter on our behalf. And I think that that was, that time out, was a costly time out.

Senator KERRY. You say in the next sentence, the indictment of additional defendants and the seizure of substantially more drug proceeds was lost directly as a result of the application of inadequate resources to the investigation.

Now I take it that in April 1989 there was a memorandum from a special agent to the special agent in charge which said, this is a separate memorandum—in addition, in excess of 100,000 documents were obtained from BCCI via search warrant. Although all of those records have been copied and provided to the defense, none of these records have been viewed and analyzed by case agents.

Do you know how many of those documents were reviewed by the end of the year, by the end of 1989?

Mr. MAZUR. Some have been reviewed, but for different purposes. I guess I would classify it somewhat as putting out fires and/or dealing with the instant trial as far as followup is concerned on those records.

Senator KERRY. You said putting out fires, people were——

Mr. MAZUR. An issue might come up that would require information.

Senator KERRY. So it was not systematic, it was just when an issue came up?

Mr. MAZUR. I think my best example of some of the problems we encountered on the records occurred after I finished testifying in the Tampa trial.

An IRS agent, a very gifted agent and I, analyzed certain records that we had had for—since of October 1988. We looked at those records because of putting out a fire. A bank officer was expected to testify and for cross-examination purposes it would be to our advantage to make sure those records were most closely scrutinized.

In a 2-week review we came across a major drug trafficker whose assets were identifiable from those records. We attempted to track the assets down. And unfortunately, within 1 year after the search, the assets had been sold and moved and protected in such a way that the Government was precluded from seizing them.

Senator KERRY. Do you know whether or not some of those were destroyed?

Mr. MAZUR. After they were in the hands of the Government, sir?

Senator KERRY. Did you learn whether or not prior to that they were being destroyed before the Government got them because of that delay?

Mr. MAZUR. There was a time when record destruction was explained to me by Mr. Awan in September 1988 primarily in response to subpoenas issued by your committee where he explained to me that subpoenas had been issued for records in Miami of transactions conducted by Panamanian corporations, of which one of those accounts was mine.

And during a recorded meeting he explained to me that he and others at the bank were hurriedly informing their clients to close their accounts in Panama. And after the accounts were closed an argument was going to be made that the records didn't legally have to be turned over because the accounts were now closed. And that with respect to my accounts, he was prepared to arrange the destruction of part of those records so that the tracks back to me would not be readily available.

Senator KERRY. Now you mentioned a moment ago, I take it, that once the takedown took place, the arrests were ongoing and you were doing trial preparation, that you and your associates were principally wrapped up in trial preparation. Is that correct?

Mr. MAZUR. Yes, sir. And I was somewhat isolated because I was in an off-site, out-of-Tampa location with headsets, boxes of tapes, and transcripts and mostly communicating by phone.

Senator KERRY. And you said earlier that there was a time out. What did you mean by a time out?

Mr. MAZUR. After the search and the arrest occurred, there were things that potentially, at least in my opinion, could be followed up relative to other officers who were not charged and records which might lead to superseding indictments or additional indictments.

But because of the resource crunch, those that were made available by the agencies had to, on behalf of the Department of Justice, be applied to the trial preparation.

Senator KERRY. So effectively, there was not a followup and there was not really a continuation of investigation into the leads that existed at that time?

Mr. MAZUR. To a limited extent there was, but not in effect, no.

And I must add, though, that it was always the plan of Mr. Jackowski that after the conclusion of the case, following convictions, these individuals would be brought back and compelled to testify. So that aspect of the followup was always considered.

Senator KERRY. In a subsequent memo, Mr. Mazur, you note in that memo, quote: "As a result of the inability to follow leads that would have compromised the covert operation prior to October 1988, there are literally hundreds of leads which must be pursued prior to trial involving." The rest of that particular memo is redacted so we do not know exactly what all the things are that it involves.

Let me ask you. Is that accurate, there were literally hundreds of leads?

Mr. MAZUR. Yes, sir.

Senator KERRY. But those, effectively, were not being followed up on.

Mr. MAZUR. For the most part, no, sir.

Senator KERRY. Did any of those leads pertain to illegal arms transactions?

Mr. MAZUR. Potentially they could have. And in hindsight now, yes.

Senator KERRY. Did any of those leads pertain to Iran-Contra transactions?

Mr. MAZUR. I'm not familiar with that, although I can say that I know there was a transaction involving Mr. Khassogi that Mr. Awan informed me of during the course of the undercover operation. So, presumably there would be transactions. Whether they were filtered through the branches that the searches occurred at or not, I don't know.

Senator KERRY. Did any of those leads pertain to payoffs of Government officials?

Mr. MAZUR. We can't say for certain, but knowing the conduct of BCCI at this stage, in hindsight, I can say that that possibility certainly exists.

Senator KERRY. Did any of those leads pertain to the illegal ownership of First American?

Mr. MAZUR. I believe there were records in the Miami location that would have related to, at least in part, the association between BCCI, First American, and National Bank of Georgia. For a not-brief, but for a couple of months I know there was followup relative to that issue under the guidance of the middle district of Florida and the U.S. attorney's office after the undercover operation was concluded.

Senator KERRY. Senator Wofford.

Senator WOFFORD. In your letter of April 3, 1991, calling the circumstances "dire and deplorable" relating to you and some of your colleagues, have you considered the possibility that those circumstances were related to problems that you felt personally were related to the BCCI matter and your role in it?

Mr. MAZUR. Certainly, in part. There were other problems that, from my perspective, existed that were either less or even not involving the BCCI matter.

Senator WOFFORD. Could you elaborate on what the relation of those problems was to BCCI, to your work on BCCI?

Mr. MAZUR. It appeared to me from where I sat that after the times where I had discussions with some factions of customs about a couple of issues, one the publicity that occurred in the BCCI case, which I had a different opinion about and the resource issue, it appeared to me from my perspective that certain things were occurring that some people might interpret as being retaliatory relative to me.

And it seemed to me that that was an occurrence not just isolated to me, but others who shared my opinions. And in that way it was somewhat affected or related to BCCI.

Senator WOFFORD. Do you have any evidence of the corrupting power of BCCI, that it reached into the Customs office?

Mr. MAZUR. I have no firsthand information about BCCI's possible influence of Customs, just speculation.

Senator WOFFORD. Do you have any evidence, any indication that you can give us that the corrupting influence of BCCI reached into any other Government agencies or agents that you dealt with, the Justice Department or elsewhere?

Mr. MAZUR. No, sir. I think the only thing I can say about that is that I know and was told that it was a practice of BCCI to attempt to ingratiate themselves on world leaders in a number of countries and that a concerted effort certainly was made here in this country as I was told it was made in a number of others with the hope that BCCI could curry favor as a result of that relationship. I know that was a general theme, beyond that I cannot say anymore.

Senator WOFFORD. Do you think the four instances in which your undercover operation and identify were revealed was an accident or by design to force the C-Chase case to closure?

Mr. MAZUR. I don't know, sir.

Senator WOFFORD. Would you describe those four instances and their impact on your case?

Mr. MAZUR. I don't know if there's four. But I will tell you as I can remember. One is the issue in Detroit.

Senator WOFFORD. Detroit?

Mr. MAZUR. Yes, sir. In that instance there were warrants, Federal warrants that were filed which although didn't name me or the other operatives by name, in such detail described our activities, it would be apparent from anyone who read the warrant that we were Federal agents. Those were sealed, but unfortunately in the drug world rules sometimes don't exist and it is not always a wise idea to rely on the system to contain information.

And there was another instance in New York in July 1988 when the agents who were working in New York were detected by Colombian traffickers who were doing countersurveillance. That created some credibility problems with one of the cartel members who suspected me to be a Federal agent.

There was also an instance in Houston when a surveillance was similarly suspected to be compromised.

And those are the three that come to my mind now.

Senator WOFFORD. Philadelphia?

Mr. MAZUR. I don't recall anything that occurred in Philadelphia that equates to the three examples I gave.

Senator WOFFORD. In your letter, you say that on 60 Minutes, U.S. Senator John Kerry, questioned why Federal Government

agencies failed to pursue the natural followup matters to the BCCI, principally, alleged criminal offenses by former Secretary of Defense Clark Clifford.

As it relates to the U.S. Customs Service, I believe the answer to Senator Kerry's question can be found within this letter. Could you elaborate, please, on what in your letter explains why there was no followup to the heart of the matter in BCCI?

Mr. MAZUR. I think basically the tone of what we've discussed here today, I had not—I was not aware if it had occurred that the things we've discussed here today were readily known with regard to the time out as I guess I have described it. And the limitations that we as a Government, because of the resources that are available, are confronted with in a case like this, when you're not only facing Colombian traffickers who make over \$1 billion a year, but a bank that can afford to spend \$40 million to defend a case, that's quite an awesome responsibility for the taxpayers to be expected to carry.

Somewhere in the middle of all this, I guess, there's a balance to protecting the taxpayers. But I can also see, with all that was at hand, it would have taken a good chunk of the Government's resources just to address this one case. We are certainly understaffed. And certainly more agents would have helped, but maybe we can work smarter.

Maybe some of the examples of what happened here can be positively used so that when we have this opportunity again, we can do more with what we have. I think we can do more with what we had. But I also think we could use the help.

Senator WOFFORD. Did the influence of high officials who were high persons of prominence ever appear to you in any form in terms of inhibiting your work or retribution toward you?

Mr. MAZUR. I wouldn't say it necessarily inhibited, but it slowed the process down some. There are times when people can step forward representing an individual and because of their standing can cause people to maybe think a little slower and more cautiously as they approach a particular case. And in this instance, I think there were times when a pause occurred because of the apparent influence of someone who represented an individual. And I don't know if that is more because of a human weakness or because of something that I am unaware of. But it certainly was something that was felt at times.

Senator WOFFORD. Could you tell us about those times, one or two or three or more?

Mr. MAZUR. To give detail, I would offer that maybe in closed session, the particular names might be best discussed in that forum. But there were times when, for example, relative to one defendant, a former Government official, a practicing attorney had a meeting, despite the fact that the defendant never made an appearance in a trial, challenging the good faith in which the indictment had been returned and which caused a number of people to feel it necessary to lay the case out to the Government officials who were contacted about whether or not this was a mistake on the part of the Government.

Eventually that former Government official's, then attorney's concerns were allayed, but it had to be dealt with and it certainly

was a distraction during the course of proceeding in trial preparation.

Senator WOFFORD. Any other instances that you can describe short of a closed session?

Mr. MAZUR. I'm sure that I could recall, given some time, other instances like that. And I would ask that you consider allowing me to give it some thought and possibly providing you with the information in a different forum at another time.

Senator WOFFORD. One last question on this point.

Senator KERRY. I just wanted to say we appreciate that and the record will remain open so that you may do so.

Senator WOFFORD. You said you had speculations that the corruptive influence of BCCI might be responsible for your problems reflected in the letter. You said it is nothing but speculation. Do you have any facts related to those speculations?

Mr. MAZUR. I think I can only fairly say that it's outside my knowledge as to what caused a number of things from my perspective. There are things that occurred which made it appear that either through agency work or for a misguided priority, things may have happened. Whether other things impacted on it or not, I'm unaware.

Senator WOFFORD. Thank you. Thank you, Mr. Chairman.

Senator KERRY. Before I turn to Senator Brown, you mentioned yesterday in the office very briefly when we met for the first time and chatted about this, that there were moments you kind of felt like you were out in the wilderness.

Do you want to share with the committee that sense that you and I know other people on the line—I know you are not alone on that, because I have talked to many other agents. I just would like to have that as part of the record.

Mr. MAZUR. I think the analogy I made that we were somewhat of a reconnaissance squad that had been out in the middle of the desert and encountering the enemy, and sent word back to the fort that we needed some help. And waited and fought and fought and fought but no help came.

But now I have to say very candidly that what it is that is occurring today, I think, is dramatically different in that there are some very substantial efforts underway and that have been underway throughout this year, which are much more realistic.

I guess since the Tampa trial ended in 1990, some of the resources that were on that trial are now involved in those efforts, but there are even more people, agents from the FBI and from IRS and from Customs, all of whom are working hard together in a number of different districts to get to the bottom of this.

Senator KERRY. Well, I would agree with that. I think there is a significant effort going on now and am pleased to say that I think significant resources are being committed, and I think that is good.

Let me ask you something, though. You know this case has become celebrated and maybe notorious is a better word, and so a lot of resources are focused on it. But you have talked about the amounts of money and the sort of outgunned status. And I would just like your comment generally on the status of the law enforcement effort that the war on drugs and so forth; I mean, are we not just outgunned?

Is this a terrible swim upstream, Sisyphus pushing that rock up interminably, or is there something? I mean, could we turn it around relatively rapidly with a resource allocation and so forth? What is your sense of this effort you have now spent 20 years of your life dedicated to?

Mr. MAZUR. I think any quick solution to a problem is only temporary and I think that a smart plan with dedicated resources is a wiser course of action than hoping that we could come up with the magic to end it.

Unfortunately, the problem is at terrible proportions currently, but in the last several years we've learned the importance of education and included that in our program, which, frankly from my perspective as an agent, I think was a tremendous accomplishment and is going to, in the long run, make an impact in this country.

But I also think, and I come back to what I mentioned before, that we need to take these agency wars and these jealousies and these problems and put them aside. The agencies themselves have been given a substantial period of time to show the maturity to put that aside. It hasn't happened.

I think the Drug Enforcement Administration that got the nod in 1973 deserves a chance to try it as a mature member of that important team. The other agencies, enough can't be said for the expertise they have. It is essential to a cohesive multiagency effort.

But we need a chairman. And from my 20 years, I can say, and I've been in now three agencies, it would not make any sense from my experience for it to be anything other than the agency that has all of its expertise dedicated to that since 1973.

Senator KERRY. I appreciate that answer. I am going to come back to one area, but I recognize first Senator Brown.

Senator BROWN. Just two questions quickly. One of them relates to the withdrawals in 1988 by drug dealers. As I understand the circumstance, shortly before the arrest of five BCCI officials in 1988, some international drug dealers made significant withdrawals from their BCCI accounts.

The speculation is, of course, that somehow they were tipped off. Do you have knowledge or any thoughts in this area about potential leaks that could have tipped off BCCI officials or drug dealing officials?

Mr. MAZUR. My exposure to that primarily comes from an article, I guess, that recently appeared, I think, in the New York Times. Although I lived the events, one thing that I did not notice that was a part of the formula of speculation in the article is something that was occurring as a result of actions of this committee.

That is, that in July, a subpoena or subpoenas were issued to BCCI for key records, primarily those in Panama. And I know I, as a money laundering client in the eyes of BCCI, was—I was vigorously told that it was in my best interest to close those accounts out as quickly as possible and transfer the funds to another BCCI branch.

Senator BROWN. Who was it that gave you that advice?

Mr. MAZUR. Two officers, Akbar Bilgrami, who was in the marketing division of the regional office of BCCI, the Latin American and Caribbean regional office, and also Amjad Awan, who is also on that staff.

I know that that same information was being conveyed to other customers and I'm sure that a large number of accounts from September and October were closed as a result of that encouragement from them.

Senator BROWN. Did they say why you should transfer the money?

Mr. MAZUR. Because of the possibility that this committee would be successful in enforcing a subpoena that would call for the production of records of transactions conducted on behalf of Panamanian corporations.

Senator BROWN. You mentioned earlier that there was a period when the drug dealers you were dealing with suspected you personally of being a law enforcement agent. What was it, what happened, that made them suspect you?

Mr. MAZUR. At the outset, when they first met me, there were certain challenges made by them. That's just normal and I didn't consider it prompted by anything other than caution. And then in May and June, it was revitalized because of the terminations of Operations High Seas and Cash Whip.

But then, in July 1988, the middle of July, after having met with Gerado Moncada's representatives and struck a relationship that would have called for us to handle a large amount of his drug proceeds, that, of course, would have exposed his drug dealers here in the United States.

With the surveillance of the first major pickup of money from his people in New York, that pickup was for \$10 million, that sent a signal to Moncada, as I was told by his subordinates, that that act of seeing those police officers out there plus other suspicious activity, meaning the Detroit activity, caused him to think that I was a Federal agent.

But his underlings, who included these two people, one an attorney and the other, an airplane pilot, they were repeatedly suggesting that this was not the case. But those are the things that I think most caused him to feel that.

Senator BROWN. It was not necessarily that someone had fingered you, it was something that you had knowledge about, had been under surveillance, and I assume his suspicion then would have gone to anyone who had knowledge about that operation.

Mr. MAZUR. From my perspective, it appeared that there were some viable reasons that the defendants had their suspicions. Whether or not there were other things that caused them to have the suspicion, I don't know, but the ones I've mentioned are the only ones that I am personally aware of.

Senator BROWN. Going back for 1 minute to the recommendations from BCCI bankers to close accounts and transfer money, did you get any indication that the attorneys for BCCI were aware of that particular activity by the BCCI banking officials?

Mr. MAZUR. It appeared that way to me. I guess one of the things that caused me to have that opinion, among others, was a conversation with Mr. Awan in September 1988 which was recorded, wherein he specifically told me that in an effort to frustrate this committee's subpoena for his appearance he had been instructed by Mr. Altman to leave the country and to go to Paris, and that is

probably one of the things that comes first to my mind that led me to think that there was some knowledge.

Senator BROWN. He indicated Mr. Altman had suggested to him to leave the country so that he could avoid the subpoena?

Mr. MAZUR. Yes, sir.

Senator BROWN. Thank you. I just wanted to add a personal note of thanks. To put your life on the line for this country is an extraordinary commitment. Not everyone has a chance to make such a commitment, nor would everyone do so. I think everyone who is aware of your activities is deeply appreciative that there are people like you who are willing to make sacrifices.

I know coming here was not the easiest decision you've ever made, that you've had threats on your life and threats concerning the safety of your family. We very much appreciate the kind of commitment you've made to this Nation and your willingness to share your testimony with us.

Mr. MAZUR. Thank you very much, sir.

Senator KERRY. Mr. Mazur, you mentioned earlier an entity called Capcom. Do you want to tell us what Capcom is, or was?

Mr. MAZUR. It was a commodities futures brokerage firm based in London that had affiliates in Chicago and I believe also Dubai, or Abu Dhabi, and it was run by a gentleman by the name of Ziauddin Akbar, who is the former head of BCCI's treasury and a close personal friend of Mr. Awan's.

At the time that I first became aware of Capcom, that company came to my attention by a conversation with Mr. Awan and Mr. Agwani, when they explained to me that they would be soon leaving that bank.

That conversation occurred one of the very last days of June 1988, and that their plan was to take a large amount of the portfolio that they managed through some 70 high net worth clients, including myself, that comprised about one-half billion dollar portfolio with them, so that it could be managed in their private bank or private investment company that would be affiliated with Mr. Akbar, and they suggested that I strongly consider not suspending my activity with BCCI, to launder funds there, but to expand it to include Capcom and their future private banking firm.

To aid that end, they arranged for me to meet Mr. Akbar in London, which I did in September 1988.

Senator KERRY. Did you open an account at Capcom?

Mr. MAZUR. Yes, several.

Senator KERRY. And Capcom became part of the original indictment.

Mr. MAZUR. Yes, sir.

Senator KERRY. What did you discover about Capcom as your investigation continued?

Mr. MAZUR. What I discovered is that the company had—

Senator KERRY. And Capcom was a piece of BCCI, a sidebar.

Mr. MAZUR. It could informally be referred to as that. It was really an outgrowth of a BCCI plan. As it was explained to me by Ziauddin Akbar, he explained that as the head of the treasury, conducting futures transactions, it became obvious to him that the bank was losing some \$30 million a year in commissions, and that

it would be advantageous to the bank to form a commodities brokerage firm of their own.

Senator KERRY. To capture that money itself?

Mr. MAZUR. Correct. Of course, licensing here in the United States would be impossible for BCCI, or certainly difficult, and so it was a plan of Mr. Akbar's and the bank to defraud those who they submitted their applications to, to give the impression that this brokerage firm was not related to BCCI. As that plan began, BCCI pulled out, but Mr. Akbar, who had commitments from high net worth clients of his, decided to continue it. He therefore opened Capcom while he was still employed by BCCI, and then shortly thereafter left BCCI, became the president of Capcom, and ran that company.

Senator KERRY. What is the status of Capcom today?

Mr. MAZUR. I don't believe it's doing business any more as a result of this particular case. The recorded discussions with Mr. Akbar, we came to learn that it was his plan to launder drug proceeds through the transactions of Capcom. Capcom had advantages of doing that primarily because it had a gross transaction rate of roughly \$90 billion in an 8-month period of time.

Senator KERRY. \$90 billion.

Mr. MAZUR. Gross transactions.

Senator KERRY. And that's in a span of—

Mr. MAZUR. Eight months, as he described to me, and that with all of that activity going on, it would be easier to layer drug-related transactions that could not be otherwise discovered. He offered to, and in fact did that for us.

Senator KERRY. Now, is that what you later discovered as you continued investigating, or did you discover something else, or have you since discovered?

Mr. MAZUR. Since that period of time, the discovery—the particular discovery was made of funds that were owned by another individual in that institution, although it was certainly suspected that Mr. Awan's favorite clients and Mr. Bilgrami's favorite clients like myself would be shifted to Capcom, and as it turned out that was the case, and in part some of General Noriega's money was handled through Capcom at or near the same time of the transactions that were carried out on my behalf, and while I was in discussion with Mr. Akbar.

Senator KERRY. How much drug money do you believe was being laundered through Capcom?

Mr. MAZUR. I don't know, sir.

Senator KERRY. How much drug money do you believe was being money laundered through BCCI?

Mr. MAZUR. I think it would be safe to say untold amounts. The client list includes a number of the higher profiled—

Senator KERRY. Untold amounts, I mean, what are we talking about, \$15 million?

Mr. MAZUR. Fifteen what?

Senator KERRY. Million dollars.

Mr. MAZUR. Maybe for one client. In speculation, maybe for one client. Certainly not in total.

Senator KERRY. Are you talking about hundreds of millions, billions?

Mr. MAZUR. I would say probably hundreds of millions, but that again is speculation, and just based upon a consideration of who clients were, and the type of balances that were in the accounts.

Senator KERRY. Well, at that time you had information about France, Luxembourg, Switzerland, other countries, am I right—Panama, Colombia. The effort down in Tampa and so forth, how much did you launder through just in the Sea Chase operation?

Mr. MAZUR. Through BCCI, I think approximately \$14 million, which was—and I want to point this out, because it is something you need to consider when you're doing these types of operations, and I think it was considered in this right up front.

You don't want to become the world's best money launderer, because you're promoting crime as you're gathering evidence, and it was our plan to in fact launder a minimal amount of money while getting the maximum amount of information, and in comparison to some of the prior efforts, I think that's one thing that can be positively said about the Sea Chase operation. Others I know wound up in a position of handling several hundred million dollars, and in this instance we were able to contain it to roughly \$34 million in total, \$14 million through BCCI.

Senator KERRY. What other agencies of the U.S. Government were investigating Capcom?

Mr. MAZUR. At what particular time are we speaking of now, sir?

Senator KERRY. I'm talking about 1988, 1989.

Mr. MAZUR. In 1989, I'm sure the Commodities Exchange Commission, the regulatory agencies involved in commodities exchanges would be in Chicago, because they directly received information about Capcom's activities in Chicago from Tampa.

Senator KERRY. Was there mirror-image trading going on at Capcom?

Mr. MAZUR. Yes. That was the principal means.

Senator KERRY. Could you describe how that was done?

Mr. MAZUR. Yes, sir. It was the plan of Mr. Akbar to create accounts in the names of several different Shell corporations, foreign corporations established in countries that have laws that prevent you from knowing the true beneficial owners of corporations and that, on behalf of those corporations, after receiving an amount of money from us he would place an order to both buy and sell a commodity at the exact same time, ensuring no loss or gain, charging us the fees that would otherwise be related to those transactions, and then disbursing the funds to us through a third-party broker.

He dealt with some 30 third-party brokers throughout the world, so in effect you could put money in, in either Chicago or London, and in fact New York, because that's where the London Capcom office had one of its accounts, and you could later receive it in the name of a third-party broker such as Merrill Lynch or Prudential Bache in Tokyo, or wherever it is you wanted it, and considering the fact that it was scrambled amongst \$90 billion in transactions, it would take forever for anyone to ever find it.

Senator KERRY. Do you believe that Capcom was used as a delivery system to pay off politicians and Government officials?

Mr. MAZUR. I don't know, sir.

Senator KERRY. You don't have any knowledge of that?

Mr. MAZUR. I have no knowledge of whether it did or didn't occur.

Senator KERRY. Do you know what banks and brokerage houses are being used by Capcom?

Mr. MAZUR. I was advised of a number of different banks during the recorded meetings with Mr. Akbar. I remember him mentioning to me Manufacturers Hanover. I can't recall if more was said, but the record will speak for itself. Those are recorded conversations.

Senator KERRY. Did you convey your suspicions about Capcom to any other Government officials?

Mr. MAZUR. Directly back to those people involved in the Tampa prosecution.

Senator KERRY. How close were you to fully understanding the operations of Capcom at the time that the Tampa BCCI was taken down?

Mr. MAZUR. I would assess it as having my foot in the door at that stage.

Senator KERRY. Have you heard from other Customs or IRS agents of investigations involving money laundering in offshore banks that were stopped at the request or insistence of any intelligence agencies?

Mr. MAZUR. I don't recall that.

Senator KERRY. Operation Lone Star.

Mr. MAZUR. I'm not familiar with that, sir.

Senator KERRY. Customs Commissioner William von Raab testified that Customs agents found CIA accounts at BCCI. Did you have any personal knowledge of any CIA accounts that existed at the bank?

Mr. MAZUR. No, sir.

Senator KERRY. Do you have any knowledge—when you mentioned that Mr. Awan was being told to leave the country, did he say any reason why with respect to that? I mean, did he talk about any threats of General Noriega, or anything like that, or was it simply to avoid appearing before the committee?

Mr. MAZUR. No. The threat issue seemed from my perspective to be a recent invention. The purpose was specifically said that it was for the purpose of frustrating and preventing him from appearing relative to the subpoena.

Senator KERRY. In late March 1989—well, let me ask this first. Did you ever meet Jack Blum?

Mr. MAZUR. No, sir.

Senator KERRY. Did you ever have occasion to see any memoranda with respect to any of the information that he provided to the agency or to you?

Mr. MAZUR. It's possible I might have quickly seen—at that point in time I was very much involved in transcribing.

Senator KERRY. Senator Brown.

Senator BROWN. We focus somewhat in these hearings on the motives involved. In the Tampa deliberations and the case brought in Florida, is there value to getting convictions in Florida so that you can follow up on other leads elsewhere around the country?

Mr. MAZUR. Most definitely.

Senator BROWN. Why is that of value? What connection is there?

Mr. MAZUR. Because once a defendant is in fact convicted, the Government has the opportunity to call them before a grand jury and compel their testimony with respect to crimes they have knowledge of. It puts them in a position of either answering truthfully or perjuring themselves and facing future prosecution, or being found in contempt and having to be incarcerated for a longer period of time. Those options often cause for the Government to be in receipt of a lot of information from the defendant because of the predicament they find themselves in.

Senator BROWN. I am trying to pick the best way to follow up on all of this because of its incredible scope. Would the best strategy be to get some convictions and then follow the information that those convictions provide you to other areas, other leads, or to not bring that action and to try and follow the leads? First, it strikes me as basically a question of tradeoffs to some extent.

Mr. MAZUR. Well, I think especially in this instance, but in most, when both options exist it is in your best interest, if it is an extremely important matter, to do both, because you may find after a lengthy effort it was certainly anticipated that the result that occurred was a just result and would have occurred, but sometimes that doesn't happen, and at that point in time one would be left with nothing having occurred in the last 2 years.

But there are also things that are outside, possibly, the knowledge of some of those defendants which can be gained by the Government through an active investigation during that timeframe and may also be helpful in questioning them when that time does come.

Senator BROWN. Thus, the need to do both.

Mr. MAZUR. I believe so.

Senator BROWN. In these circumstances—and I recognize that you may not have been involved in all of this, but from what you know, have those convictions been helpful in generating additional leads, or additional evidence?

Mr. MAZUR. I believe they have been helpful.

Senator BROWN. Thank you.

Senator KERRY. Mr. Mazur, with respect to your testimony today, has anybody—were you required to meet with any people to review your testimony before you came here?

Mr. MAZUR. Not for the purpose of reviewing my testimony, but I did have a meeting yesterday—in fact, shortly before I came to your office—where members from the Department of Justice, Treasury, and Customs enlightened me somewhat about what I could expect in the way of the procedure, and we did speak about that, the layout of the room and the procedures that one should follow.

I have been questioned on prior occasions by representatives from Customs, from Treasury, from the Department of Justice, and from other subcommittees about matters related to this.

Senator KERRY. Is there anything that you feel uncomfortable about or constrained, somehow, not to share with the committee for any reason?

Mr. MAZUR. No, sir. There is one matter that I think maybe in closed session I would like to make mention of. Other than that, no, and I would like to say that at no time has anyone from the

Department of Justice or the Drug Enforcement Administration been anything other than completely supportive of my answering the questions as I know.

Senator KERRY. Is there anything that you have not been asked about that you think the committee ought to be aware of, or any issues that we have not raised that somehow the committee should understand in trying to understand the sequence here?

Mr. MAZUR. If it is at all possible, because of the breadth of the subject, if I might be given the opportunity to think about that and possibly provide in writing or in some way, something that might fall into that category. But as I sit here now, I can't think of something other than the one issue that I think you should be aware of.

Senator KERRY. Fair enough, and why do we not then leave—as I said earlier, we will leave the record open with respect to that and then we will return and hopefully have a chance, perhaps in closed session, to follow up on some of that if necessary, and we will plan to do that at the appropriate time.

Let me just say that there is a lot of detail, and this is a hearing and not a deposition, and not a sort of formal process of any kind, and we are not there for delving into a lot of the detail that clearly is there. It might be that in closed session or otherwise, with the record open, we may want to submit some questions to you, yet, for the record in order to complete it, but I think the basic picture and story has adequately been told by you, and we certainly appreciate that.

I want to reemphasize what Senator Brown has said. Your being here is important in understanding how all of these work, and the difficulties, and there are difficulties. I have been the first to acknowledge that there is nothing easy in pulling together various agencies and in making some of the choices, when you are as out-gunned in many ways—and that is a bad term, probably, but as we are against some of these corporate entities, as well as against some of these criminal entities.

I join Senator Brown and others in paying huge respect to you and to your colleagues, to those who are not here, to your partners in this, and to the other people who are on the front line thing to make these things work.

I think it is better to talk about those things and air those things than to simply leave them closeted up, so that you are out there feeling like you are in that desert with the army keep coming at you and coming at you, and you do not feel like you are getting any help.

Believe it or not, we are here to try to help, and I hope that somehow we will be able to do that. But I pay my respect to you for your commitment and for your dedication here, and I certainly hope that no one will feel other than that you have once again tried to serve here today, and that this does not represent any kind of breach of etiquette, or stepping out of the line, or so forth. You're not here willfully. I understand that. You are here at sufferance, as I know are some of the other participants, but we think it is important.

Now, in order to deal with the issue of security, we are going to recess the committee momentarily. I am going to ask all spectators and prospective witnesses if they would vacate the room so that

Mr. Mazur can leave separately and the camera room shut, and before that let me say it is now 12:30 p.m., so I will reconvene.

Senator Riegle I think is asking me to do an amendment on the floor on the banking bill. I am not sure whether I will have to, or have time, but we will try to reconvene promptly at 2 p.m. if possible, and we stand in recess.

Before we recess, let me just check one thing. [Pause.]

Senator KERRY. Let me just also say that on the letter that we referenced, I am going to put that in the record, but it is substantially redacted in order to protect any individuals within the department, et cetera, or some of the statements that were made therein that are not substantiated and do not have a countercomment, so we are redacting those.

We stand in recess until 2 p.m.

[The information referred to follows:]

P.O. Box 23223
Tampa, Florida 33623
April 3, 1991

Commissioner Carol Hallett
U.S. Customs Service
1301 Constitution Avenue NW
Washington D.C., 20229

Dear Mrs. Hallett,

With very mixed emotions, I'm writing you this letter to inform you that I have applied for a position with the Drug Enforcement Administration and have informally been advised of my imminent appointment. Although I am excited about embarking on a new career with the DEA, I regret that the conditions that caused me to consider options to my career with Customs still exist. As I prepare to leave the world of U.S. Customs, I hope that in some small way my leaving the service will give you and many others the strength to confront the inadequacies and injustices that have led me, and is leading other respected agents, to leave the U.S. Customs Service in North Florida. Due to the nature of the problems in Tampa, I and others feel the severity of Tampa's problems will not be recognized unless we sacrifice our careers with Customs.

I am not a disgruntled agent. I have received outstanding evaluations throughout my nineteen (19) year career as a Special Agent. I've received innumerable awards, and I have twice been recognized with national awards from the Association of Federal Investigators. I don't refer to my record for any reason other than to attempt to establish a basis from which an impartial judge of facts can weigh my credibility.

There are several key personnel within and outside of Customs who are not influenced by the "networking" and manipulation in Tampa, and I encourage you to explore these matters with individuals like U.S. Customs [REDACTED] and Assistant U.S. Attorney Mark Jackowski. [REDACTED] was the Group Supervisor of the C-Chase group for [REDACTED]. His superior professionalism and management skills are the major reason for our successful trial preparation concerning the C-Chase defendants. Mr. Jackowski was the Assistant U.S. Attorney that successfully guided C-Chase through it's covert, pre-trial and trial stages over a four (4) year period.

I know that my formally advising you of the deplorable conditions in Tampa could cause some individuals in my new professional circle to question my loyalty, but it is simply out of my love for this country and our critical need for ethical government that I think its appropriate to respond

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to John Hensley's request for my candor.

I have nothing but the greatest respect for the mission of the U.S. Customs Service, and I am especially proud to have served in "the war on drugs" with many fine men and women within Customs. The achievements that we have made in Tampa over the past three years have been made despite the repeated undermining of our work by certain [REDACTED] personnel who are well known within the Customs Service to have allowed their actions to be corrupted by a number of factors, including:

[REDACTED]

Unfortunately, the debilitating condition in Tampa has grown to unmanageable proportions and now threatens the ethics, morality and legality of the Customs Service in North Florida. Morale and meaningful productivity in the office is at an all time low, inter-agency relationships are shaken by mistrust, and the reputation Customs once had as a premier federal agency has been destroyed.

When the covert operation called C-Chase was two-thirds completed and [REDACTED] transformed the motives of management decisions from a healthy mentality guided by the interests of the government to a dysfunctional leadership guided predominantly by personal agendas. If it hadn't been for the nearly two years of achievement prior to March 1988, the ultimate outcome would also have been lost. The outcome of the case, while notable, was considerably less than what it could have been. The indictment of additional defendants and the seizure of substantially more drug proceeds was lost, directly as a result of the application of inadequate resources by [REDACTED] to the investigation. This opinion is shared by individuals meaningfully involved in the successes preserved within Operation C-Chase, including the lead prosecutor (See Attachment A, Memo of AUSA Jackowski, page 4).

The gross inadequacies realized via the overt investigative process within Operation C-Chase was forecast, in writing, to [REDACTED] frequently over the past three years by individuals, including myself. The efforts by me and others to professionally express concerns about Operation C-Chase, via the chain of command, were unfortunately misinterpreted by [REDACTED] as a personal affront that became so personalized that it precipitated nothing but vindictive and improper attacks against us and the case. Under [REDACTED] direction, the C-Chase agents have suffered through:

- the assignment of critical matters to unqualified

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- agents for personal reasons, thus undermining easily attainable major goals.
- no secretary for two years.
 - the drastic understaffing of senior agents truly experienced in financial investigations, and
 - the repeated shuffling of different supervisors and acting supervisors, thus impeding consistency.

With respect to myself, [REDACTED] has:

- 1) improperly threatened [REDACTED] me on three separate occasions, simply because my good faith and appropriate actions conflicted with [REDACTED] personal career goals.
- 2) attempted to coerce management personnel to improperly and unfairly execute my employee evaluation.
- 3) attempted to illegally breach the doctor-patient relationship between a doctor and me, as well as the relationship between this same doctor and my wife.
- 4) improperly prevented my supervisor from submitting me for a financial award.
- 5) lied to Customs personnel and a foreign official in an effort to prevent me from representing U.S. Customs at an international seminar.
- 6) made false and derogatory statements to Customs employees and foreign law enforcement authorities relative to my mental health, despite having specific information to the contrary from a qualified professional.
- 7) denied me the resources and privileges normally extended to S/A's, thus impeding my ability to perform my duties proficiently.

[REDACTED] has taken similar improper punitive actions against other employees. I have been informed by my co-workers that [REDACTED] actions have included:

- abusing [REDACTED] power by causing an employee to be audited by the IRS for unjustified reasons.
- unfairly pursuing actions concerning alleged misconduct.

[REDACTED]

For the sake of my Customs colleagues, I wish the unwarranted actions inflicted upon the C-Chase investigation were atypical, but they are not. Unfortunately my experiences in Tampa are customary. In good conscience, I can't disserve the public by developing another BCCI type case within such a dysfunctional [REDACTED] leadership.

Recently on "60 Minutes", U.S. Senator John Kerry

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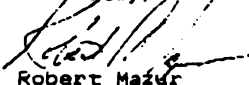
rhetorically questioned why federal government agencies failed to pursue the natural follow-up matters related to BCCI (principally alleged criminal offenses by former Secretary of Defense Clark Clifford). As it relates to the U.S. Customs Service, I believe the answer to Senator Kerry's question can be found within this letter.

Thank you very much for your kind and thoughtful letter of December 17, 1990. I will sorely miss the sincerity of people like yourself, [REDACTED] and others in Customs. I'm proud of what we accomplished together, under very adverse conditions. My greatest regret is that my transfer to DEA will probably preclude me from continuing my recent opportunity to organize and direct the follow-up investigation of BCCI in Tampa. If the follow-up investigation is well organized, supported and coordinated, it should produce the most significant money laundering prosecution ever achieved in the world community.

Although I recognize that my premature notice to you of these matters could work to my personal detriment, I felt it was my ethical and moral obligation to provide you with this advance notice because of the complexity of my current assignment. It will probably take a considerable time to brief my replacement and coordinate these matters with other agencies. I genuinely want to ensure that the recent momentum of the BCCI follow-up investigation is maintained, for the sake of the law enforcement community and the public we serve.

As soon as I am informed of a reporting date by DEA, I would like to contact you or John Hensley to coordinate my resignation in a fair and orderly manner.

Sincerely,



Robert Mazur

cc: John Hensley

Attachment

[Whereupon, at 12:25 p.m., the subcommittee adjourned, to reconvene at 2:20 p.m., the same day.]

AFTERNOON SESSION

The subcommittee met, pursuant to notice, at 2:20 p.m., in room SH-216, Hart Senate Office Building, Hon. John F. Kerry (chairman of the subcommittee) presiding.

Present: Senators Kerry, Brown, and Wofford.

Senator KERRY. The hearing will come to order. My apologies to all for the delay. We are in the throes of, I think you know, trying to finish up on a number of pieces of legislation and hopefully, wrap up this session.

And the result is that there are about five conference reports and various different last minute dealings that we were all deeply involved in.

And I had a couple of things on the banking bill that I needed to talk to the chairman of the banking bill, so my apologies for beginning this late.

Let me ask each of you if you would rise so I may swear you in, if you raise your right hands.

Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. GENZMAN. I do.

Mr. KEHOE. I do.

Mr. JACKOWSKI. I do.

Senator KERRY. Gentlemen, let me say as is customary, we will place your full statements in the record as if read and if you could each take 10 minutes, which I think is a fairly lengthy amount of time to try to summarize, it might not be adequate to get the whole statement in for one or two of you. I do not know. But then we will proceed to ask questions and obviously if there are areas that you want to fill in on, you will be free to do so during the course of that time. Are you leading off, Mr. Genzman?

TESTIMONY OF ROBERT GENZMAN, U.S. ATTORNEY FOR THE MIDDLE DISTRICT OF FLORIDA; ACCOMPANIED BY MARK JACKOWSKI, ASSISTANT U.S. ATTORNEY, AND GREGORY KEHOE, FIRST ASSISTANT TO THE U.S. ATTORNEY FOR THE MIDDLE DISTRICT OF FLORIDA

Mr. GENZMAN. Yes, sir, Mr. Chairman, only two of us have statements and we will try to be brief.

Good afternoon, Mr. Chairman, my name is Robert Genzman and I am the U.S. attorney for the middle district of Florida and I have held that position since September 1988.

With me, to my left, are first assistant U.S. attorney, Gregory W. Kehoe and then assistant U.S. attorney, Mark V. Jackowski.

The Bank of Credit and Commerce International and five of its officers were convicted of money laundering in Tampa in 1990. The bank paid the largest penalty ever imposed against a financial institution in the history of the United States and all five officers received substantial prison terms.

I consider the Tampa prosecution of BCCI to be a great achievement for Federal law enforcement and so do the professional pros-

ecutors of our office, as well as the law enforcement agents with whom they worked.

I appreciate this opportunity to address our handling of the BCCI case. And let me add, Mr. Chairman, that we appreciate your comments this morning about the dedication and performance of the investigators and prosecutors in the case.

The Justice Department first became involved in what eventually became the BCCI case in 1986, when the Customs Service advised the U.S. attorney's office that it was beginning an undercover operation, known then as Operation C-Chase. The details of C-Chase have been related before and I won't repeat those details now.

Significantly, by the time the undercover operation was finished, the undercover agents had laundered some \$14 million through BCCI, with the knowledge of the bank officials. The undercover investigation concluded in October 1988 and of course, the \$14 million in drug money that had been laundered through the bank was long gone at that time.

But at the time of the arrest, the Federal court issued a restraining order, shutting down BCCI's operations until the bank agreed to post a bond. So that BCCI was forced to transfer \$14 million of its own money to the United States to hold, pending the outcome of the trial.

The period between the October 1988 takedown and the July 1990 conclusion of a 7-month trial stretched the investigative and prosecutorial resources of the Customs Service, the IRS, and the U.S. attorney's office to the breaking point.

There were three principal factors contributing to that problem. First, C-Chase was an extremely complex, 2-year international undercover operation. Under any circumstances, the pretrial preparation and the trial would have consumed substantial prosecutorial and investigative resources.

Second, the defense attorneys in this case adopted a scorched-earth strategy and filed hundreds of motions and briefs on every imaginable subject.

Third, more than 2,000 face-to-face meetings or telephone conversations were taped in the course of the undercover investigation and most had not been transcribed for security reasons at the time of the takedown. Many of the conversations were in Spanish and Urdu and many of them were nearly inaudible.

All of the tapes had to be transcribed and then reviewed by the undercover agent for accuracy. The amount of resources devoted to C-Chase by the Customs Service was and is a matter of debate. It should be remembered, however, that the investigation and the prosecution were not substantially impeded as a result of any alleged lack of resources.

It's undisputed that the case was brought to an extremely successful conclusion with the conviction of the bank and five of its officers and the imposition of the largest monetary penalty to date against a financial institution.

More resources could always be added in a case of this magnitude and complexity. While agents and prosecutors had to put in very long hours and work under severe time constraints along the

way to bring this case to a successful conclusion, that is a regular, albeit unfortunate fact, of law enforcement.

Law enforcement resources are not infinite. They are extremely scarce. Every agent added to a large case has to be pulled off another case. And every huge case was in similar problems and C-Chase, again, was an unusually difficult case.

I'd like to address the plea agreement briefly. First, the indictment, among other defendants, BCCI and five of its officers with various drug conspiracy and various money laundering violations. In January 1990, on the eve of trial, the Government entered into a plea agreement with the bank.

The five individual defendants did proceed to trial. All five were convicted at the conclusion of the trial in July 1990 and received lengthy prison terms ranging up to 12½ years.

In the plea agreement with the corporation—let me start over. The plea agreement with the corporation was entered into for a number of reasons. First, the Government secured the conviction of the bank, one of its principal goals. Second, eliminating the corporation from the trial prevented a recurrence of a problem confronted in the 1986 case against the Bank of New England for money laundering, where that corporation was convicted, but all the individual defendants were acquitted.

Third, BCCI agreed to a number of substantial terms beyond the plea of guilty, including cooperation with the Government and a probation condition which incorporated the terms of its consent decree with the Federal Reserve.

Most importantly, however, the Government had been threatened with an adverse legal ruling, which would have substantially reduced the amount of any financial penalty that could be imposed against the bank, had it gone to trial.

The \$14 million was forfeitable only if the bank was convicted of drug conspiracy. If the Government was not able to prove the drug case, it would have had to return the \$14 million to BCCI.

And one of the hundreds of motions filed by defense counsel in the pretrial stage was a motion to dismiss the drug conspiracy count. In December 1989, the district judge ruled that the Government could not convict BCCI as a drug conspirator solely on the evidence that it was laundering the drug proceeds.

Notwithstanding legal precedent to the contrary, the judge stated that if the Government persisted in pursuing the drug conspiracy charges against the bank, he would dismiss that count. The effect of the court's ruling was to eliminate the possibility of a \$14 million forfeiture against that bank.

That ruling had a profound effect on the plea negotiations. The bank's attorneys had been attempting to have the \$14 million forfeiture count dropped from the indictment from the outset. Earlier they had suggested that the bank would plead guilty if the drug count and the forfeiture claim were dismissed.

We had rejected that offer but now it appeared that the trial judge was about to dismiss the drug count and give the bank exactly what it wanted. Consequently, the plea negotiations began again.

I want to emphasize that at all times these pretrial negotiations were handled exclusively by career prosecutors in Tampa, Gregory W. Kehoe, the first assistant U.S. attorney, and Terry A. Zitek, the

Chief of the Criminal Division. As a House subcommittee staff report found, no one in the Department of Justice in Washington was involved in any way in trying to undercut the plea negotiations at any stage. Mr. Kehoe and Mr. Zitek negotiated a plea agreement with the bank. I approved it and sent it to Washington and Mark Richard, a career Deputy Assistant Attorney General in the Criminal Division, approved it without change.

It was an excellent plea agreement for the Government then, and it is an excellent plea agreement for the Government now. Under that plea agreement, BCCI pled guilty to all counts, other than the drug conspiracy count which the judge indicated he intended to dismiss.

A cease and desist order issued in 1989 by the Federal Reserve, directing BCCI to refrain from money laundering activities, was made a part of that agreement. In compliance with that order was made a condition of BCCI's probation.

The plea agreement also required BCCI to cooperate with the Government in the future. BCCI did, in fact, cooperate and its cooperation during the 7-month trial against the individual defendants in 1990 was utilized in obtaining the convictions and the resulting jail sentences against those individuals.

Moreover, in the plea agreement, BCCI agreed by stipulation to forfeit the money that had been seized at the time of the arrest. With interest, that amount now came to \$15 million. That was extremely significant for several reasons.

First, this was the largest amount of money ever obtained from a bank as either a fine or a forfeiture in any money laundering case. It was three times the previous record and represents nearly half of all the money paid in fines and forfeitures by all the financial institutions convicted of money laundering since 1986.

Second, the \$14 million forfeiture represented a vastly higher sum than could possibly have been obtained as a realistic matter in the form of a fine. In short, if we had gone to trial, we almost certainly, because of the judge's ruling on the drug conspiracy count, we were almost certainly going to be giving most of the \$14 million bond back to BCCI.

By accepting the guilty plea, we were able to forfeit all of that money, plus interest, share it with foreign law enforcement agencies in the United Kingdom and France that had assisted in this particular investigation, and use it ourselves directly in the war on drugs.

The plea agreement has been criticized by the press and by a number of witnesses at various congressional hearings. I'm gratified that the House subcommittee staff report has found these criticisms to be inaccurate and unwarranted. According to that staff report, recent criticisms that the plea agreement was unduly lenient would appear to be inaccurate.

I want to deal with the most common misconceptions. No. 1, why did the Justice Department settle for \$15 million in the Tampa case when the Federal Reserve, just this past summer, was able to fine BCCI \$200 million? First, let me emphasize that fine has not been collected.

But first, as I've already explained, the Tampa case was a money laundering case involving \$14 million. Because that was the

amount of money that was laundered and that was the crime that BCCI committed, those were the facts that we could prove in court. The maximum fine was limited by the amount of money involved in the offense.

We cannot just pick numbers out of the air and impose fines based on what we suspect about a defendant's other activities. A fine must be based on what we can prove beyond a reasonable doubt.

Second, those who used the \$200 million fine figure imposed by the Federal Reserve in July as an example of what the Justice Department should have obtained are confusing apples with oranges. These are simply two cases for which BCCI has been punished separately according to the law that applied in each offense.

No. 2, why didn't the Justice Department revoke BCCI's license to do business after it was convicted? It was and it still is legally impossible for the Department to compel BCCI to cease operations. None of the provisions in the statutes passed by Congress to which BCCI pleaded guilty permit the revocation of a bank's charter.

Going to trial against BCCI instead of taking that guilty plea would not have altered that fact. The authority to revoke a financial institution's charter is a responsibility of the Federal Reserve Board and appropriate State agencies, not the Justice Department. The plea agreement did not, of course, preclude any such regulatory action.

No. 3, did the Tampa case involve only the corporation and mid-level employees? Why were no high-level officials charged?

Well, first the defendants in the original BCCI case were not low-level bookkeepers. They were senior management officials with substantial responsibility for BCCI's operations in much of the Western Hemisphere. Moreover, as our recent indictment of BCCI's present and other top officers makes clear, it was never our intention to simply stop investigating BCCI after that first indictment.

The 1988 indictment and the subsequent plea agreement and the trial were the best way to obtain the evidence needed to convict even higher level officials. And we think the new indictment proves that we were right.

Some have suggested that we should have taken the bank to trial and worked out a deal to get the cooperation of the individual defendants. There are a number of reasons why we did not pursue that strategy.

First, our view is that individuals who commit a crime should be held responsible. Putting just a corporation on trial while the individuals who committed the offense all sit as Government witnesses can be an empty exercise.

Second, it is higher unlikely that the BCCI employees indicted in Tampa were going to cooperate unless they were convicted and sentenced to prison.

Third, putting a defendant on trial, excuse me, putting a corporate defendant on trial with its employees is a risky undertaking. In two of the recent cases where a bank and its employees stood trial together, that is the Bank of New England in 1986 and the LBS Bank in 1990, the jury convicted the bank but let the individual defendants go.

And finally, as I mentioned before, if we had gone to trial against the bank, the court would have dismissed the drug conspiracy count and the forfeiture count and we would have been left with a much smaller monetary penalty.

If there is any doubt about this strategy, it was dispelled in September when we announced a new indictment, charging high-level BCCI officials with conspiracy to commit the money laundering violations previously prosecuted in Tampa as well as various additional offenses.

That indictment was obtained in part as a result of the criminal convictions of witnesses now cooperating with the Government. That indictment also demonstrates that the prosecutors in Tampa had been working for the past 1½ years to pursue this case as high as it leads in the BCCI hierarchy.

No. 4, did the Government, as part of the plea agreement, agree not to bring any future prosecutions? The plea agreement contained relatively standard language, committing the U.S. attorney's office for our district not to prosecute BCCI for any other Federal criminal offense then known to the Government.

This is by far the most understood, misunderstood part of the plea agreement. First the plea agreement does not bar future prosecution of any individual, whether an official of BCCI or not. The plea applies only to the bank. It does not prevent the U.S. attorney in Tampa or any other prosecutor, State or Federal, from prosecuting any individual from the president of BCCI on down.

Indeed, we recently indicted the president of BCCI, other high-ranking BCCI officials, Medellin cartel kingpins, and other cartel members for money laundering offenses related to Operation C-Chase.

Witnesses who have testified before this subcommittee that the plea agreement somehow protects corporate officials and other individuals, either do not know what they are talking about or have chosen to intentionally mislead Congress, the press, and the public.

Second, as the House subcommittee staff report makes clear, the plea agreement relates only to the U.S. attorney in Tampa. It does not bar any other prosecutors, State or Federal, from prosecuting BCCI itself for any offense.

Paragraph 16 of the plea agreement, a public document, is perfectly clear. It is further understood that this agreement is limited to the office of the U.S. attorney for the middle district of Florida and cannot bind any other Federal, State, or local prosecuting authorities.

That means exactly what it says. The Tampa U.S. attorney's office cannot bring future charges against BCCI unless the bank fails to cooperate or the Government comes up with new allegations, but other offices remain free to conduct investigations and bring additional charges against the bank. In fact, just last week the Justice Department announced another indictment against BCCI and other high-level officers of the bank.

What future charges would be barred by the plea agreement? At the August 1 hearing, several Senators asked that question. One witness, Mr. Von Raab, after spending hours attacking the plea agreement, responded, I don't know, I don't know the details or the technical side of it.

Mr. Jack Blum, another witness at that hearing, gave the committee a list that he said included misrepresentations to the Fed, misstatements on the audit papers delivered to regulatory authorities elsewhere, falsification of all the bank's books, aiding and abetting a variety of smuggling schemes, and bribery and other forms of corruption.

Every single one of the alleged crimes that Mr. Blum listed is being investigated by Federal agents and prosecutors somewhere other than Tampa, in Washington, Miami, Atlanta, and elsewhere. All of those offices remain free to prosecute the bank and its affiliates for any crime they uncover. In fact, BCCI and several affiliates were indicted in Washington on November 15 on racketeering and other charges as I mentioned.

As a U.S. attorney in Tampa, I can only prosecute crimes that occur in my district. If none of these crimes occurred in Tampa, and none appear to have occurred there at this point, we are giving up virtually nothing by agreeing not to prosecute them.

No. 5, a question was raised earlier today as to why RICO charges were not brought against the bank, which would have permitted—would they have permitted a more substantial forfeiture? It was our judgment that RICO charges should not be added to the indictment. Essentially, RICO charges would have greatly complicated an already complicated case. And there were concerns that the jury would not have been able to follow all of the charges and we did have jury problems in this particular case, let me add.

RICO charges would not have added significantly to the potential sentence. The forfeiture provisions were viewed as unnecessary in light of case law supporting the charges that we already had in the indictment. But simply, we believe that the RICO charges would have added nothing and would have greatly complicated the case.

It is absolutely untrue, as has been suggested, that the entire bank could have somehow been forfeited to the U.S. Government had RICO charges been brought in Tampa. There was simply insufficient evidence to support such a sweeping international forfeiture.

In conclusion, the prosecution of BCCI in Tampa was a significant law enforcement victory. The Department of Justice obtained the maximum monetary penalty from BCCI and had the responsible BCCI executives sentenced to prison. More importantly, it was the first step in an ongoing investigation and prosecution which continues to this day.

The criticisms of our performance have been unfounded and unfair. That concludes my testimony and I am prepared to answer your questions.

Mr. Chairman, I understand that Mr. Jackowski has an opening statement.

[The prepared statement of Robert Genzman follows:]

PREPARED STATEMENT OF ROBERT W. GENZMAN

Mr. Chairman, my name is Robert W. Genzman. I am the U.S. Attorney for the Middle District of Florida, which includes offices in Tampa, Orlando, Jacksonville, and Fort Myers. I have held that position since September 1988.

The Bank of Credit and Commerce International ("BCCI") and five of its officers were convicted of money laundering in Tampa in 1990. The bank paid the largest

penalty ever imposed on a financial institution in the history of the United States, and all five officers received substantial prison terms.

I consider the Tampa prosecution of BCCI to be a great achievement for federal law enforcement, and so do the professional prosecutors in my office and the career law enforcement agents with whom they work. I appreciate the opportunity to address our handling of the case.

OPERATION C-CHASE

The Department of Justice first became involved in what eventually became the BCCI case in 1986, when the Customs Service advised the U.S. Attorney's Office in Tampa that it was beginning an undercover operation known as Operation C-Chase. The details of C-Chase have been related before, most recently in the testimony of Deputy Assistant Attorney General Paul Maloney before the Senate Banking Committee on May 23, 1991. In sum, what happened in C-Chase was this.

Two Customs agents, posing as professional money launderers, made contact with a group of money launderers based in Medellin, Colombia. The Colombians arranged for millions of dollars—dollars derived from cocaine sales in the United States—to be delivered to the agents for deposit into Florida banks. The Colombians wanted the agents then to wire the money from Florida to Panama where it could be deposited into dollar-denominated accounts and converted into untraceable checks that would be sold on the black market in Medellin, Colombia. In this way, the Colombians would collect the payment for the drugs they had exported to the United States. All the agents had to do, aside from depositing the cash in Florida, was to open an account in a Panamanian bank in the name of a phony corporation. To do this, they chose a branch of BCCI in Panama City.

At this time, BCCI was chosen because it was the only international bank with branches in Panama that also had an agency in Tampa. The undercover Customs agent was able to walk in off the street in Tampa and make arrangements to open up a Panamanian checking account simply by completing the account opening forms.

In the fall of 1987, an officer of the Panama City branch of BCCI placed a telephone call to the agents in Florida. He said essentially, "I see that you are moving a lot of money through your account; I think you're laundering money; and I think I can help you do it more efficiently." This officer's "better idea" was for the agents to stop drawing checks on the Panamanian account and instead to direct a series of bogus loans, collateralized by certificates of deposit, through BCCI's branches around the world that would end up placing the drug proceeds in the hands of the Colombians in Medellin without creating any incriminating paperwork.

The agents accepted the bank officer's proposal and were soon introduced to a number of other, higher ranking BCCI officers in Miami, Nassau, Paris, and London. These officers, all having been advised that the agents' funds were generated by cocaine trafficking, eagerly assisted in laundering the money through a wire transfer system using certificates of deposit and back-to-back loans in the manner that had been described. By the time the scheme was finished, the agents had laundered \$14 million through BCCI with the knowledge of the bank officials.¹

The undercover investigation concluded in October 1988. The Customs agents staged a phony bachelor party to which all of the BCCI officers involved in the scheme were invited, and five of them were arrested. Of course, the \$14 million in drug money that had been laundered through the bank was long gone; but at the time of the arrests, a federal court issued a restraining order shutting down BCCI's operations until the bank agreed to post a bond in an amount equal to amount of money that had been laundered. Thus BCCI was forced to transfer \$14 million of its own money to the United States to hold pending the outcome of the trial.

RESOURCES DEVOTED TO C-CHASE

The period between the October 1988 takedown and the July 1990 conclusion of the trial stretched investigative and prosecutorial resources of the Customs Service, IRS, and U.S. Attorney's Office in Tampa to the breaking point. There were three principal factors contributing to the problem.

¹ The agents in Operation C-Chase laundered a total of \$33 million for the Colombians. Approximately \$17 million was laundered through other banks and was not part of the BCCI case. Another \$2 million was laundered through BCCI before the bank's officers were informed that the money was drug proceeds.

First, C-Chase was an extremely complex 2-year international undercover operation. Under any circumstances, the pretrial preparation and trial would have consumed substantial prosecutorial and investigative resources.

Second, the defense lawyers in the case (who were paid by the bank) adopted a "scorched earth" strategy and filed hundreds of motions and briefs on every imaginable topic.²

Third, more than 2,000 face-to-face meetings or telephone conversations were taped in the course of the undercover investigation, and most had not been transcribed, for security reasons, at the time of the takedown. Many of the recorded conversations were in Spanish and Urdu, and many of them were nearly inaudible. All of the tapes had to be transcribed and then reviewed by the undercover agent for accuracy.

The prosecution team consisted principally of two experienced Assistant U.S. Attorneys, Mark V. Jackowski and Michael L. Rubinstein, with assistance from other prosecutors as necessary. The investigative team consisted of both Customs and IRS agents. At its 1989-90 peak, there were eight Customs agents, six IRS agents, and four investigative aides, all assigned full-time. In addition, a variety of supervisory personnel were involved in the management of the IRS and Customs teams.

During the pretrial period, prosecutors from our office and the investigating agents asked several times for additional resources from the Customs Service to help with the workload. Although they received additional resources from Customs, they did not receive them as quickly as desired, nor in the quantities desired.

As you know, on April 3, 1991, Special Agent Robert Mazur, the principal Customs undercover agent, resigned from the Customs Service. One of Mr. Mazur's chief complaints was "the application of inadequate resources by SAC Tampa to the investigation."³

The amount of resources devoted to C-Chase by the Customs Service was and is a matter of debate. It should be remembered, however, that the investigation and prosecution were not substantially impeded as a result of any alleged lack of resources. It is undisputed that the case was brought to an extremely successful conclusion, with the conviction of BCCI and five of its officers, and the imposition of the largest monetary penalty to date upon a financial institution.

More resources could always be added to a case of this magnitude and complexity. While agents and prosecutors had to put in very long hours and work under severe time constraints along the way to bring the case to a successful conclusion, that is a regular, albeit unfortunate, fact of federal law enforcement. Law enforcement resources are not infinite—they are extremely scarce. Every agent added to a large case has to be pulled off another case. Every huge case presents similar problems, and C-Chase was an unusually difficult case.

THE PLEA AGREEMENT

The indictment charged, among other defendants, BCCI and five of its officers with various drug conspiracy and money laundering violations. On January 16, 1990, on the eve of trial, the government entered into a plea agreement with BCCI. The five individual defendants proceeded to trial. All five were convicted at the conclusion of the trial in July 1990, and received lengthy prison sentences (ranging up to 12½ years without parole) in November 1990.

The plea agreement with the corporation was entered into for a number of reasons. First, the government secured the conviction of the bank, one of its principal goals. Second, eliminating the corporation from the trial prevented a recurrence of the problem confronted in the 1986 Bank of New England money laundering trial, where the corporation was convicted and all the individual defendants were acquitted. Third, BCCI agreed to a number of substantial terms beyond its plea of guilty, including cooperation with the government and a probation condition which incorporated the terms of its consent decree with the Federal Reserve. Most importantly, however, the government had been threatened with an adverse legal ruling which would have substantially reduced the amount of the financial penalty that could be imposed against the bank had it gone to trial.

² See, e.g., *United States v. Awan* (Awan order), No. 88-330-Cr-T-13B (M.D. Fla. Dec. 5, 1989); *United States v. Awan* (Ashraf order), No. 88-330-Cr-T-13B (M.D. Fla. Dec. 5, 1989) (together rejecting challenges to the money laundering statutes on grounds of First Amendment violations, unconstitutional vagueness, the definition of "proceeds," the definition of "controlled substances," the definition of "transportation," duplicity, multiplicity, double jeopardy and other matters).

³ Letter from Robert Mazur to U.S. Customs Commissioner Carol Hallett, April 3, 1991, at 2.

The indictment charged the bank and its employees with, among other things, money laundering (18 U.S.C. § 1956) and drug conspiracy (21 U.S.C. § 846) predicated on the money laundering activities. Linked to the drug conspiracy was a forfeiture count (21 U.S.C. § 853) that, upon conviction, would have permitted the government to retain the \$14 million bond that had been posted at the time of the arrest. The money was thus forfeitable *only* if the bank was convicted of the drug conspiracy. If the government was not able to prove the drug case, it would have to return the \$14 million to BCCI.⁴

One of the hundreds of motions filed by defense counsel in the pre-trial stage was a motion to dismiss the drug conspiracy count. BCCI argued that even though the money involved in the case was drug money, a conspiracy to launder drug money was not the same thing as a conspiracy to distribute drugs. The government, relying on case law from several different circuits, responded that money laundering activity is an integral part of the drug business, and that therefore a money launderer is properly chargeable with participating in a drug conspiracy.⁵

On December 5, 1989, U.S. District Judge W. Terrell Hodges ruled that the government could not convict BCCI as a drug conspirator (under 21 U.S.C. § 846) solely on evidence that it laundered drug proceeds, notwithstanding legal precedent to the contrary. Judge Hodges stated that if the government persisted in pursuing drug conspiracy charges, he would dismiss that count of the indictment at the close of the government's evidence.⁶

The effect of the court's ruling was to eliminate the possibility of a \$14 million forfeiture against the bank under 21 U.S.C. § 853. At the time, the money laundering statute permitted only forfeiture of the bank's profits on the laundered money (approximately \$250,000), not the amount laundered. Furthermore, because the court did not formally rule on the motion pre-trial, the government could not appeal the decision.

The ruling had a profound effect on the plea negotiations. The bank's attorneys had been attempting to have the \$14 million forfeiture count dropped from the indictment from the outset. Earlier, they had suggested that the bank would plead guilty if the drug count and forfeiture claim were dismissed. We had rejected that offer, but now it appeared that the trial judge was about to dismiss the drug count and give the bank exactly what it wanted. And so the plea negotiations began again.⁷

I want to emphasize that at all times these plea negotiations were handled exclusively by career prosecutors in Tampa: Gregory W. Kehoe, the First Assistant U.S. Attorney, and Terry A. Zitek, Chief of the Criminal Division. As the House Subcommittee Staff Report found, no one in the Department of Justice in Washington was involved in any way in trying to undercut the plea negotiations at any stage.⁸ Washington's role was merely to make legal experts available to provide legal advice, and to approve the plea agreement once it had been finalized in Tampa. The assertion by Mr. Von Raab, for example, that I was referring all kinds of decisions to the Department of Justice is just plain false.⁹ Mr. Von Raab, I might point out, had already left the Customs Service by this time and thus has no way of knowing how the guilty plea was negotiated.¹⁰

⁴ As is discussed later, there was no applicable forfeiture statute for money laundering in effect at the time the offenses in this case were committed.

⁵ See *United States v. Orozco-Prada*, 732 F.2d 1076 (2d Cir.), cert. denied, 469 U.S. 845 (1984).

⁶ See *United States v. Awan* (Ashraf order), No. 88-330-Cr-T-13B (M.D. Fla. Dec. 5, 1989), slip op. at 10-11 (noting that in enacting the money laundering statutes in 1986, Congress had expressed its intention to have future money laundering cases prosecuted under those statutes and not under the old theory that money launderers were part of a conspiracy to commit the crime that generated the money being laundered). Significantly, at the trial of the individual defendants, the trial judge granted a Rule 29 motion dismissing the drug conspiracy count against all remaining defendants for these reasons.

⁷ See "Subcommittee Staff Report Regarding Federal Law Enforcement's Handling of Allegations Involving the Bank of Credit and Commerce International," September 5, 1991, at 20-23.

⁸ *Id.* at 24-25. ("The Subcommittee staff has found no credible evidence to date to support the theory that the U.S. Attorney's office in Tampa was controlled or directed by any higher-level Department of Justice officials in negotiating the plea with BCCI [T]he plea appears to have been wholly the product of negotiations between the First Assistant U.S. Attorney in Tampa, the Chief of the Criminal Division in that office, and attorneys for BCCI. The front-line Customs and IRS agents who had expended enormous efforts and, in some cases, taken on great risk to bring BCCI to justice, ultimately approved of the agreement entered into by the prosecutors.")

⁹ See Testimony of William Von Raab, Senate Foreign Relations Committee, August 1, 1991, transcript at 94 (morning session).

¹⁰ See Von Raab testimony, *id.* at 38 (morning session). (" . . . at that point I was not in a position to be arguing with Justice, since I was out in the private sector.")

In any event, Mr. Kehoe and Mr. Zitek negotiated a plea agreement with the bank. I approved it and sent it to Washington; and Mark Richard, a career Deputy Assistant Attorney General in the Criminal Division, approved it without change. It was an excellent plea agreement for the government then, and it is an excellent plea agreement for the government now.¹¹

Under the plea agreement, BCCI pleaded guilty to all counts, other than the drug conspiracy count which Judge Hodges indicated he intended to dismiss at trial. A cease and desist order issued in 1989 by the Federal Reserve directing BCCI to refrain from money laundering activities was made a part of the agreement, and compliance with this order was made a condition of BCCI's probation.¹²

The plea agreement also required BCCI to cooperate with the government in the future. BCCI did in fact cooperate, and its cooperation during the 7-month trial of the individual defendants in 1990 was utilized in obtaining the convictions and resulting jail sentences.

Moreover, in the plea agreement, BCCI agreed by stipulation to forfeit the money that had been seized at the time of the arrests in 1988. With interest, this came to more than \$15 million. This was extremely significant for several reasons.

First, this was the largest amount of money ever obtained from a bank as either a fine or a forfeiture in any money laundering case. It was three times the previous record, and represents nearly half of *all* of the money paid in fines and forfeitures by *all* the financial institutions convicted of money laundering since 1986.

Second, the \$14 million forfeiture represented a vastly higher sum than could possibly have been obtained, as a realistic matter, in the form of a fine. While the money laundering statute theoretically provided that a fine of up to \$28 million could have been imposed, no one in Tampa thought it even conceivable that the trial judge would impose a fine anywhere near the maximum.¹³ The amount of a fine, unlike the amount of a forfeiture, was then largely subject to the discretion of the court; judges, of course, typically based fine amounts on what had been imposed in past cases.¹⁴ The largest fine before January 1990 had been the \$5 million fine in the Banco de Occidente case in Atlanta. That case had involved the laundering of \$410 million. The prosecutors in Tampa were convinced that if a \$5 million fine in a \$410 million case was the largest fine ever imposed in the past, they were not likely to get a larger fine in the \$14 million case against BCCI. I concurred in that judgment.

In short, if we had gone to trial, we were almost certainly—because of the judge's ruling on the drug conspiracy count—going to be giving most of the \$14 million bond *back* to BCCI. By accepting a guilty plea, we were able to forfeit that money, plus interest, share it with the foreign law enforcement agencies in the United Kingdom and in France that had assisted in the investigation, and use it ourselves directly in the war on drugs.

CRITICISMS OF THE PLEA AGREEMENT

The plea agreement with BCCI has been criticized by the press and by a number of witnesses at congressional hearings. While I am gratified that the House Subcommittee's Staff Report has found these criticisms of the agreement to be inaccurate and unwarranted,¹⁵ I want to deal point-by-point with the most common misconceptions.

Number One: Why did the Justice Department settle for \$15 million in the Tampa case when the Federal Reserve, just this summer, was able to fine BCCI \$200 million?

¹¹ See "Transcript of Sentencing Proceedings," Case No. 88-330-Cr-T-13, February 5, 1990, Remarks of the Court at 15. ("I have decided that acceptance of the plea agreement and a disposition of this case in accordance with the terms of the plea agreement is an appropriate and a just disposition of these proceedings as they pertain to the Bank of Credit and Commerce International, S.A.")

¹² To my knowledge, this requirement had never been applied before in any case against a bank. It was not only innovative, but an extremely effective way to involve a regulatory agency in the post-conviction supervision of a financial institution. This requirement was important, because the Probation Office, acting alone, lacks the expertise and resources to monitor the operations of an international bank.

¹³ See Remarks of the Court at Sentencing Hearing, Transcript at 14, indicating that the maximum fine was \$28 million.

¹⁴ The BCCI sentencing occurred prior to the adoption of organizational sentencing guidelines by the U.S. Sentencing Commission, which went into effect on November 1, 1991.

¹⁵ Staff Report, *supra* note 7, at 23. ("Recent criticisms that the plea agreement was unduly lenient would appear to be inaccurate.")

First, as I have already explained, the Tampa case was a money laundering case involving \$14 million. That is how much money was laundered; that is the crime BCCI committed; those were the facts we could prove in court.

The maximum fine was limited by the amount of money involved in the offense. We cannot just pick numbers out of the air and impose fines based on what we suspect about a defendant's other activities. A fine must be based on what we can prove beyond a reasonable doubt in a court of law.

Second, those who use the \$200 million fine imposed by the Federal Reserve in July 1991 as an example of what the Justice Department should have obtained in the Tampa case are confusing apples with oranges.¹⁶ The Federal Reserve's fine was in connection with the First American Bank acquisition by BCCI in Washington, DC. It had nothing to do with money laundering, and it had nothing to do with Tampa. So even if the facts relating to First American had been known at the time of the guilty plea—and they were not—they could not have been made part of the Tampa case and they could not have given the court the authority to impose a fine above the maximum penalty for money laundering. These are simply two separate cases for which BCCI has been punished separately according to the law that applied to each offense.

Number Two: Why didn't the Justice Department revoke BCCI's license to do business after it was convicted in Tampa?

It was (and still is) legally impossible for the Department to compel BCCI to cease operations. None of the provisions in the statutes to which BCCI pleaded guilty permit the revocation of a bank's charter. Going to trial against BCCI instead of taking a guilty plea would not have altered that fact.¹⁷

The authority to revoke a financial institution's charter is the responsibility of the Federal Reserve Board and appropriate state agencies, not the Justice Department. The plea agreement did not, of course, preclude any such regulatory action.

Number Three: Did the Tampa case involve only the corporation and mid-level employees? Why were no high level officials charged?

The defendants in the original BCCI case were not low-level bookkeepers. They were senior management officials with substantial responsibility for BCCI's operations in much of the Western Hemisphere.

Moreover, as our recent indictment of BCCI's president and other top officers makes clear, it was never our intention to simply stop investigating BCCI after the first indictment. The 1988 indictment and subsequent plea agreement and trial were the best way to obtain the evidence needed to convict even higher-level officials. And we think that the new indictment proves that we were right.

Some have suggested that we should have taken the bank to trial and worked out a deal to get the cooperation of the individual defendants. There are a number of reasons why we did not pursue this strategy.

First, our view is that individuals who commit a crime should be held responsible; putting a corporation on trial while the individuals who committed the offense all sit there as government witnesses is an empty exercise. Second, it is highly unlikely that the BCCI employees indicted in Tampa in 1988 were going to cooperate with the United States unless they were convicted and sentenced to prison. Third, putting a corporation on trial *with* its employees is a risky undertaking. In two of recent cases where a bank and its employees stood trial together—Bank of New England in 1986, and LBS Bank in 1990—the jury convicted the bank and let the individual defendants go. And finally, as I mentioned before, if we had gone to trial against the bank, the court would have dismissed the drug conspiracy and forfeiture counts and we would have been left with a much smaller monetary penalty.

If there was any doubt about this strategy, it was dispelled in September when we announced a new indictment charging high-level BCCI officials with conspiracy to commit the money laundering violations previously prosecuted in Tampa, as well as various additional offenses. That indictment was obtained in part as a result of the

¹⁶ See Von Raab testimony (8/1/91), transcript at 36-37. ("Now admittedly, this, in relative terms was a big fine, but it was only with respect to other banking fines, but no one had ever seen a crime quite like this. So I mean, the Federal Reserve's suggestion of \$200 million is probably closer to the mark" . . .)

¹⁷ See Remarks of the Court at Sentencing Hearing, Transcript at 14. ("[T]he only sanction in the form of a criminal sanction available to the court in punishing corporate defendants is the imposition of a fine or a monetary penalty in the form . . . of a forfeiture, where that has been agreed to in the plea agreement, as in this case. It is not within the power or authority of the court in disposing of this case to take any punitive action against either of the corporate defendants with respect to the maintenance of their respective banking operations or impose any burden on their charters or anything of that kind. The focus of the court's attention, therefore, must be with respect to the amount of the monetary or pecuniary penalty to be imposed.")

criminal convictions of the witnesses now cooperating with the government. That indictment also demonstrates that the prosecutors in Tampa have been working for the past 1½ years to pursue this case as high as it leads in the BCCI hierarchy.

Number Four: Did the government, as part of the plea agreement, agree not to bring any future prosecutions?

The plea agreement contained relatively standard language committing the U.S. Attorney's Office for the Middle District of Florida not to prosecute BCCI for any other federal criminal offense then known to the government. This is, by far, the most misunderstood part of the plea agreement.

First, the plea agreement does not—*does not*—bar the future prosecution of any individual, whether an official of BCCI or not. The plea applies *only* to the bank.¹⁸ It does not prevent the U.S. Attorney in Tampa or any other prosecutor, state or federal, from prosecuting any individual from the president of BCCI on down. Indeed, we recently indicted the president of BCCI, other high-level BCCI officers, a Medellín Cartel kingpin, and other cartel members for money laundering relating to Operation C-Chase and other offenses.

Witnesses who have testified before this subcommittee that the plea agreement somehow protects corporate officials and other individuals either do not know what they are talking about or have chosen to intentionally mislead Congress, the press, and the public.¹⁹

Second, as the House Subcommittee Staff Report makes clear,²⁰ the plea agreement relates only to the U.S. Attorney in Tampa. It does not bar any other prosecutor, state or federal, from prosecuting BCCI itself for any offense. Paragraph 16 of the plea agreement is perfectly clear:

It is further understood that this agreement is limited to the Office of the United States Attorney for the Middle District of Florida and cannot bind other federal, state or local prosecuting authorities * * *.

That means exactly what it says.²¹ The Tampa U.S. Attorney's Office cannot bring future charges against BCCI (unless the bank fails to cooperate with the government, or the government comes up with new allegations), but other offices remain free to conduct investigations and bring additional charges against the bank.²² In fact, just last week the Department of Justice announced another indictment against BCCI and high-level officers.

What future charges would be barred by this agreement? At the August 1 hearing before this subcommittee, several Senators asked that question. Mr. Von Raab, after spending hours attacking the plea agreement, responded, "I don't know. I don't know the details or the technical side of it."²³ Mr. Jack Blum, another witness at that hearing, gave the committee a list that he said included "misrepresentations to the Fed, misstatements on audit papers delivered to regulatory authorities everywhere, falsification of all of the bank's books, aiding and abetting a variety of smuggling schemes, * * * and bribery and other forms of corruption."²⁴

¹⁸ Paragraph 1(f) of the plea agreement clearly provides: "if the court accepts the plea agreement, the United States Attorney's Office for the Middle District of Florida agrees not to charge the Bank of Credit and Commerce International, S.A." or any of its "offices, subsidiaries, affiliates, [or] related or controlled entities" * * *."

¹⁹ See Von Raab testimony (8/1/91), transcript at 86 (morning session). ("Well, as part of the agreement, they basically agreed not to prosecute the bank or the individuals for anything * * * which the U.S. Attorney there already knew about.") See also, *id.* at 19 (afternoon session).

²⁰ Staff Report, *supra* note 7, at 25. ("There appears to be little merit to the charge that the plea agreement insulated BCCI from further prosecution by the Justice Department and its U.S. Attorney's offices." * * * In other words, the Subcommittee staff believes that the suggestion that the Justice Department had sold its case against BCCI 'down the river' evidences a misperception about the actual terms of the plea agreement and little, if any, knowledge of Judge Hodges' prior opinion and ultimate ruling in the individual defendants' trial.")

²¹ See Remarks of Gregory W. Kehoe at Sentencing Hearing, Transcript at 11-12 (explaining, in presence of defense counsel, that plea would not bar other federal prosecutors and regulatory agencies from pursuing allegations against BCCI or its officers).

²² Even if the plea agreements were not specifically binding only on the U.S. Attorney for the Middle District of Florida, the law would not permit prosecutors in one district to speak for the U.S. Attorney in other districts. That is so even where the agreement promises that "the government" will not prosecute. "A plea agreement binds only the office of the United States Attorney for the district in which the plea is entered unless it affirmatively appears that the agreement contemplates a broader restriction." *United States v. Annabi*, 771 F.2d 670, 672 (2d Cir. 1985).

²³ Von Raab testimony (8/1/91), transcript at 20 (afternoon session).

²⁴ Testimony of Jack Blum, Senate Foreign Relations Committee Hearing, August 1, 1991, transcript at 8 (afternoon session).

Every single one of the alleged crimes that Mr. Blum listed is being investigated by federal agents and prosecutors somewhere other than Tampa—in Washington, DC, Miami, Atlanta, and elsewhere. All of those offices remain free to prosecute BCCI and its affiliates for any crime that they uncover. In fact, BCCI and several affiliates were indicted in Washington on November 15, 1991, on racketeering and other charges.

As the U.S. Attorney in Tampa, I can only prosecute crimes that occur in my district. If none of these crimes occurred in Tampa—and none appear to have occurred there—we were giving up virtually nothing by agreeing not to prosecute them.

Number Five: Why weren't RICO charges brought against the bank, which would have permitted a more substantial forfeiture?

It was our judgment that RICO charges should not be added to the indictment. Essentially, RICO charges would have greatly complicated a case that was already exceedingly complex, and there were concerns that the jury would not be able to follow all of the charges. RICO charges would not have added significantly to the potential sentence to be obtained; the forfeiture provisions were viewed as unnecessary in light of case law supporting the § 846 charges and § 853 forfeitures already in the indictment.

Put simply, we believed that RICO charges would have added nothing, and would have greatly complicated the case. It is absolutely untrue, as has been suggested, that the entire bank could have somehow been forfeited to the U.S. government had RICO charges been brought in Tampa. There was simply insufficient evidence to support such a sweeping international forfeiture.

CONCLUSION

The prosecution of BCCI in Tampa was a significant law enforcement achievement. The Department of Justice obtained the maximum monetary recovery from BCCI and had the responsible BCCI executives sentenced to prison. More importantly, it was the first step in an ongoing investigation and prosecution. The criticisms of our performance are unfounded and unfair.

That concludes my testimony. I am prepared to answer your questions.

U.S. Department of Justice Criminal Division—Convicted Financial Institutions

Institutions	Crime	Criminal fine
1986		
Metropolitan National Bank, TX.....	B.S.A. violation.....	\$310,000
Border Money Exchange, TX.....	B.S.A. violation.....	8,250
Bank of New England, MA.....	B.S.A. violation.....	1,240,000
Cribbian Federal Savings, PR.....	B.S.A. violation.....	450,000
Commercial Bank & Trust, MA.....	B.S.A. violation.....	202,100
First Missouri Bank, MS.....	B.S.A. violation.....	75,000
Housatonic Bank & Trust, CT.....	B.S.A. violation.....	750
Magnolin Federal Bank, MS.....	B.S.A. violation.....	22,000
McLean Bank, VA.....	B.S.A. violation.....	80,050
Provident Institution for Savings, MA.....	B.S.A. violation.....	100,000
Seaway National Bank, NY.....	B.S.A. violation.....	2,000
Union Country Bank, TN.....	B.S.A. violation.....	10,900
1987		
Citizen First National Bank, NJ.....	B.S.A. violation.....	2,000
Inco Bank & Trust Ltd., Cayman Islands.....	Conspiracy.....	456,000
Merchants National Bank, IN.....	B.S.A. violation.....	500,000
Merchants Trust Bank, LA.....	B.S.A. violation.....	1,000
1988		
E.F. Hutton, RI.....	B.S.A. violation.....	1,010,000
American National Bank, CT.....	B.S.A. violation.....	222,000
National Bank of Fairhaven, MA.....	B.S.A. violation.....	150,000
Central National Bank/Alamo, TX.....	B.S.A. violation.....	250,000
Ramsey Savings & Loan Assn., NJ.....	B.S.A. violation.....	6,000

U.S. Department of Justice Criminal Division—Convicted Financial Institutions—Continued

Institutions	Crime	Criminal fine
Bank J. Vontobel Co.....	B.S.A. violation.....	20,000
1989		
Banco de Occidente, Cali, Colombia.....	Conspiracy.....	¹ 5,000,000
Peoples Bank NA, NJ.....	B.S.A. violation.....	3,000
Ponce Federal Bank, PR.....	B.S.A. violation.....	2,500,000
Smithfield State Bank, PA.....	B.S.A. violation.....	51,600
United Orient Bank, NY.....	B.S.A. violation.....	2,000,000
1990		
Bank Leumi, NY.....	B.S.A. violation.....	242,000
Bank of Credit & Commerce Int'l., Luxembourg.....	Money laundering.....	¹ 15,200,000
LBS Bank, PA.....	B.S.A. violation.....	50,000
First Westside Bank, NE.....	B.S.A. violation.....	1,200
First Bank of Georgia, GA.....	Money laundering.....	¹ 85,000
Red Oak State Bank, TX.....	B.S.A. violation.....	100,000
National Mortgage Bank of Greece.....	B.S.A. violation.....	8,000,000

¹ Forfeiture.

Mr. JACKOWSKI. For the record, my name is Mark Vincent Jackowski. I am an assistant U.S. attorney in the district of Colorado. I have been an AUSA in that district since January 1991. Prior to that, from January 1985 until January 1991, I was an assistant in the middle district of Florida, located in the Tampa division.

While in Tampa, I was assigned to the Tampa offices, middle district of Florida's task force—that is Organized Crime, Drug Enforcement Task Force. I handled major narcotics and money laundering cases.

I am here today because I was the lead prosecutor on the Tampa-based investigation and prosecution, known as Operation C-Chase, which included the prosecution of BCCI and its officers. I have personal knowledge of, and participated in virtually all of the decisions made by the middle district of Florida concerning the BCCI prosecution.

I am aware of the criticisms of the Tampa prosecution. And I believe that they are incorrect and unfair. During the course of my prepared remarks, I will try to address some of those criticisms, which Mr. Genzman has not addressed during the course of his.

When Mr. Mazur testified before the subcommittee this morning, Mr. Mazur gave a good review or summary of the course of Operation C-Chase and how it is that the undercover agents came to be in contact with BCCI.

Mr. Mazur indicated that during December 1987 he had had a series of meetings in Miami with a BCCI officer from Panama. And that officer proposed to him better ways to launder money. The name of that officer, as I believe Mr. Mazur testified to, was Sayed Aftab Hussain.

Just before Christmas 1987, following those series of earlier December meetings, Mr. Hussain provided the name of Amjad Awan to Mr. Mazur as a contact in Miami. In January 1988, Mr. Mazur met with Mr. Awan, Mr. Hussain, and Mr. Akbar A. Bilgrami, another BCCI Miami banker, in Miami, and made arrangements

through Awan and Bilgrami to launder money via BCCI Panama, and a BCCI subsidiary in Switzerland known as BCP.

In March 1988, my office received its first contact from Jack Blum, then an investigator for this subcommittee concerning BCCI. Mr. Blum advised me, as well as others within my office, as well as others on the investigative team of the subcommittee's investigation of drug trafficking and money laundering in Panama.

He informed our office that the subcommittee had authorized and intended to issue subpoenas to two BCCI officers stationed in Miami—Amjad Awan, and S.M. Shafi. We informed Mr. Blum that we were in the midst of an undercover investigation concerning BCCI.

Based on our request, which was cleared through Main Justice, Mr. Blum agreed to hold off the issuance of the Senate subpoenas for a period of time.

As the subcommittee knows, the investigation thereafter continued between December 1987 and March 1988. Millions of dollars in U.S. currency representing the proceeds of cocaine sales were picked up in Detroit and New York. These funds were laundered through BCCI Panama, BCCI Luxemburg, and BCP Switzerland, as a result of the knowing participation of Mr. Awan, Mr. Bilgrami, and Mr. Hussain.

During late March 1988, the undercover agents met in Costa Rica with Mora and a representative of a new, major client of Mr. Mora's, who was, at that time unidentified or undocumented. During this meeting an expansion of the undercover agent's relationship with this new, major client was discussed to include the use of BCCI's facilities in Europe, to further the client's objectives.

Subsequent to the meeting, Mazur made arrangements with Awan and Bilgrami to travel to Europe in order to establish relationships with additional BCCI officials in Paris and London. This new client of Mr. Mora's also agreed to send representatives to Paris to meet with the undercover agents, and BCCI officials, to discuss an expansion of the client's relationship with the bank.

As Mr. Mazur indicated, he did, in fact, have meetings with BCCI officials on the continent, and in the United Kingdom, following these introductions. As a result of these meetings between the bakers, the undercover agents, and the client's representatives—one fellow by the name of Armbrecht, and another by the name of Uribe—the undercover agents, thereafter—during June 1988—began to pick up massive quantities of this client's cocaine proceeds in New York.

By the way, this client was later identified or documented to be an individual by the name of Gerardo Moncada, who was then unknown to law enforcement. It so turned out that Mr. Moncada is, in fact, a leading and probably right now, the ranking member of the Medellin Cartel.

In any event, these pickups from Mr. Moncada's organizations continued until late July 1988 when they stopped, due to two, intervening events. These events dictated that the takedown of Operation C-Chase not be extended past October.

First, at the end of June 1988, the Customs Service seized 110 kilograms of cocaine from Moncada's operatives in Detroit, MI, and arrested the operatives. The arrests of the operatives triggered a

chain of events which, due to the discovery provisions of the Federal Rules of Criminal Procedure, threatened to terminate the undercover investigation.

As the subcommittee knows, defendants have the right to obtain the evidentiary basis of the charges against them from the Government. In this instance, the arrests were predicated, or based, on information developed from the C-Chase undercover operation. As a result of discussions between my office, the U.S. attorney's office in Detroit, and the Department of Justice in Washington, we agreed that prosecutors in Detroit would seek lawful delays in the discovery process through October 1988.

Although these delays were granted by the court in Detroit, the information clearly would have to be released soon, thereafter.

Second, during mid-July 1988, Moncada organization operatives conducted countersurveillance of currency pickups by undercover agents in New York, and discovered persons that they believed, or who they believed, to be law enforcement agents watching the pickups.

The Detroit seizure and arrests, coupled with the burned New York surveillance, caused the Moncada organization to suspect that Mr. Mazur and his associates were, in fact, Federal agents. As a result of these events, several things happened.

First, the currency supply for the Moncada organization dried up.

Second—although this was not learned until long after the indictment—the Moncada organization removed Mazur's signatory power on the \$1 million certificate of deposit account, which meant that Mazur no longer had the authority to transfer those funds.

Third, Mazur was informed by Armbrecht—Armbrecht was Moncada's operative, with whom he had met in Europe, during the course—and this meeting occurred during early August at a hotel in Miami—that he, Mazur, was suspected of being a Federal agent, and therefore business with him had been suspended by the Moncada group.

Mazur was told that if he was an agent there was, quote: "No hole in the world deep enough to hide him," closed quote. And I believe that quote comes from a transcript of that meeting. In short, the undercover investigation seemed to be heading rapidly toward a conclusion.

By the summer of 1988, a decision had been made to terminate the C-Chase investigation with a phony wedding between Mr. Mazur and an undercover agent posing as his fiance. The ruse of a wedding was intended to lure BCCI officers and others, the others being traffickers, into the United States in order to affect their arrests. A wedding date of October 9, 1988, was set, and plans were made to coordinate simultaneous arrests and searches in London, Paris, and the United States.

Accordingly, in August 1988, representatives of British and French Customs attended meetings in Tampa to address some of the coordination issues regarding a takedown. At the time it was contemplated that Mr. Mazur and other cover agents would again travel to Europe during September 1988, in order to acquire additional evidence.

However, in early 1988, a 1,200 kilogram load of cocaine secreted in anchovy cans was seized by the Customs Service, and the DEA, in a port of Philadelphia, based on information obtained through the C-Chase investigation.

Roberto Alcaino, who Mr. Mazur testified about this morning—the principal behind this load—was arrested at LaGuardia, NY, following the seizure. This seizure, and the resulting arrests, made it even more doubtful that the undercover operation would reach its planned, October takedown date.

Nevertheless, on the heels of this seizure, Mazur and his undercover fiancé travelled to Europe. They met with a fellow by the name of S.Z.A. Akbar, the same Ziauddin Akbar who Mr. Mazur testified about this morning, who was a principle of Capcom in London, on September 20 and 21, 1988.

During the course of these meetings, after Mr. Akbar was informed that the source of the funds was narcotics trafficking, he agreed to assist in their laundering. From there, the agents travelled to Paris, and again met with the French bankers—among them, Mr. Howard and Mr. Hassan and Mr. Chinoy—about whom Mr. Mazur testified this morning.

Additional evidence relative to the culpability of these three, individual bank officers, as well as the bank as an institution, was acquired during the course of these meetings. The undercover agents also took steps to insure that these individuals attended the undercover wedding. The agents returned to the States by the end of September 1988. And as the subcommittee knows, the takedown was then scheduled for October 8, 1988.

Which leads us to the takedown. I am aware that questions have been raised with respect to the timing of the takedown. Indeed, it has been suggested—in fact, was suggested this morning, I believe—that the takedown was predicated upon nonlaw enforcement considerations. To my knowledge, those claims are entirely false.

Back in February 1988, an Operation C-Chase coordination meeting had been held in the Tampa area. That meeting was attended by agents and prosecutors from districts around the country in which the undercover activity was being conducted. The Customs Service, the lead agency in the investigation, had determined by that time that the operation should last no longer than the late summer, or early fall of 1988.

The reasoning behind the takedown date was as follows: First, past undercover operations had given rise to concerns that they were unduly facilitating criminal activity by laundering large sums of money without obtaining commensurate results. The Customs Service and my office agreed that C-Chase would attempt to launder the minimal amount of funds consistent with the evidentiary goals of the investigation.

In other words, if there came a point in the investigation where we continued to launder funds on behalf of old clients without developing evidence against additional defendants, we would attempt to terminate the operation.

Second, it was contemplated in February 1988, and ultimately proved correct, that we would be able to make a case against culpable BCCI officials and the bank, by the time of the takedown—the time of the takedown being then set for October 1988.

Third, by October 1988, the undercover agents had been operating undercover for almost 2 years; that in some person's minds—and it is an extremely long time to be engaged in such stressful and dangerous activities. In any event, in my view—and I believe to be correct—the operation was fortunate to last until October 1988, because of the Detroit and Philadelphia seizures, and the, quote, unquote, “burned New York surveillance.”

As the subcommittee knows, the phony wedding between Mr. Mazur and his fiancée did not occur. What occurred in its place was a phony bachelor party. And the defendants who had travelled to the United States from overseas were, in fact, arrested. And several BCCI officers were, in fact, arrested during the course of the bachelor party—Mr. Awan, Mr. Akbar A. Bilgrami, the Mr. Hussain who I mentioned before, Mr. Howard from France, and Mr. Hassan from France—as well as Colombia money launderers; Mr. Mora—about whom Mr. Mazur testified this morning; certain of Mr. Mora's associates; and certain of Mr. Alcaino's associates, who were, as of that time, unarrested.

Alcaino had, in fact, been arrested during mid-September 1988 as a result of the anchovy seizure. Two other defendants, including Gerardo Moncada's operative, Mr. Armbricht, were arrested that weekend in Miami.

At this juncture, I would like to address another issue that has arisen with respect to this case, and that is the issue of leaks. Unfortunately, leaks to the others—to the press and others—occurred during the course of the undercover operation.

At least one national television news organization, NBC, was informed of the existence and nature of the undercover investigation prior to its conclusion by high-level officials of the U.S. Customs Service—not by anyone within the Department of Justice, Senators, but by high-level officials of the U.S. Customs Service.

These officials were apparently acting on the instructions of then Commissioner William Von Raab. The first such disclosure occurred at a dinner meeting between Customs representatives and an NBC news reporter at the Four Seasons Hotel in Washington, DC, in September 1988, about 1 month prior to the takedown. NBC and one other national news organization, CBS, had television cameras waiting at the Customs Service office in Tampa, after the bachelor party arrests.

It is regrettable, Senators, that the lives of the undercover agents, including Mr. Mazur—and remember that Mr. Mazur's life had already been threatened—were further jeopardized by these leaks to the press.

In fact, after the leaks to the press occurred, Mr. Mazur, as well as other agents involved in this matter—and indeed, there were a number of other agents acting in an undercover capacity in this matter—continued to meet and speak with targets of the investigation in those undercover capacities, for several weeks after the nature of this undercover operation had been leaked to the news media.

Mr. Blum also found out about the impending takedown in advance. In a memorandum dated October 7, 1988, which was released as part of the record of the proceedings before this subcommittee on August 1, 1991, Mr. Blum, in a memorandum of that

date, October 7—which was the Friday before the arrests and the searches—described his knowledge of the impending takedown as follows. And I quote:

During the next 3 days, more than 80 people associated with the Bank of Credit and Commerce International, and related companies, will be arrested for money laundering and drug dealing. The arrests will be in more than a dozen locations here, and in Europe, and have been carefully coordinated. At the same time, the bank, itself, in a variety of accounts which have been identified as drug accounts, will be seized here and in London and Paris. The Customs operation is the result of a 2-year sting operation.

We should also take credit for fingering this situation.

Mr. Blum, had at that—Mr. Blum also obtained a copy of draft, Customs Service press materials, which were based on confidential, internal, Department of Justice memoranda, at some point prior to the unsealing of the indictment. The arrests were made on Saturday, October 8. The indictment was unsealed on Tuesday, October 12, I believe. And Mr. Blum had, in fact, known, as of October 7, 1988, of the impending takedown. He was also given copies of these draft Customs Service press materials which were, in fact, based on inaccurate and outdated Department of Justice memoranda.

Mr. Blum provided copies of those materials prior to the unsealing of the indictment to Mr. Altman, and to his partner, Mr. Kovin, of the Clifford & Warnke law firm. These materials later formed the basis of numerous, pretrial motions, which questioned the sufficiency of the Government's proof, and its conduct of the undercover investigation. Although the Government ultimately prevailed, substantial time was required to respond to the motions.

Following the indictment, the attorneys for the bank and the individual defendants began to file hundreds of motions on every conceivable topic—many of which were very complex. At the same time, we were preparing to supersede the indictment to add additional allegations and defendants. In the midst of these efforts, on March 23, 1989, Mr. Blum contacted the Customs Service. Mr. Blum indicated that through a source of his, he was privy to information with respect to BCCI that he was willing to share with us.

Mr. Blum also indicated that his position as an investigator with the subcommittee would be terminated by the end of March 1989, because the subcommittee was concluding its hearings.

Through Mr. Blum and his source, we made arrangements to meet with the alleged witness to BCCI wrong-doing. A series of meetings, which were taped at my direction, occurred in Miami on March 28 and 29, 1989. During the course of these meetings, the alleged witness who was an ex-BCCI official, provided information concerning alleged illegal activities engaged in by BCCI.

Thereafter, on March 30, 1989, the ex-BCCI official travelled to Tampa with Mr. Blum, and was interviewed by myself, agents working on the matter, as well as two, other assistant U.S. attorneys.

The ex-BCCI official who had been portrayed by Mr. Blum as having direct, firsthand knowledge concerning various matters, either did not have such information, or was unwilling to admit it. The ex-official's information appeared to be primarily hearsay, gossip, rumor, and innuendo. He was also unwilling to testify at any public proceeding.

We were disappointed, because Mr. Blum had led us to believe that the witness could provide firsthand information relative to the bank's involvement in money laundering and other matters.

It was our assessment that the ex-BCCI official had mainly provided secondhand information, and it was apparently Mr. Blum's view, as well. In a memorandum dated March 22, 1989, from Mr. Blum to Senator Kerry, Mr. Blum stated that the ex-BCCI official's, quote: "motives are suspect, and some of his information is secondhand," closed quote. I would like to note for the record that this memorandum was included as part of the record before this subcommittee during Mr. Blum's August 1, 1991, testimony.

By the time the interviews had concluded, we were not only skeptical of the quality of the evidence provided by Mr. Blum's witness, we were also skeptical of Mr. Blum, himself. Mr. Blum told us that the upcoming termination of the subcommittee's investigation was sudden, unexpected, and suspect. Mr. Blum claimed that someone on behalf of BCCI had gotten to, or paid off this subcommittee in order for it to terminate its investigation.

Mr. Blum was unable to offer any specifics, and frankly—and I want to emphasize this—we did not credit this allegation. I did not credit the allegation made by Mr. Blum that this subcommittee had somehow been gotten to or paid off.

Mr. Blum also wanted the Government to pay him for any future assistance to our investigation. He indicated that as a result of the termination of the subcommittee inquiry, he was about to lose his job and needed money. We declined to enter into that sort of relationship with Mr. Blum.

The reason why Mr. Blum's request for payments is relevant is because it caused us to examine more closely his actions and his information, as it properly would with any witness.

We were faced—we were presented with unsubstantiated allegations made by Mr. Blum, whose motives and credibility were suspect. When we spoke with—

Senator KERRY. Mr. Jackowski, I am sorry to interrupt you. Apparently, I have just been informed, we are down to 4 minutes on our vote. So we have to leave to go over there. So we will have to recess. And if you could try to—

Mr. JACKOWSKI. Yes, sir, I will.

Senator KERRY. Your concept of a summary appears to be a word-to-word recitation of the 20-some pages, which is a half an hour of testimony. And so if you could try, while we are gone, to figure out—we will get into all of it in the questioning.

Mr. JACKOWSKI. I do not doubt that, Senator.

Senator KERRY. I assure you that there will be plenty of opportunity for you to lay out every single bit of it. But if you could just try in the opening, to somewhat—that would leave us more time to ask questions and have a dialog on it.

So we will stand in recess until we return.

[A brief recess was taken.]

Senator KERRY. The hearing will come to order. Mr. Jackowski, you were in the process of summarizing. [Laughter.]

Mr. JACKOWSKI. I have followed the court's instructions, your honor. [Laughter.]

Senator KERRY. So we will have a couple of more minutes to do so, and hopefully my colleague will get back here and we will proceed.

Mr. JACKOWSKI. Yes, Senator. Questions have been raised with respect to what the Government did or did not do with the information provided to it by Mr. Blum and the ex-BCCI officers. Notwithstanding the quality of the information, the finite resources available to us, and our substantial pretrial and discovery obligations, we pursued the information. A grand jury investigation was opened predicated on this information, as well as certain statements made by Amjad Awan concerning First American Bank vis-a-vis BCCI to Mr. Mazur in the course of the undercover operation.

That investigation, that is the grand jury investigation, continued until early October 1989 when, due to the lack of other available leads and the press of the upcoming trial, it was temporarily suspended. Where, as Mr. Mazur put it, a timeout was taken relative to this investigation pending the completion of the trial and the sentencing of the individual defendants.

A final criticism I would like to address is the allegation that there have been a lack of immediate results as a result of the Department's BCCI investigations. The Department of Justice does not indict on rumor or gossip or innuendo or hearsay and second-hand information. The Department indicts when we have admissible evidence. That is the standard which we applied in the middle district of Florida, with respect to our investigation and prosecution. And that is, in fact and I know this, the standard which the Department of Justice is applying across the board as a whole, with respect to the entire BCCI matter. That concludes the summary of my prepared remarks.

[The prepared statement of Mark Jackowski follows:]

PREPARED STATEMENT OF MARK V. JACKOWSKI

Mr. Chairman, my name is Mark V. Jackowski. I have been an Assistant U.S. Attorney in the District of Colorado since January 1991. From January 1985 until January 1991, I was an AUSA in the Middle District of Florida. While in Tampa, I was assigned to that office's Organized Crime Drug Enforcement Task Force ("OCDETF") section, where I handled major narcotics and drug money laundering cases.

I am here today because I was the lead prosecutor on the Tampa-based investigations and prosecutions known as Operation C-Chase, which included the prosecutions of BCCI and its officers. I have personal knowledge of, and participated in, virtually all of the decisions made by the Middle District of Florida concerning the BCCI prosecution.

I am aware of the criticisms of the Tampa prosecution, and I believe they are incorrect and unfair. During the course of my testimony, I will indicate how and why certain decisions were made in the course of that investigation and prosecution.

OPERATION C-CHASE

During the early summer of 1986, the U.S. Customs Service initiated a drug money laundering investigation which eventually came to be known as Operation C-Chase. The operation began with the introduction by a confidential informant of an undercover agent to a narcotics money launderer from Medellin, Colombia. This soon led to the introduction of the undercover agent to other money launderers.

In December 1986, two undercover agents met with Gonzalo Mora, Jr., a Medellin-based narcotics money launderer in the Tampa area. The undercover agents and Mora initially arranged for the agents to pick up U.S. currency stemming from cocaine sales and to repatriate the funds to Colombia. The undercover agents made several pickups of drug money in various U.S. cities, and the funds were transferred back to the narcotics traffickers in Colombia.

During February 1987, Robert Mazur, one of the undercover agents, determined that it would be useful to the undercover operation to be able to offer to the traffickers the services of an international bank with facilities in Latin America. At that time, there was an agency of BCCI in Tampa, FL. Mr. Mazur made arrangements to open an account at BCCI in the name of a front company.

Between February and May 1987, the undercover agents continued to assist traffickers in the laundering of drug money. During this time, currency belonging to several of Mora's clients was picked up in Miami, Los Angeles, and New York.

In early May 1987, Operation Pisces, a DEA undercover money laundering operation, was taken down. As a result, Mora and certain of his associates raised questions as to whether the undercover agents were in fact, federal agents. It was not until August 1987 that Mora and his associates were satisfied with the bona fides of the agents, and the agents' undercover business resumed and, indeed, grew.

In September 1987, Mora informed the undercover agents that he had acquired a new major client—whom he did not identify—and that the client wanted his funds repatriated to him via a Panamanian (rather than a United States) bank. Mr. Mazur had such a bank available: BCCI. In July 1987, Mr. Mazur had opened an undercover account at the Panama City, Panama branch of BCCI.

Beginning at the end of October 1987, and continuing through November 1987, undercover agents in Detroit picked up approximately \$2.3 million from a drug trafficking and laundering organization operating on behalf of the Medellin Cartel. These funds were deposited in the form of currency in undercover accounts with co-operating U.S. banks and subsequently wire transferred to the undercover account at BCCI in Panama City. Once the funds were received in the BCCI account, they were rapidly withdrawn by Mora's new client.

The nature and extent of the transactions in this account did not go unnoticed by officials within the Panama City branch of BCCI. On November 24, 1987, Syed Aftab Hussain, an operations officer at the Panama City branch, informed Mr. Mazur that BCCI was a "full service" bank and proposed that he meet with Mazur personally.

Mr. Mazur and Hussain met in Miami during early December, 1987. During the course of these meetings, Mr. Mazur told Hussain that the source of his clients' funds was cocaine trafficking in the United States. Rather than refusing to deal with Mr. Mazur, Hussain made recommendations to enable Mr. Mazur to better launder his clients' funds. Hussain also told Mr. Mazur that, due to the fact that Hussain was stationed in Panama and Mazur operated out of the United States, it would be useful for Mazur to have a contact at the Miami office of BCCI.

Just before Christmas 1987, Hussain provided the name of Amjad Awan to Mazur as a contact in Miami. In January 1988, Mazur met with Awan, Hussain, and Akbar A. Bilgrami, another BCCI-Miami banker, in Miami and made arrangements through Awan and Bilgrami to launder money via BCCI Panama and a BCCI subsidiary in Switzerland known as BCP.

In March 1988, my office received its first contact from Jack Blum, then an investigator for this subcommittee, concerning BCCI. Mr. Blum advised me of the subcommittee's investigation of drug trafficking and money laundering in Panama. He informed our office that the subcommittee had authorized and intended to issue subpoenas to two BCCI officers stationed in Miami, Amjad Awan, and S.M. Shafi. We informed Mr. Blum that we were in the midst of an undercover investigation concerning BCCI. Based on our request, Mr. Blum agreed to hold off the issuance of the Senate subpoenas for a period of time.

The investigation continued. Between December 1987 and March 1988, millions of dollars in U.S. currency, representing the proceeds of cocaine sales, were picked up in Detroit and New York. These funds were laundered through BCCI Panama, BCCI Luxembourg, and BCP Switzerland as a result of the knowing participation of Awan, Bilgrami, and Hussain. During late March 1988, the undercover agents met in Costa Rica with Mora and a representative of his new major client, who still remained unidentified. During this meeting, an expansion of the undercover agents' relationship with the client was discussed, including the use of BCCI's facilities in Europe to further the client's objectives. Subsequent to the meeting, Mr. Mazur made arrangements with Awan and Bilgrami to travel to Europe in order to establish relationships with additional BCCI officials in Paris and London. Mora's new client also agreed to send representatives to Paris to meet with the undercover agents and BCCI officials to discuss an expansion of the client's relationship with the bank.

Between May 20 and 25, 1988, Mr. Mazur and other undercover agents met with three BCCI Paris officials: Nazir Chinoy, head of BCCI's French-Africa region; Ian Howard, BCCI Paris Branch Manager; and Sibte Hassan, an aide to Chinoy. These meetings were the result of referrals by Awan and Bilgrami. During the course of

these meetings, the new BCCI players were informed of the source of the funds and agreed to facilitate the transactions. The bankers also met with the client's representatives. By this time, the client had been tentatively identified as "Don Chepe," of Medellin, Colombia. "Don Chepe" was described by his representatives to be a major cocaine importer, distributor, and launderer. The bankers satisfied the concerns of "Don Chepe's" representatives about BCCI. The representatives, Santiago Uribe, a lawyer from Medellin, Colombia, and Rudolph Armbrrecht, an aircraft broker, agreed to place \$1 million in the form of a certificate of deposit with BCCI Paris as a test of the bank's capabilities. The undercover agents did not know at the time that "Don Chepe," whose true name is Gerardo Moncada, had been doing business with the Colon, Panama, branch of BCCI since 1985. As a direct result of Operation C-Chase, Gerardo Moncada was identified as being a ranking member of the Medellin Cartel.

After the Paris meetings, the undercover agents travelled to London and met with Asif Baakza, the head of BCCI's Corporate Unit in London. This meeting, again the result of a referral by Awan and Bilgrami, ended with Baakza's agreement to launder cocaine proceeds.

As a result of the European contacts with Armbrrecht and Uribe, undercover agents began to pick up massive quantities of Moncada's cocaine proceeds in New York. These pickups continued until late July 1988 when they stopped due to two intervening events. These events dictated that the takedown of Operation C-Chase not be extended past October.

First, at the end of June 1988, the Customs Service seized 110 kilograms of cocaine from Moncada's operatives in Detroit, and arrested the operatives. The arrests of the operatives triggered a chain of events which, due to the discovery provisions of the Federal Rules of Criminal Procedure, threatened to terminate the undercover investigation. As you know, defendants have the right to obtain the evidentiary basis of the charges against them from the government. In this instance, the arrests were based on information developed from the C-Chase undercover operation. As a result of discussions between my office, the U.S. Attorney's Office in Detroit, and the Department of Justice, we agreed that prosecutors in Detroit would seek lawful delays in the discovery process through October 1988. Although these delays were granted by the court in Detroit, the information clearly would have to be released soon thereafter.

Second, during mid-July 1988, Moncada organization operatives conducted counter-surveillance of currency pickups by undercover agents in New York and discovered persons they believed to be law enforcement agents watching the pickups.

The Detroit seizure and arrests, coupled with the "burned" New York surveillance, caused the Moncada organization to suspect that Mr. Mazur and his associates were in fact, federal agents. As a result of these events, several things happened.

First, the currency supply from the Moncada organization dried up. Second (although this was not learned until long after the indictment), the Moncada organization removed Mr. Mazur's signatory power on the \$1 million certificate of deposit account, which meant that Mr. Mazur no longer had the authority to transfer those funds. Third, Mr. Mazur was informed by Armbrrecht during the course of an early August meeting at a Miami motel that he was suspected of being a federal agent, and therefore business with him had been suspended by the Moncada group. Mr. Mazur was told that if he was an agent, there was "no hole in the world deep enough to hide in." In short, the undercover investigation seemed to be heading rapidly toward a conclusion.¹

By the summer of 1988, a decision had been made to terminate the C-Chase investigation with a phony "wedding" between Mr. Mazur and an undercover agent posing as his fiancée. The ruse of a wedding was intended to lure BCCI officers and others into the United States in order to effect their arrests. A "wedding" date of October 9, 1988, was set, and plans were made to coordinate simultaneous arrests and searches in London, Paris, and the United States.

Accordingly, in August 1988, representatives of British and French Customs attended meetings in Tampa to address some of the coordination issues regarding the takedown.² At the time, it was contemplated that Mr. Mazur and other undercover

¹ During mid-August 1988, Mr. Mazur also learned from Awan and Bilgrami that the Senate had in fact issued subpoenas to the bank which called for records of accounts maintained at the bank by Panamanian corporations as well as others.

² We agreed that, should Mr. Baakza be arrested in the United Kingdom, he would be prosecuted by British authorities on the basis of information developed by the American undercover

Continued

agents would travel again to Europe during September 1988 in order to acquire additional evidence.

However, in early September 1988, a 1,200 kilogram load of cocaine secreted in anchovy cans was seized by the Customs Service and the Drug Enforcement Administration in the Port of Philadelphia based on information obtained through the C-Chase investigation. Roberto Alcaino, the principal behind this load, was arrested at LaGuardia Airport in New York following the seizure. This seizure and the resulting arrests made it even more doubtful that the undercover operation would reach its planned October takedown date.

Nevertheless, on the heels of this seizure, Mazur and his undercover "fiancee" travelled to Europe. They met with Akbar in London on September 20 and 21, 1988. During the course of these meetings, after Akbar was informed that the source of the funds was narcotics trafficking, he agreed to assist in their laundering. From there the agents travelled to Paris and again met with Chinoy, Howard, and Hassan. Additional evidence relevant to their culpability was acquired during the course of these meetings. The undercover agents also took steps to ensure that these individuals attended the undercover wedding. The agents returned to the States by the end of September.

THE TIMING OF THE TAKEDOWN OF C-CHASE

I am aware that questions have been raised with respect to the timing of the takedown. Indeed, it has been suggested that the takedown was predicated upon non-law enforcement considerations.

To my knowledge, those claims are entirely false. Back in February 1988, an Operation C-Chase coordination meeting had been held in the Tampa area. That meeting was attended by agents and prosecutors from districts around the country in which the undercover activity was being conducted. The Customs Service, the lead agency in the investigation, had determined by that time that the operation should last no longer than the late summer or early fall of 1988.

The reasoning behind the takedown date was as follows:

First, past undercover operations had given rise to concerns that they were unduly facilitating criminal activity, by laundering large sums of money without obtaining commensurate results. The Customs Service and our office agreed that C-Chase would attempt to launder the minimal amount of funds consistent with the evidentiary goals of the investigation. In other words, if there came a point in the investigation where we continued to launder funds on behalf of old clients, without developing evidence against additional defendants, we would attempt to terminate the operation.

Second, it was contemplated in February 1988, and ultimately proved correct, that we would be able to make a case against culpable BCCI officials and the bank by the time of the takedown.

Third, by October 1988, the undercover agents had been operating undercover for almost 2 years. That is an extremely long time to be engaged in such stressful and dangerous activity.

In any event, the operation was fortunate to last until October 1988, because of the Detroit and Philadelphia seizures and the "burned" New York surveillance.

THE TAKEDOWN OF C-CHASE

The phony "wedding" between Robert Mazur and the undercover agent posing as his fiancee was scheduled for Sunday, October 9, 1988. In order to separate the targets from their families, and to effect the arrests securely, a "bachelor party" was scheduled for the previous day, Saturday, October 8.

The ruse proved highly successful. Several BCCI officers (Awan, Bilgrami, Husain, Howard, and Hassan), the Colombian money launderers, Mora, certain of his associates, and certain of Alcaino's associates were all arrested at the "bachelor party" on October 8. Two other defendants, including Moncada's operative Armbricht, were arrested that weekend in Miami.

Following the "bachelor party" arrests, a search was conducted of the bank's Miami offices. Simultaneous searches were conducted at the bank in Paris, at the bank in London, and at various residences in Great Britain. Three more BCCI officials, Baakza, Akbar, and Chinoy, were apprehended in Great Britain at the same time.

agents. It was also agreed that if evidence was developed against S.Z.A. Akbar, he too, would be prosecuted in the United Kingdom. Akbar was, in fact, ultimately prosecuted and convicted by British authorities.

LEAKS TO THE PRESS

At this juncture, I would like to address another issue that has arisen with respect to this case: the issue of leaks. Unfortunately, leaks to the press and others occurred.

At least one national television news organization, NBC, was informed of the existence and nature of the undercover investigation, prior to its conclusion, by high-level officials of the U.S. Customs Service. These officials were apparently acting on the instructions of then-Commissioner William Von Raab.³ The first such disclosure occurred at a dinner meeting between Customs representatives and an NBC News reporter at the Four Seasons Hotel in Washington, DC, in September 1988, about 1 month prior to the takedown. NBC and one other national news organization, CBS, had television cameras waiting at the Customs Service office in Tampa after the "bachelor party" arrests.

It is, to say the least, regrettable that the lives of the undercover agents—one of whom, Mr. Mazur, had already been threatened with death by the narcotics traffickers with whom he was transacting business—were thereby jeopardized. In fact, Mr. Mazur and other agents continued to meet and speak with targets of the investigation in their undercover capacities for several weeks after the nature of the undercover operation had been disclosed to the news media.

Jack Blum, an investigator for this subcommittee, also found out about the impending takedown in advance. In a memorandum dated October 7, 1988—the Friday before the arrests and searches—Blum describes his knowledge of the impending takedown:

During the next 3 days more than 80 people associated with the Bank of Credit and Commerce International and related companies will be arrested for money laundering and drug dealing. The arrests will be in more than a dozen locations here and in Europe and have been carefully coordinated.

At the same time the bank itself and a variety of accounts which have been identified as drug accounts will be seized here and in London and Paris. . . . The Customs operation is the result of a 2 year sting operation. . . .

We should take credit for fingering the situation. . . .⁴

Mr. Blum also obtained a copy of draft Customs Service press materials based on confidential, internal (as well as inaccurate and outdated) Department of Justice memoranda at some point prior to the unsealing of the indictment. Mr. Blum provided copies of these materials prior to the unsealing of the indictment to Robert A. Altman and his partner, John F. Kavin, of the Clifford & Warnke law firm. These materials later formed the basis of numerous pretrial motions which questioned the sufficiency of the government's proof and its conduct of the undercover investigation. Although the government ultimately prevailed, substantial time was required to respond to the motions.

THE ADEQUACY OF THE TAMPA CHARGES

Another question has been raised regarding the charges brought against the bank and its employees in the wake of the takedown. Former Customs Commissioner Von Raab testified before this subcommittee on August 1, 1991:

I was annoyed at the time of the arrest in Tampa that there were not more significant charges brought against higher level BCCI officers and more significant charges brought against BCCI as a corporation. . . .

Although I was the principal prosecutor on this case, I had never heard Mr. Von Raab's alleged dissatisfaction concerning the nature of the charges or the identity of the defendants until his testimony before this subcommittee. In fact, I met with Mr. Von Raab on the evening of October 10, 1988, and he congratulated me on my efforts in the case. Furthermore, Mr. Von Raab was a principal speaker at the press conference on October 11, 1988, when the indictment was unsealed. At that time, Mr. Von Raab called Operation C-Chase "the most important money laundering case in U.S. history."

³ Statement of the U.S. Department of the Treasury Regarding Its Operation C-Chase and the Bank of Credit and Commerce International, appended to letter from Assistant Secretary of the Treasury (Enforcement) Peter K. Nunez to Representative Charles E. Schumer, dated October 18, 1991, at 9 (the premature disclosure of the ongoing undercover operation to the press and subsequent press coverage was "coordinated through Customs headquarters and at the direction of then-Commissioner Von Raab").

⁴ Memorandum from Jack A. Blum to Senator John F. Kerry dated October 7, 1988, entitled "BCCI: The Takedown, Background and Talking Points." The memorandum was made part of the record of this subcommittee on August 1, 1991.

Mr. Von Raab's complaint that higher-up BCCI officers were not indicted is completely misplaced. Simply put, we indicted every BCCI officer who we had a reasonable chance of convicting at trial.

CONTACTS WITH JACK BLUM

Following the indictment, the attorneys for the bank and the individual defendants began to file hundreds of motions on every conceivable topic, many of which were very complex. At the same time, we were preparing to supersede the indictment to add additional allegations and defendants. In the midst of these efforts, on March 23, 1989, Jack Blum contacted the Customs Service. Mr. Blum indicated that, through a source, he was privy to information with respect to BCCI that he was willing to share with us. Mr. Blum also indicated that his position as an investigator with this subcommittee would be terminated by the end of March, 1989, because the subcommittee was concluding its hearings. Through Mr. Blum and his source, we made arrangements to meet with an alleged witness to BCCI wrongdoing.

A series of meetings, which were taped at my direction, occurred in Miami on March 28 and 29, 1989. During the course of these meetings, the alleged witness, who was an ex-BCCI official, provided information concerning alleged illegal activities engaged in by BCCI. Thereafter, on March 30, 1989, the ex-BCCI official travelled to Tampa with Mr. Blum and was interviewed by me and agents working on the matter.

The ex-BCCI official, who had been portrayed by Mr. Blum as having direct first-hand knowledge concerning various matters, either didn't have such information or was unwilling to admit it. The ex-official's information appeared to be primarily hearsay, gossip, rumor, and innuendo. He was also unwilling to testify at any public proceeding. We were obviously disappointed, because Mr. Blum had led us to believe that the witness could provide first-hand information relative to the bank's involvement in money laundering and other matters.

It was our assessment that the ex-BCCI official had mainly provided secondhand information, and it was apparently Mr. Blum's view as well. In a memorandum dated March 22, 1989, from Jack Blum to Senator Kerry, Mr. Blum stated that the ex-BCCI official's "motives are suspect and some of his information is second-hand."⁵

By the time the interviews had concluded, we were not only skeptical of the quality of the evidence provided by Mr. Blum's witness, we were also skeptical of Mr. Blum himself. Mr. Blum told us that the upcoming termination of the subcommittee's investigation was sudden, unexpected, and suspect. Mr. Blum claimed that someone on behalf of BCCI had "gotten to" or paid off this subcommittee in order for it to terminate its investigation. Mr. Blum was unable to offer any specifics, and, frankly, we did not credit this allegation.

Mr. Blum also wanted the government to pay him for any future assistance to our investigation. He indicated that, as a result of the termination of the subcommittee inquiry, he was about to lose his job and needed money. We declined to enter into that sort of relationship with Mr. Blum. The reason why Mr. Blum's request for payments is relevant is because it caused us to examine more closely his actions and his information, as it properly would with any witness.

We were thus faced with unsubstantiated allegations made by Mr. Blum, whose motives and credibility were suspect. When we spoke with Mr. Blum's witness, he fell far short of our expectations. Nevertheless, we commenced a separate grand jury investigation into certain of these areas. Furthermore, we pursued this information despite the fact that a second ex-BCCI official brought to us by Mr. Blum during May, 1989, turned out to be an even worse witness than the first. Even Mr. Blum acknowledged that the second individual did not turn out to have the type of information which he represented to us the witness would have.

Questions have been raised with respect to what the government did or did not do with the information provided to it by Mr. Blum and the first ex-BCCI official. Notwithstanding the poor quality of the information, the finite resources available to us, and our substantial pretrial and discovery obligations, we pursued the information. A grand jury investigation was opened predicated on this information as well as the statements made by Amjad Awan in the course of the undercover operation. That investigation continued until early October 1989, when, due to the lack of other available leads and the press of the upcoming trial, it was temporarily sus-

⁵ This memoranda was included as part of the record before this subcommittee during Mr. Blum's August 1, 1991, testimony.

pending the completion of the trial and the sentencing of the individual defendants.

RESOURCES DEVOTED TO C-CHASE

I would now like to address the issue of the investigative resources devoted to the C-Chase prosecutions. The greatest demands on those resources arose out of the need to prepare transcripts of thousands of taped undercover conversations.

Early in the investigation, we made the decision to tape as many conversations as possible with the targets of the investigation. By the time of the October takedown, undercover agents had taped more than 2,000 meetings and telephone conversations with numerous individuals. From the inception of the investigation through early 1988, a majority of those undercover conversations were transcribed or summarized.

Beginning in early 1988, however, when the investigation began to focus on the BCCI bankers, we in effect "overran our supply line" concerning the transcripts as a result of the extensive undercover activity the agents were engaged in.

Because of the volume of the tapes, the undercover agents were no longer able to transcribe the tapes in a timely manner. This left us with a choice either to use outside transcription services, or to require the undercover agents to transcribe the tapes as they were generated, at the risk of foregoing undercover activity. I made the decision that it was more important that the undercover agents engage in undercover activity than it was for them to transcribe tapes. I decided that the tapes could be transcribed and made available in discovery after the case was indicted.⁶

The obvious question is why did we not utilize non-government transcription services before the takedown. The answer to that is simple: it was my view that the need for secrecy in this investigation was paramount, and I did not want to risk compromising the investigation and putting the agents' lives at risk by providing these tapes to third parties. It is well-known within the law enforcement community that narcotics traffickers utilizing the services of private investigators, attorneys, and others are able to ferret out information concerning ongoing drug investigations. The risk of compromise was not one that I was willing to take.

In any event, the transcription process started in earnest shortly after the end of the investigation. This process, given the poor audibility quality of the tapes (most of which needed to be enhanced in order to be heard) and the heavily-accented English of the BCCI defendants, was tedious. This process was the subject of much discussion and dispute between my office and the Customs SAC in Tampa, as well as within Customs itself. Unfortunately, there were only four or five agents who were willing and able to do this arduous work.

SAC-Tampa was well aware that the transcription process was causing us discovery problems with the District Court. This problem came to a head during the spring of 1989, and continued thereafter. Although the disputes were ultimately resolved, in many instances suitable transcripts were not finalized until the day the underlying tapes were played in Court. Nevertheless, due to the efforts of Mr. Mazur and the small cadre of agents assisting him, the ultimate high quality of the transcripts was recognized by the trial judge. Without the transcripts, an effective prosecution would not have been possible.

THE PLEA AGREEMENT

As the subcommittee knows, the Tampa U.S. Attorney's office entered into a plea agreement with BCCI in January, 1990, on the eve of trial. This agreement has received much criticism, most of it ill-informed. For instance, Mr. Von Raab testified before this subcommittee on August 1, 1991, that "I think it was a shameless agreement. It had a number of terrible aspects." Mr. Von Raab acknowledged, however, that "I don't know the details or technical side of it."

I do know the details and technical side of it, and they are as follows:

1. The purportedly "shameless" plea agreement did not prevent the Department of Justice from prosecuting BCCI. It only bound the Middle District of Florida from prosecuting BCCI for matters under investigation at the time of the agreement. The Department of Justice in Washington and every other U.S. Attorney's Office in the country is free, and has been free at all times, to indict and prosecute BCCI.

2. The plea agreement precludes *no* federal prosecutor *anywhere* from indicting any employee, officer, or director of BCCI for *any* criminal offenses.

⁶ This is not to say, however, that we were unaware of the nature of the conversations. I received timely reports of the undercover contacts with the targets from Mr. Mazur; in addition, an IRS agent listened to relevant portions of key tapes to enable us to prepare the indictment and search warrant affidavits.

3. The plea agreement resulted in the largest monetary penalty ever imposed upon a corporate defendant for money laundering. This \$15 million penalty did not consist, contrary to Mr. Blum's and Mr. Von Raab's assertions before this subcommittee, of the profits that the agents had "created in the drug deal." It was the bank's money. The bank's profits as a result of engaging in transactions with the undercover agents did not exceed \$250,000.

4. The plea agreement resulted in an admission by BCCI that money laundering of narcotics proceeds was among its corporate policies.

5. The plea agreement resulted in the bank pleading guilty to *every*, and I repeat, *every* readily provable count in the indictment. The bank pleaded to 33 substantive money laundering counts, as well as a count of conspiracy to launder drug money. The only count the bank did not plead guilty to was a narcotics conspiracy count. This was as a result of a pre-trial order entered on December 5, 1989, by the trial judge which I understand Mr. Genzman's testimony will address.

6. The plea agreement has been criticized for not putting the bank out of business. As the trial judge indicated when he accepted the plea agreement and sentenced the bank on February 5, 1990, federal criminal law makes no provision for revoking the bank's license to do business in the United States. As this subcommittee knows, the decision to permit a foreign bank to do business in the United States rests with regulatory authorities.

7. The plea agreement has also been criticized for permitting the "most serious offender," the bank, to escape with a light punishment. First, as I have related, the bank did not escape lightly. They paid a \$15 million penalty and admitted that they had a corporate policy of laundering drug money, forever tarring the bank with that admission. Second, they agreed to cooperate with the government. Unfortunately, due to the ongoing nature of the investigations which their cooperation has impacted, I am unable to disclose the strength of that cooperation. Third, the publicity stemming from the bank's prosecution had an adverse economic impact on the bank.⁷ Finally, the Department of Justice was and is free to investigate and prosecute individuals as well as the bank itself for any and all crimes. The plea agreement did not preclude the Middle District of Florida from returning a RICO indictment against other high level officials of the bank, Colombian drug traffickers, and others, which was unsealed on September 5, 1991. In fact, the RICO enterprise in that prosecution was defined to include BCCI.

As I have testified, the plea agreement did not preclude the government from prosecuting the bank employees who were charged in the indictment. As you know, we tried those defendants, convicted them, and they received serious sentences. Questions have been raised as to why we accepted a plea from the bank and not from the individual defendants. We in fact attempted to enlist the defendants' cooperation, but were unsuccessful in doing so. This was due to a number of factors:

There was a fundamental difference of opinion between the government's view of the case and the defendants' attorneys' view of the case. We viewed the bankers as being no different than drug dealers. The defense attorneys viewed their clients as white collar criminals. My office's plea agreement policy in drug cases gave the individual defendants, as with any defendants similarly situated, three choices: go to trial; plead guilty to the entire indictment; or plead guilty and cooperate with the government in the hopes of receiving a reduced sentence. However, in this case, the individual defendants, with one exception, refused to give proffers of what their testimony and knowledge would be. They also had unrealistic expectations as to the length of prison time they were likely to serve, even with cooperation. Finally, their attorneys convinced them that they could beat the charges. As a result, we never consummated plea agreements with any of the individual defendants.

CONCLUSION

The final criticism that I would like to address is the so-called lack of additional, immediate results in the BCCI matter. The Department of Justice does not indict on rumor, gossip, innuendo, hearsay, and secondhand information. We indict when we have admissible evidence. I can assure you that the Department is moving ahead rapidly in this matter. When sufficient admissible evidence to convict has been accumulated as a result of the various BCCI investigations, then, and only then, will indictments be sought. That is the standard which is applied in the Middle District

⁷ See written testimony of J. Virgil Mattingly, Jr., General Counsel of the Board of Governors of the Federal Reserve System, September 13, 1991, before the House Committee on Banking, Finance and Urban Affairs, at 14.

of Florida and that is the standard which the Department of Justice will apply across the board.

Senator KERRY. Now, let me try to find a beginning here, amidst these long summaries. In a sense, gentlemen, the two of you have come in and given, I think obviously, plausible, and intelligent, and credible sense from your perspective about what you did, and why you did it, and how you did it.

The question that leaps to my mind, and I suspect in the minds of some other observers, is whether you are seeing the forest for the trees. I think Mr. U.S. Attorney Genzman you said, and I quote you: "Tampa was a money laundering case." And that is the way you viewed it. But to me and a lot of other people, and I think to Bob Mazur according to his testimony today, it was much more than a money laundering case.

It was a case where information was surfacing about the illegal ownership of banks in the United States, about our arms, about broad-based criminal activity. And the sense a lot of people have is that, yes, while you can come here and say indeed, this was very credible and we achieved a lot, as Bob Mazur himself said, it achieved far less than it could have, and that some people think should have. Now how do you respond to that?

Mr. GENZMAN. Let me start, Mr. Chairman, by saying that we had a takedown that required the Tampa case to focus on money laundering. If we had not, I would be at the witness table today explaining why we went up every rabbit trail we could find, and ignored what we had in front of us, which was the money laundering case. And let me add, this one of the first, if not the first—

Senator KERRY. But who suggested that you ignore that?

Mr. GENZMAN. If you let me proceed, I was just going to get to that Mr. Chairman. We could not ignore what we had before us, which was a money laundering case. And contrary to testimony that you heard in August, this case was not brought to our office wrapped in a ribbon ready to go. There was an incredible amount of work that had to be done. We had to give priority to that case. We had to abide by the judge's timetable, the Speedy Trial Act discovery requirements, but we did not ignore these other allegations as they came in.

Senator KERRY. Did you write a letter to the Attorney General saying Mr. Attorney General, we have an extraordinary case here which involves the illegal ownership of the bank, which involves many more millions of dollars than we have yet proven. And we need people down here in order to be able to do this.

Mr. GENZMAN. I could show you a stack of letters and memos that we have written, that I have written since I became U.S. attorney right around the time of the takedown, which asked for additional resources.

Senator KERRY. Did you get them?

Mr. GENZMAN. Not just for the BCCI case, but for a number of other cases.

Senator KERRY. Did you get them for the BCCI case?

Mr. GENZMAN. Yes, as a matter of fact. Right, within months we received, I believe, five asset forfeiture attorneys, at least two of which were working very regularly on BCCI. And we also received

some additional drug resources. And as soon as we were able to get those people hired, we put them to work.

Senator KERRY. Did they specifically go to work on BCCI?

Mr. GENZMAN. Well the people that we bring into the door—

Senator KERRY. Did those people that you requested specifically go to work on BCCI?

Mr. GENZMAN. Some of the asset forfeiture people did, but you have to understand that when you bring new people into the door, you rarely give them one of your biggest cases, if not the biggest case in the history of your office. We reassign people internally as we bring in newcomers. And every time Mr. Jackowski, or his colleagues, would come to us and say they needed help either on asset forfeiture or on motions or on any of the work they were facing, we addressed those needs, and they were taken care of. And I don't think anyone has criticized the attorney resources that were applied to this case.

Senator KERRY. That is not the issue, believe me it is not. And I want to make that very clear. I never issued one word of criticism about the attorneys in the case, or others.

Mr. GENZMAN. Can I respond further? You also mentioned—your question referred to whether new people were coming on board to work on the BCCI case, and I think that reflects a problem that needs to be avoided. And that is, you can't have new people coming in the door and picking up work on such a big case. As a matter of fact, putting a small army of experienced people on a case of this type can often be self-defeating.

Senator KERRY. I do not disagree with that, but that just begs the question as to why your lead attorney, Mr. Jackowski, went out to Denver and why Mr. Mazur quit.

Mr. GENZMAN. Why don't you ask Mr. Jackowski? I'm sure he'll be pleased to answer.

Senator KERRY. We will get to there, but why do you not say, gee, we need you here. I do not want to assign you to Denver right now. You are on the biggest case in the country.

Mr. KEHOE. Well, I had numerous discussions with Mr. Jackowski about him staying in the middle district of Florida. Not only for this, but for other reasons. The primary reason, Senator, being that he is one of the best prosecutors that I've ever seen in my life, and he had other personal business. And I will let Mr. Jackowski speak for himself, but we had numerous discussions about that.

Mr. JACKOWSKI. Senator, the fact of the matter is that, No. 1, I decided to transfer to Denver. No one decided to transfer me to Denver, as has been suggested in the New York Times. That's No. 1, and No. 2, the reasons for my decision to go to Denver were entirely personal. No. 3, as Mr. Kehoe stated, Mr. Kehoe on numerous occasions, sir, attempted to, shall we say inveigle me to stay in Tampa, as did Robert Genzman. These gentlemen wanted me to stay in Tampa. I had a discussion last week with Mr. Kehoe in which Mr. Kehoe said why don't you come back to Tampa. So I have been asked to, No. 1, stay in Tampa and No. 2, I was to return to Tampa. And my reason for going to Denver was personal, sir.

Senator KERRY. Now with respect to your feelings about the case, is it not a fact that you were unhappy with the pace and scope of the investigation?

Mr. JACKOWSKI. No, that is not correct, Senator.

Senator KERRY. I think there was a memo in which you—and certainly the written memo by Bob Mazur seemed to suggest that you agreed with his perceptions of lack of resources, and the unhappiness.

Mr. GENZMAN. While he is looking, Senator, can I respond to a part of that question.

Senator KERRY. This is Mr. Mazur's memo, and I read from it. It says, the outcome of the case, while notable, was considerably less than what it could have been. The indictment of additional defendants and the seizure of substantially more drug proceeds was lost directly as a result of the application of inadequate resources by blank to the investigation. This opinion is shared by individuals meaningfully involved in the successes preserved within Operation C-Chase, including the lead prosecutor, see attachment A, memo of Mr. Jackowski, page 4. So your own memo suggested that you were unhappy, you thought more could have been done.

Mr. JACKOWSKI. Sir, what I think you're doing is you're taking Mr. Mazur's memo and reading into it words that Mr. Mazur's memo—a certain unhappiness on my part with respect to the progress of the case. And I don't think that's correct. I will tell you what is correct, and I will tell you what I understood—

Senator KERRY. Before you do, and I am going to give you a chance to but before you do tell me, and I will give you the full opportunity to do so, are you saying that you did not hold the opinion that the outcome of the case was less than what it could have been? Did you hold that opinion?

Mr. JACKOWSKI. I'm going to answer your question.

Senator KERRY. Yes or no.

Mr. JACKOWSKI. I cannot answer the question yes or no, Senator. I have to answer in the following manner. My unhappiness with respect to the C-Chase investigation, and this was not with respect to the C-Chase prosecution, it related to the C-Chase investigation, was that there were a number of documents that were seized as a result of searches conducted in Miami and other places.

It was my view that included within those records were leads to other narcotics traffickers and money launderers. It was my further view, as of the time I wrote my memorandum, which was at the end of January 1991, that those documents had not been adequately reviewed to pursue all of those leads. That was the nature of my unhappiness, Senator.

Senator KERRY. Well, I interpret that, and correct me if I am wrong, that if the leads had been followed up more would have been produced. So ergo, it did not produce all that it could have.

Mr. JACKOWSKI. Senator, what I think you are trying to do is—

Senator KERRY. Look, there were a lot of different—I mean I am dealing with some of the memos that I have here. Let me ask you this—

Mr. JACKOWSKI. What you're doing is you're asking me about a statement that Robert Mazur wrote. That statement refers to a

memorandum that I wrote, and what I'm trying to do is explain what I meant when I wrote that memorandum.

Senator KERRY. Let me ask this, is there any reason the committee should not see the memo you wrote?

Mr. JACKOWSKI. I believe the committee has seen a redacted version of the memo.

Senator KERRY. Not of the memo that you wrote. I do not believe so. We have not seen that.

Mr. KEHOE. Senator, the vast majority of Mr. Jackowski's memo, and I believe that it is the memo that Mr. Jackowski addressed to me, among others—

Mr. JACKOWSKI. That is correct.

Mr. KEHOE [continuing]. Is the memo that addresses our format for our continuing investigation. This was a memo that was written to me, among others, when Mr. Jackowski was about to leave. It directly addresses ongoing matters as to what he thinks we should do, and the next target level that we should move to. On that basis, Senator, I would object, with all due respect to the committee, of handing it over to the committee. Because it is an ongoing matter.

Senator KERRY. Which puts us in the inevitable sort of catch-22. You guys can sit there and say it is an ongoing investigation, and we are the committee of oversight to determine whether or not it is. But we cannot see any documentation that would support that.

Mr. KEHOE. Senator, there is documentation to support that. The most recent documentation to support is a September 1991 indictment. The next level of indictments that—

Senator KERRY. September 1991 indictments, you are referring to the Federal Reserve case?

Mr. KEHOE. I am referring to the indictment that the middle district of Florida indicted Mr. Naqvi as well as Mr. Rizvi, and a variety of other people on a RICO, and a RICO conspiracy. Now that is not the only matter that is contained in that particular memo that Mr. Jackowski wrote to me, if I recall correctly.

There is a continuing investigation going on to date, Senator, that is discussed in that particular memo. Now you ask if the Department of Justice, or the U.S. attorney's office, or the middle district of Florida has any proof. Well you need to take my word, you don't need to take my word, Senator, you need only to go to the docket sheet of the most recent indictment.

Senator KERRY. Well we can get into the question of the most recent indictment. I am not going to right now, but there are a lot of questions that arise in between that time period and now, some of which we will get into, many of which we will not have time to get into.

I do not take that most recent indictment as a statement of what did or did not happen between then and now. And there are many reasons why I do not, but I simply do not. And this particular—it seems to me that it ought to be possible since we have had no problem in getting whole pages delivered to us with nothing on them, to redact sufficiently that we are able to see what you said about your opinion it, but not obviously on the ongoing investigative aspect of it.

Mr. JACKOWSKI. Senator, that is not a decision that I made.

Senator KERRY. I know.

Mr. JACKOWSKI. I just want to say one thing. First of all, there are two components to my memorandum. One relates to ongoing matters which I believe, under tradition theories, this subcommittee would not be entitled to. The other relates to a criticism, and the criticism relates to going through the records. And I'm telling you under oath, that my criticism with respect to the records related to my belief that included within those records were transactions of other money launderers and narcotics traffickers. That's what I meant.

Senator KERRY. What about First American? Was that not of issue then?

Mr. JACKOWSKI. Not of issue, when? At the time I wrote my memorandum.

Senator KERRY. This particular time, yes.

Mr. JACKOWSKI. I think First American, sir, has been of issue since March 1988, No. 1. No. 2, I Senator, am not aware—Senator, I'm not aware that there are any—well let me put it to you this way—I am not aware of any materials included within the documents that came out of Miami which are directly relevant to First American. This is Mark Jackowski saying that. Mark Jackowski who has not reviewed all those records, Mark Jackowski who has not received a detailed report relative to that. That's what I'm telling you.

Senator KERRY. Relative to—

Mr. JACKOWSKI. The notion, or your question concerning whether or not there is anything in those records concerning First American, I don't believe so.

Senator KERRY. Well I am going to come back to that in a few minutes. Let me go back here for a second, if I can. Did any of you, at any time, receive information from Justice or anyone else from the CIA regarding their knowledge of the money laundering aspect of this?

Mr. JACKOWSKI. I did not.

Mr. KEHOE. I did not, Senator.

Mr. GENZMAN. I did not. Let me emphasize that Mark Jackowski was involved from the beginning of the prosecution side of the case. I came right before the takedown, and Mr. Kehoe came in early 1989, several months after the takedown.

Senator KERRY. If, and this is hypothetical, but if you had received a memorandum from the CIA, or directly from the Treasury saying to you BCCI secretly owns the largest bank in Washington, what would you have done in response to that?

Mr. KEHOE. May I answer that, Senator? I mean hypothetically, with the type of intelligence.

Senator KERRY. Well, I was asking the U.S. attorney.

Mr. KEHOE. I apologize.

Senator KERRY. I would just like to know from the U.S. attorney. You are in charge, it is your district. If you had received that information, what would you have done?

Mr. GENZMAN. We had other information regarding the First American issue. We were pursuing that other information that would have been referred to the people who were pursuing that particular issue.

Senator KERRY. Who was that?

Mr. GENZMAN. That was Mr. Jackowski and Mr. Rubinstein, and also I would think the investigators who were involved. And just emphasize, Senator, there was movement in that direction in early 1989. There was grand jury work in that regard. Because of the nature of the information we had—

Senator KERRY. Where was the grand jury work?

Mr. GENZMAN. In Tampa.

Senator KERRY. In Tampa.

Mr. GENZMAN. Yes.

Senator KERRY. Was that in response to the subpoena that was issued by Mr. Jackowski, is that what you are talking about?

Mr. JACKOWSKI. That is what Mr. Genzman is referring to.

Senator KERRY. You issued one subpoena, I believe.

Mr. JACKOWSKI. I don't believe it was one subpoena, sir. I believe it was more than one.

Senator KERRY. With respect to First American.

Mr. JACKOWSKI. I believe what we did is we received information pursuant to subpoena from Federal Reserve banks in Virginia.

Senator KERRY. But that was—the first subpoena was issued in 1989, which requested that information, correct?

Mr. JACKOWSKI. That is correct. And that grand jury investigation was predicated on the statements made by Juan to Mazur during the course of the undercover investigation. And also predicated on the information provided to us by Mr. Blum and persons whom he'd brought to our attention.

Senator KERRY. Would you say, Mr. Genzman, that it is your opinion now that there was a failure to communicate from whoever—from one agency to another, or whoever in Federal law enforcement received information about the secret ownership and the prosecutors, your prosecutors in Tampa who were making the drug case against BCCI?

Mr. GENZMAN. I can't say that there was a failure to communicate, Senator, in a situation where there was communication. We—when I say we, I'm talking about the C-Chase team—investigative agents did, in late 1988 within weeks of the takedown, contact by phone a representative of the Federal Reserve and then followed up that phone conversation with a meeting.

Senator KERRY. Well let me be clear here. CIA made a definitive determination in 1985, or earlier, that BCCI was owned—excuse me, they made the determination in 1985 that a previous ownership in effect had taken place. That was not communicated to you, is that correct?

Mr. GENZMAN. That is correct.

Senator KERRY. When you were the drug case—all I am trying to get at here is the process. I mean, we had the acting—at the time the acting director of the agency here, and he felt in retrospect, yes, we should have had some process here where there is an automatic catch basin for this kind of cross-tabulation of information, or something. And I am trying to get your sense of it as one of the field people, of whether or not you agree with that. You seem to disagree, notwithstanding the fact that he has readily acknowledged it.

Mr. GENZMAN. I seem to disagree with what point, Senator?

Senator KERRY. That somehow you did not get the information the Government had. I mean it is a matter of record, is it not?

Mr. GENZMAN. I've said so twice, and I'll say so a third time, we did not receive the information. Now you have me at a disadvantage because I didn't see that information. But I understand that that information is conclusory in nature. I don't understand it to be good admissible evidence in a courtroom. And I think other witnesses who have seen it and have analyzed it, including people from the CIA and from the Fed have said that. So whether we could have taken that and run with it, I think, is very debatable.

Senator KERRY. Well, Bob Morgenthau took it and ran with it.

Mr. KEHOE. Senator, let's back up exactly with what Mr. Morgenthau took and ran with. I mean first and foremost the Department of Justice will take information from any source whatsoever. Let's assume that. The second point with regard to, for instance, the First American/BCCI connection—Senator, you and I talked about this the other day, when we were just discussing the case.

As you know, we went back to 1978 and the CCAH takeover of BCCI through its shareholders. There were numerous rampant rumors about BCCI controlling First American. So when this came up in March 1988 or February 1988, in conversation with Bob Mazur, it was not a new issue. It was not a new issue in any way, shape, or form. Taking that issue from his mouth, or anybody else's mouth, and proving it are two different things.

The ideal thing would have been able to have Mr. Awan come forward and go to the Fed, and go to everybody else, and testify about the connection between First American and BCCI. However, Senator, as of October 1988 he had been indicted. Now, let's move ahead, and he couldn't. He was not going to tell us that information at that time.

Senator KERRY. Who could not?

Mr. KEHOE. Mr. Awan, because in October 1988 he was a defendant with a defense attorney.

Senator KERRY. He had already told it to people.

Mr. KEHOE. There is one thing, Senator, telling it in a covert tape, and it's yet another, as you know having been a prosecutor Senator, of debrief somebody.

Senator KERRY. I know, but the question is—

Mr. KEHOE. Senator, let me finish please. It's yet another thing, as you know, saying, pointing someone to the documents to corroborate that piece of information. Now, with what Mr. Morgenthau and I told—I spoke to you the other day about this—as my view as a career prosecutor is, Mr. Morgenthau has got a case. I say God bless him. If he's got a case against somebody, and he can make a case, we will back everything he does, Senator.

However, he was able to piece that case together with an item that we did not have. That I wish we had, Senator, but we didn't have. And that was the November 1990 Price Waterhouse report that was done in England. We did not have that. Mr. Morgenthau, through his contacts, got that. And he indicted a case, and I credit the work that he has done in that regard.

But we were doing different types of work. We were convicting the people that we had down in Tampa, and continuing our investigation.

Senator KERRY. Well I want to inquire about that, obviously, a little bit. But we have another vote on, so we are going to have stand in recess while I go vote, and then we will be back.

[A brief recess was taken.]

Senator KERRY. The hearing will come to order. We have a lot left, obviously, to still try to cover in a short period of time. I apologize for the interruptions. I know it is an aggravation, but a necessary one.

I have a feeling that for every perception that I or someone else might have that more could have been going on, there is obviously a response, and you guys are going to have the capacity to say, well, we were doing this, we were doing that.

And the problem still will come back to the sense that outside observers will have or not have of the differences between what some people perceive or do not perceive as high-gear action, I guess. It is just my sense, and I have said this at prior hearings so there is no surprise in it, that this was kind of less than high-gear action.

Mr. KEHOE. Senator, can I comment on that?

Senator KERRY. Absolutely.

Mr. KEHOE. I was the first assistant as of February 1989. I came into this case, spent a tremendous amount of time with Mr. Jackowski on strategy as to what we were going to do, how we were going to proceed.

It was my philosophy then, as a career prosecutor who has done protracted cases, that you proceed in a traditional fashion. The traditional fashion that I decided that the middle district of Florida was going to proceed on, was going after the people, the target that you have in your crosshairs. The target in the crosshairs were the defendants that had been indicted in October 1988.

Now, for every investigation that I have been in since, in all the years that I have been in the Department of Justice, there are leads. Could there have been leads followed up in this that were not? Absolutely, Senator. But you never lose contact and you never lose sight of your target, because your target, once you convict him, provides you with a source of information that in my experience cannot be duplicated.

He can point you in the right direction. He can tell you where to go. And on top of that, he can assist you in not only getting other indictments and other convictions as you move up the line. That is what we were trying to do. We were trying to take these defendants and trip them up.

That is the traditional prosecutorial strategy; that is my strategy in virtually every case that I have done, and that is the one that I employed. I ordered these people to keep their eye on this case. And that is why we went in that direction.

Senator KERRY. I am trying to find a way to say this so that I do not dig a hole here. I am uncomfortable sitting here looking at three professional prosecutors who are dedicated to doing something, and saying to you, from the grand posture of this podium and my title and position, that I disagree with you.

People say that 20-20 hindsight is always easier, but this is not 20-20 hindsight. We thought, we, being a group of us who were involved in this, thought during it that there was a different way to

go at it. And I respectfully—and I say respectfully, and I do not say it for the purpose of just saying it, I mean it—I say that I disagree with you.

When the plea bargain came down, I spoke out then because I had a different perception of how this case could be made. I had such a different perception of how the case could be made that I sent Jack Blum to you. I did. And it is kind of interesting today; you have sort of attacked Jack Blum's credibility, and I will come back to that in a few minutes, but it is ironic that Jack Blum went to the Feds because we were turning over information that we thought needed investigation. And our very sources were saying to us they are not being talked to.

Mr. KEHOE. Let me respond to that.

Senator KERRY. The subpoenas for documents that we were after were not subpoenaed. I just, I have to tell you, I know the dates, I know the timeframe, I know the documents.

Mr. KEHOE. Senator, let me—

Senator KERRY. What I am saying to you is there is a difference of opinion here as to what went on, when and how. Now, that is why I do not want to spend hours going through each different component of it, but I will deal with a few of them here. Let me give you an example.

Mr. KEHOE. Senator, please, before you move on, and I think it is important—

Senator KERRY. I am not going to move on. I am going to stay right on this, and then you can answer it, OK?

Mr. KEHOE. Senator, please, may I comment on what you said? Because I think it is important for you, Senator, to appreciate exactly what was going on. I can appreciate that you, Senator, disagreed with the philosophy that I took.

Senator KERRY. Not just the philosophy. I'm disagreeing with fact. For instance, when was this, and let me ask the question—

Mr. KEHOE. Senator, Senator—

Senator KERRY. No, let me ask the question. When was this gentleman made a full-time attorney on this case? 3 or 4 months before the takedown, correct? Is that correct?

Mr. KEHOE. Senator, may I answer what is going on? Mr. Jackowski, with regard to that, was at the beck and call of Mr. Mazur throughout the investigation. But going back to the other philosophy, Senator, the philosophy we employed that you, Senator, disagree with, obviously that is your prerogative. But, Senator, it has been the only successful philosophy that has produced any results to date.

And Senator, with all due respect, you are criticizing a philosophy which has not reached its conclusion and is nowhere near reaching its conclusion. How can we analyze a baseball game when we are only in the third inning?

Senator KERRY. The metaphor has been used by the Justice Department, you do not perform an autopsy on a live corpse. The difference of opinion here is whether it was live or comatose. And my feeling is it was comatose for a period of time, during the timeout, the timeout that Bob Mazur testified to. Now—

Mr. KEHOE. Senator, Senator, please—

Senator KERRY. No, no, I am going to give you ample opportunity to answer, but I want to ask a question. Now, look, there were some 1,900 telephonic recordings. By April 17, 1989, only 16 of them were proofed and in final typed form. Is that a high priority?

Mr. KEHOE. Senator, you are 100 percent right with regard to delays in transcribing those tapes. We had problems in transcribing the tapes. A decision was made by the prosecutor, Mr. Jackowski, that the tapes were not to be transcribed prior to the takedown for security reasons.

We did not want to take the chance of having some outside agency—which often we do in cases, we have outside agencies transcribe our matters—we did not want an outside agency possibly leaking information; it was too sensitive a matter. We ultimately were delayed in having those tapes transcribed.

I do not think, maybe you and I did not discuss that in private session, Senator, but I will tell you under oath right now that was a problem. It was a problem with the court, and I believe I see Mr. Jackowski's statement or Mr. Genzman's statements that alludes to that. But we got it done.

Senator KERRY. Second question. Approximately 16,600 documents were obtained from individual defendants, either incidental to arrest or via search warrant. In excess of 100,000 documents were obtained from BCCI via search warrant. Although all of these records have been copied and provided to the defense, none of these records have been viewed and analyzed by case agents.

Mr. KEHOE. Senator, I believe that was in a memo written by an agent, a Customs agent, sometime during April 1989. At that time, the facts as stated therein were correct. The reason why the facts as stated therein were correct at the time was because we had a number of other matters to deal with, and we were principally starting to focus on the transcription of the tapes.

We had had bond hearings and bail hearings, which consumed a substantial amount of agent as well as prosecutorial time, from the time of the takedown, Senator, through December or late November 1989. We also, sir, had to deal with discovery obligations relative to a forthcoming trial in Detroit.

We also, sir, had to deal with the preparation of letters for France. We also had to deal with the extradition of a defendant from the United Kingdom to the United States, that is, Mr. Chinoy, who just arrived here in March. Those were all other matters, sir, which had to be dealt with before we could get to the records.

Shortly thereafter, sir, there was an IRS agent who was assigned with the sole duty of preparing the trial evidence. He, in fact, in conjunction with myself but principally him, his name is Orrin L. Oaks, he went through those documents, sir. He went through those documents, analyzed those documents, and the documents were thereby selected and prepared for trial.

And as a matter of fact, he testified as a summary witness in the trial, and his charts and his summary of those documents was admitted in evidence, sir, and was also, in my mind, a great way of summarizing the Government's evidence and substantially contributed to our successful prosecution.

Senator KERRY. I do not deny that, and the point I am making, and I could go through a number of other things, and you see, you

will always have subsequent actions that were taken to try to stopgap it.

Mr. JACKOWSKI. I do not think it is stopgap. The point is, sir, in a prosecution, you take first things first. The first that happened was the arrest. The next thing that happens in the criminal justice system is bond or bail decisions are made. That is what you have to focus on.

Senator KERRY. I have to tell you respectfully, look, I have presented evidence to a grand jury before, and if I had had a grand jury instead of a congressional committee that could not even get the U.S. Congress to back up its subpoenas, and which has taken a lot of flack because of the difficulties we had, this case would have been wide open in early months of 1989, absolutely.

And I know for a fact from witnesses we have talked to in BCCI that they were scared stiff of us breathing down their necks, and how close we were getting. But we were not able to; it is one of the great failings of this institution.

And I will tell you, I know that if I had had the power to subpoena certain individuals and documents and get them in there, one on one, the way you guys do, not the way we do, where I have got to go to six Republicans and fight the politics of 1988, and people who are alleging the committee was simply a front for Dukakis, and that we were not trying, you know, and so forth. I mean, that is what we ran up against. I am telling you what we were up against.

Mr. JACKOWSKI. Senator, I hear what you are saying.

Senator KERRY. There was no grand jury that called the critical witnesses together in 1988. They just did not come.

Mr. JACKOWSKI. Senator, may I respond to that, please?

Senator KERRY. Absolutely.

Mr. JACKOWSKI. This was an undercover investigation, it was a covert operation.

Senator KERRY. After the takedown, they never were called.

Mr. JACKOWSKI. I am going to get to that, Senator.

Senator KERRY. Some of the attorneys tell us to date their witnesses have not even been debriefed.

Mr. JACKOWSKI. Senator, this, our case, was a money laundering case.

Senator KERRY. That is the problem, it was not a money laundering case. It was a case that was much bigger than that.

Mr. JACKOWSKI. Senator, I respectfully disagree with you. Our case was a money laundering case. During the course of our case, we received information relative to other allegations, the First American Bank, NBG ownership allegations.

For instance, we did not ignore those allegations. We obtained information from Awan throughout the course of the case concerning that. Subsequent to the case, we received committee from Mr. Blum, who as I now understand it, was sent to us by you. And we received—

Senator KERRY. He told you that. He told you he had my permission to come to you. What do you mean you are now learning that? Your own memo says Jack Blum has permission from Senator Kerry to come to us.

Mr. JACKOWSKI. My own memo?

Senator KERRY. In one of the memos of the Justice Department.

Mr. KEHOE. That is agent Cook's memo.

Senator KERRY. That is correct, agent Cook.

Mr. JACKOWSKI. Permission versus direction are two things. The way Mr. Blum presented it, it was on his initiative, not at your direction or not on your initiative. That is the distinction I am trying to make.

The other point that I am trying to make is there is no denying that we received from Blum information concerning First American Bank. But that information did not per se fit into our case.

Blum also came to us, Senator, and told us that these witnesses had information relative to the laundering of heroin money by BCCI officials in other countries. We were extremely interested in receiving that type of information, Senator. Those witnesses did not, did not have any knowledge or indeed information concerning the laundering of heroin money by the bank.

So, to make an analysis, sir, or to draw an analogy, we were at dinner, and the first course was to eat the money laundering plate. And when you look at the evil behind this bank, or the alleged evil behind this bank, the alleged evil is that they facilitated the cartel. That was what was on our plate. We ate that meal. We did not ignore the dessert, which was First American Bank; we simply put it aside. And that matter was addressed by us after the timeout.

Now, the problem with respect to all of this, Senator, is that you, sir, and a number of other people, are dissatisfied with respect to the pace of the investigations conducted by the Department of Justice.

Senator KERRY. Not now. We were.

Mr. JACKOWSKI. But you were.

Senator KERRY. I think there is——

Mr. JACKOWSKI. Hold it, I am not done. You were dissatisfied, and the reason you were dissatisfied is because we did not return indictments predicated on Blum's information. Now, a distinction has to be drawn between information that satisfies a committee such as yours before you can take action, and information which rises to the level of admissible evidence. Those are two different standards. Our standard is much higher.

Senator KERRY. With all due respect, that is not what I am dissatisfied about. I am not dissatisfied that you did not bring indictments. I am dissatisfied that the people were not talked to, that there was no clear evidence of an investigative seriousness.

Now, you yourself said that you had this interview with Jack Blum, and you were skeptical of the quality of the evidence he did. Well, skepticism is different from cynicism. One can be skeptical but one can investigate.

Mr. JACKOWSKI. And we did.

Senator KERRY. Not, let me tell you, certainly not during the ensuing months, because they were not talked to. I do not know what to tell you.

Mr. JACKOWSKI. Senator, you do not know what investigative steps we took until the timeout, and what investigative steps we did not take.

Senator KERRY. But I know the fundamentals of talking to the critical people who have been provided to you were not done.

Mr. JACKOWSKI. Sir, we did speak with those critical people Mr. Blum provided. Mr. Blum provided two witnesses to us; both of those witnesses were taped at my direction, and both of those witnesses were debriefed subsequent to their being taped. At the time they were being debriefed, they did not know that they were being taped.

The first debriefing was conducted by myself, two other assistant U.S. State's attorneys, one of whom, Michael Rubinstein, was my cocounsel, and a number of agents. That person, sir, was talked to. He was talked to in Mr. Blum's presence.

Senator KERRY. Are you talking about the person that was taped by Jack Blum?

Mr. JACKOWSKI. Mr. Blum never taped anybody.

Senator KERRY. No, the person that he was with when they taped him.

Mr. JACKOWSKI. There was a tape made of a meeting between Jack Blum and an individual, sir, between the end of March 1989.

Senator KERRY. Right, which he was aware of and which he went along with.

Mr. JACKOWSKI. Blum did, yes sir, absolutely, but he did not tape it. That was taped at my direction.

Senator KERRY. This is really semantics. I understand. That is the tape that he was referring to.

Mr. JACKOWSKI. It is not semantic, because Mr. Blum is attempting to say that he taped him. He did not. I think that is a distinction.

Senator KERRY. I do not he ever said that.

Mr. JACKOWSKI. I think he did, sir. He said it, sir, for instance, when he spoke on the MacNeil-Lehrer Report several months ago.

Senator KERRY. I think we are dealing again with semantics. I mean, he was present at the taping. And he was the principal conduit for the taping, correct? I mean, he was the principal conduit, he was the guy having the conversation with the person being taped.

Mr. JACKOWSKI. If you define conduit to mean that, yes.

Senator KERRY. He was the person having the conversation that you were taping.

Mr. JACKOWSKI. That is correct.

Senator KERRY. So it is perfectly normal for him to sit there and say the conversation was taped or I had the conversation taped.

Mr. JACKOWSKI. That would not be normal for me, sir, or for other people that I am aware of.

Senator KERRY. Well, I have some more questions on that issue, but Senator Brown is here and I am going to yield to him, and then we will come back.

Senator BROWN. Thank you, Mr. Chairman. I thought it might be worthwhile, even though you have covered a portion of this in your opening statements, to go through kind of quickly, at least seven areas that I have spotted where Mr. Blum made a statement that relates to your work, directly or indirectly, and ask you to comment on it.

Mr. KEHOE. I am ready to answer those, Senator.

Senator BROWN. First, referring to the period of spring of 1988, when Jack Blum called Miami to discuss the subcommittee subpoe-

na, and he was later referred to Tampa in our records here, "is in the course of that"—referring to phone conversation—"we laid out some of the history of the bank, the nature of the criminal clientele, and connections the bank had. I invited them to come back at me with questions. The invitation was never followed up."

Mr. KEHOE. There was a conversation, and that conversation, Senator, was with Mr. Jackowski himself. So I will defer to Mr. Jackowski to give you a more accurate recitation of that conversation.

Mr. JACKOWSKI. Mr. Blum, sir, called, did in fact call us at the end of March 1988, and did in fact provide information to us concerning the subcommittee's then desire to issue subpoenas. He did provide a history of the bank. He did ask us to come back to him with questions, as I recall.

But the posture that we were in, sir, with Mr. Blum, as indeed with most people who provide us with information, is, as Mr. Kehoe says, we take information; we were not in a position, sir, by virtue of asking questions of Mr. Blum, to make investigative disclosures which would result, which would indicate the course of our undercover investigation.

We did not want to provide any guidance to anyone, even an investigator with the subcommittee, which might, if the wrong word were said to the wrong person, somehow get into the wrong hands and put the lives of the undercover agents at risk, and compromise the work that had been done so far.

Senator BROWN. His concern was that even though he had invited you to come back with questions to him, you did not, because you did not want to give an indication of which way you were heading?

Mr. JACKOWSKI. That is correct.

Senator BROWN. The second one relates to a somewhat related subject, I guess. This is referred to page 52 in the transcript. "BCCI informant debriefed for 3 days by Blum in Miami hotel room. Meetings were taped by Customs—he referred to that, Customs, IRS—turned over March 1989 to Customs, IRS, and Justice"—yourself.

Blum says, "the tapes laid out in exquisite detail the false capitalization of the bank, the question of a strawman holding the stock. Loans to strawmen paid for the stock, but the loans would never be collected. The use of the bank to purchase First American NBG, Independence Federal of Encino, and so on."

Blum comments that you appeared, "eager to go forward, excited about the new information," and then on page 54, he says, "I waited for something to happen, and what happened was, I started getting calls from two guys I took to Tampa who said, they are not following up. And then I talked to the agents, and the agents said, well, we are very busy. We are working in preparation for the trial."

Comments on that observation?

Mr. KEHOE. This is an interview with a particular witness that Senator Kerry was referring to previously. That witness, when he was debriefed by Mr. Jackowski and was the subject of a recording, Senator, gave us information that he said he did not know first-

hand. He had heard this, this was rumor around the financial community, and he never wanted to testify.

Did we take the information? Again, Senator, I say this, we took the information. Did we use it in the particular prosecution that we had before us? The answer is no, because No. 1, he was a reluctant witness, and No. 2, we did not need it for this particular prosecution.

Often during the course of a case, Senator, you get pieces of information that you put in your intelligence bank. Hopefully when you move down the line, you will be able to tap that intelligence bank so you can somehow weave that into your next case. Sometimes it happens, sometimes it does not. That witness fell into that particular category.

Now, he brought us, he brought that witness to us in March 1989. And several times during his testimony, he said he—Mr. Blum indicated that he was frustrated, frustrated with the efforts of the Department of Justice and they were not doing anything. Well, it took Mr. Blum 3 weeks, or maybe 1 month, or maybe 1½ months, but from his own testimony before this committee, it looks like about 3 weeks to bring that witness to the D.A.'s office up in New York County.

Now, I do not begrudge Mr. Blum bringing any information to the D.A.'s office in New York County. As a matter of fact, I would encourage anybody to cooperate with law enforcement efforts wherever they may surface. But the fact of the matter, Senator, is that I am somewhat skeptical about a 3-week, or month-long, or 6-month frustration with the lack of effort on the part of the Department of Justice.

Senator BROWN. Specifically, he is referring to two guys, I understand that. But it is page 54, "I started getting calls from the two guys I took to Tampa who said, they are not following up"—the implication being that you had not talked to them.

Mr. KEHOE. We did talk to them, Senator. They both were debriefed. One of them was the witness that Senator Kerry was discussing previously. There was another witness, who from the indications of debriefing agents, would say they are looking for more information than they were for giving us information. Again, what he had to say we took, but again with regard to this particular prosecution, it was of little or no utility.

Mr. JACKOWSKI. Senator, if I may expand on that. With respect to the witness that Mr. Kehoe is referencing, the second witness, this witness was specifically asked, I believe, about money laundering vis-a-vis the Colombia branch of BCCI. And in substance he indicated that he knew nothing about it. That was the type of information that, had we received, sir, we could have utilized during our trial. We did not get that type of information out of that witness.

With respect to the first witness, that witness was asked whether or not he had any knowledge relative to BCCI's involvement in the laundering of heroin money. He indicated that that was a subject of discussion among and between the bankers; he also indicated that it seemed to be, as I recall the synopsis of the tape, somewhat of a laughing matter.

And he also indicated that he had received, this witness had received information from the press in Pakistan relative to the prop-

osition that BCCI was laundering heroin money. But he himself had no personal knowledge of that. Had that witness provided that kind of information, that kind of information could possibly have been used to supersede our indictments, or as like and similar act evidence relative to our indictment.

Senator BROWN. He had mentioned, this is back on page 52, that the tapes laid out in detail full capitalization use of the bank to purchase First American NBG, Independence Federal, loans to strawmen and strawmen holding the stock. Did the tapes indeed contain that information?

Mr. JACKOWSKI. The tapes, sir, contained information with respect to First American, that is correct. They contained information relative to NBG, that is correct. They contained information relative to Independence. With respect to Independence, the first witness said that he had in fact gone to a law firm because he suspected that Independence Bank might be owned by BCCI through Ghaith Pharaon.

He was told by this law firm that due to the fact that he only suspected this and did not know this, he himself had no duty to report this matter to the Federal Reserve Board. He also did, sir, concede that he knew details relative to the inside workings of BCCI, but in substance indicated that he had no personal knowledge relative to the wrongdoings.

Now, that is what he said, and that is as far as I am going to go.

Senator BROWN. I can understand that. Where I was trying to get was to get a feel, this is in 1989, March 1989.

Mr. JACKOWSKI. That is correct, Senator.

Senator BROWN. Did you communicate the substance of this information to the Federal Reserve?

Mr. KEHOE. At that particular time? At the particular time, there was information passed on to the Federal Reserve concerning the First American-BCCI connection prior to that. The original reference—and I reference the committee back to the testimony of Virgil Mattingly, which was before this committee, I believe it was in August, on August 1—where they said they got that information on December 27, 1988.

But again, Senator, let me reemphasize that this information falls into the category of the information that we received in March 1988, the tape, the now-famous taped conversation on September 8, 1988, wherein there was substance to, or there was this allegation that BCCI controls First American.

Without additional meat on the bones, the position of the Fed was that they could not move further; they had to have some documentary proof. That particular witness did not know any information directly, did not know if in fact that was the case, and did not have any documents to corroborate it.

Senator BROWN. Going on. Page 58, Jack Blum says, "I think the frustration about getting documents from people who say they are cooperating fully was pretty enormous." Comments on that?

Mr. KEHOE. Senator, could you repeat that again please?

Senator BROWN. This is page 58, again, in Blum's testimony. "I think the frustration about getting documents from people who say they are cooperating fully was pretty enormous."

Comments with regard to document exchanges with Mr. Blum?

Mr. JACKOWSKI. I think, sir, what Mr. Blum was referring to was the bank's response to this subcommittee's subpoenas that were issued during July and, I believe, in September 1988. That is what I believe, sir, he was referring to, and not with respect to any cooperation between the bank and the Department of Justice as a result of the plea agreement in Tampa.

Senator BROWN. Thank you again. On 58, moving on down, there are a couple of these. I will try to skip through them quickly. This relates to the plea agreement. "When the plea agreement was entered into the Department of Justice in January 1990, I was personally infuriated, the agents knew. The assistants well knew that there was more to this case, and that plea agreement said in relevant parts that the bank would not be prosecuted for matters then known to the U.S. attorney for the middle district of Florida."

Now, you have touched on this earlier, at least on parts of the plea agreement. Would you address that specific quote?

Mr. KEHOE. Cannot be prosecuted for crimes that they knew of at the time? That is, the paragraph that Mr. Blum is referring to is a standard cooperation paragraph that we have in our plea agreements. And what we basically say is that with regard to this particular investigation, we will not prosecute you for any outstanding violations that we have.

We did that in this point. The fact of the matter was that there were other outstanding investigations that were going on throughout the United States that were not binding in any way, shape, or form. This particular investigation bound us only not to take documents that we were getting from the bank and hitting them again, or taking documents that we had already taken from the bank, tapes, et cetera, and hitting them again, indicting them again.

It did not bind any other entity in the U.S. Government in any way, shape, or form. Nor, Senator, did it bind any regulatory agency. What the feeling was, and it is important, Senator, to understand what—and let me say this, Senator, the theory was my theory, because I negotiated this plea agreement on behalf of the United States. I, Greg Kehoe, the first assistant. I then went up the line to Mr. Genzman for his approval, who had the ultimate decision, but I negotiated this.

What I wanted to do is I wanted to convict this bank and force them to cooperate with us all the way up the line. The name of the game in criminal prosecution, Senator, is to put people in jail. Continuing to indict an institution, in this particular case BCCI, ultimately turns into a spiritual experience, because after the second or third time down the track, the judge looks over the bench and says, what is going on here?

Really, we are in the area of being punitive, and there is nothing to be benefited by indicting this bank again here in the middle district of Florida. Maybe elsewhere, but not here in the middle district of Florida.

My theory in consultation, and we discussed this at length with Mr. Jackowski; plead this bank, force them to cooperate, put these people in jail, have them cooperate, and then having the bank plus the individuals that we convicted cooperate, to move up the line, Senator, to the next level of people, the next level of managers that were controlling this bank throughout the world. That was my phi-

losophy then, that is my philosophy now, and it continues to be the philosophy that we are proceeding on.

Senator BROWN. To recap, what I understand is the point here, the agreement did not cover the bank—it covered the bank, but not individuals.

Mr. KEHOE. It did not cover any individuals, and the case in point, Senator, is on a September 1991 document. Mr. Naqvi, a very high level officer in that bank, has been indicted in the middle district of Florida. Mr. Rizvi, a very high-level officer in BCCI, has been indicted in the second indictment of September 1991, which we could not have done had we not convicted the individuals in July 1990.

Had we been able to get Mr. Naqvi, Mr. Rizvi, and some of these other people that we indicted, we would have indicted them in October 1988. But we could not do it until we completed the case in July 1990.

Senator BROWN. It does not cover individuals, the restriction? It did not cover BCCI? When he refers to the bank, he is referring to the bank there, not BCCI, the holding company?

Mr. KEHOE. It refers to, with regard to what we have in the middle district of Florida, it does refer to Holdings. The problem with Holdings was, there was no presence and there was no evidence that Holdings had done anything, in our case in the middle district of Florida.

Consequently, when Mr. Jackowski indicated the case, the reason why Holdings was indicted, and others, was he was not sure at the time who did what. As the matter began to flesh out, it was clear during our discussions that Holdings had not done anything in the middle district of Florida, or else we would have indicted them, convicted them, and insisted on a plea from them as well.

Senator BROWN. Mr. Chairman, I have gone quite a while, but on page 62, Mr. Blum says, "it turns out that the record of BCCI in that area"—and this is concerning fraudulent practices in the issuing of letters of credit—"that their record, BCCI, in that area, was brought to the attention of the U.S. attorneys for the southern district of Florida by the attorney in the smuggling case being brought against BCCI, and he offered no response."

I do not know if you found that in your transcript or not.

Mr. KEHOE. I have not found it in my transcript, but I would say, Senator, I am familiar with it, having read it.

Senator BROWN. I think, reference, for example, coffee smuggling.

Mr. KEHOE. Senator, it is, the problem with that, the testimony of Mr. Blum—

Senator KERRY. Could we suspend on this? I think we are well into the second half. Why do you not just go ahead and answer?

Mr. KEHOE. I will respond to that when I come back, Senator.

Senator KERRY. Why do you not go ahead and find out when you make it a couple minutes?

Mr. KEHOE. I can make it a few seconds, Senator. Senator, we are talking about apples and oranges here. And the problem with Mr. Blum's testimony is that often he confuses the two. And there is a portion in his testimony, he said, but we gave up all these banking

violations, and we gave up all these false statements to the Federal Reserve, and we gave up all these documentary violations.

We did not give up any of that, Senator, because it was not in the middle district of Florida. I knew what I was doing when I entered that plea agreement. The matter was still existing in Miami. There are cases still going on in Miami, and there are cases going on in other places. We did not compromise those investigations in any way, shape, or form as a result of our plea agreement.

Senator BROWN. The point, I thought, if I could return, when we come back, is coffee. There are a few others, and I will leave these questions for you. You might want to check those areas.

Senator KERRY. We will return and we will try to wrap up this panel. I know Mr. Mueller has been patient, but we will try and get through here as soon as we can. We will stand in recess until we return.

[A brief recess was taken.]

Senator KERRY. The hearing will come back to order. Let me ask a number of questions in different areas. Mr. Genzman, let me ask you. This issue came up earlier today. To a lot of people looking at this thing on the outside, they have the impression that this was a good case, if not a classic case for a RICO effort.

And I gather, and I read this earlier in the day with Mr. Mazur, there were a series of memos, a February 12, 1988, regarding Operation C-Chase, that says, the current objective of the BCCI investigation was to develop evidence to bring RICO indictments against BCCI.

A February 19 memo to the Assistant Commissioner of Customs states, the investigation has recently developed evidence which could lead to a RICO indictment of BCCI. An April 6, 1988, memo says, it is the opinion of the U.S. attorney's office, middle district of Florida, that prohibitive evidence exists to establish corporate criminal liability against BCCI as an institution. The current prosecutorial plans are to indict BCCI as an institution under the provisions of the RICO statutes.

That specific position was in fact approved by William Von Raab as Commissioner of Customs on May 10, 1988. But by September, the RICO case had been abandoned, or the concept of bringing it. Why was the RICO concept abandoned, Mr. Genzman?

Mr. GENZMAN. Let me start by saying, Senator, that I did not arrive on the scene until less than 2 weeks before the takedown. I am an advocate of RICO where appropriate. Let me start by saying that. I studied under and worked under the author of RICO, G. Robert Blakey. It is a powerful statute which our district probably uses more than any other district in the country.

However, as I mentioned in my opening statement, given the circumstances of this case, the career prosecutors who were working with the investigators came to a determination that it was not appropriate in this case, that it would confuse an already confusing and complex case, the first money laundering case under this particular statute, or one of the first in the Nation.

And frankly, having seen all that I have seen, including the House subcommittee's criticism on that issue, I am still not in a position to second-guess the fact that a RICO was not brought against the bank at that point.

Senator KERRY. Could it have been?

Mr. GENZMAN. Could it have been? I do not know why it could not have been, but I need to defer to my colleagues who were directly involved in the charging of the bank.

Mr. KEHOE. The answer to that question, Senator, is yes, it could have been. There were two levels of decisionmaking that went on with the RICO. Prior to my getting there, Mr. Jackowski made the decision, and then there was some discussion with that after I came on the scene in February 1989.

If we could take it chronologically, and I will turn it over to Mr. Jackowski, and he can tell what his decision was in October 1988.

Mr. JACKOWSKI. First of all, it is correct that a RICO could have been brought against the bank. The reason why it could have been brought against the bank is because the substantive money laundering counts, the 1956 counts, were RICO predicates, as was the 846 narcotics trafficking conspiracy.

There are several reasons why a RICO was not returned against the bank at the time of the initial indictment back in October 1988. We were in the midst of an undercover operation. As the subcommittee may know, in order to get, in order to be able to charge RICO, it is a department policy and requirement that you have to get departmental approval.

Due to the ongoing and extremely quick or fast-moving nature of the case, we felt at that time that we would not have the requisite period of time within which to get the approval, at the same time dealing with preparing the indictments—and there were three indictments that were in fact returned in October 1988, not just the one against BCCI—and also dealing with the searches that needed to be conducted in Miami and elsewhere.

So that was one reason. The other reason was because the principal focus of RICO is in forfeiture. And we charged in 846, 21 United States Code, section 846, a narcotics trafficking conspiracy against the bank. As a result of charging that, we were able to charge in the indictment a forfeiture provision under title 21, United States Code, section 853.

The forfeiture provisions under 21 United States Code, section 853 provide for in essence, sir, the same forfeiture ability as is provided for under RICO. For instance, the definition of proceeds is the same under RICO as it is under section 853. In addition, under section 853 the Government is able to forfeit any property that was used to commit the offense, or that facilitated the commission of the offense.

It was our view that that forfeiture provision was broad enough at the time to enable us to do what we wanted to do, and that was to get a temporary restraining order against the bank, restraining the bank's ability to do business in the United States until they placed in the registry of the court, as in fact they did do, an amount of money equivalent to the funds that were laundered through the bank.

That is in fact what happened. We charged the section 846, we had a section 853 forfeiture provision thereunder, we got a secret temporary restraining order from Judge Carr, who is since deceased, before the indictments were unsealed. And when the bank opened for business, I believe, on either Monday or Tuesday of the

following week, the bank was unable to do business until the restraining order was dissolved by the bank placing in the registry of the court approximately \$13 million or \$14 million and change.

Senator KERRY. Was that only as to that branch?

Mr. JACKOWSKI. The restraining order, sir, was entered both against Holdings—excuse me, the restraining order was entered against the two subsidiaries of the bank that had done business in the United States, Limited and S.A. So if your question is was it only directed against the Miami branch, the answer is no. They were unable to conduct any business whatsoever in the United States.

And given the fact that this was an international bank, and wire transfers constituted a substantial part of their business—as the subcommittee knows, most wire transfers go through New York—this bank was effectively precluded or stopped from doing business until the restraining order was lifted, as it was. We did the \$14 million.

Mr. KEHOE. Senator, may I supplement what happened thereafter with regard to that? I came to the middle district of Florida on this case in February 1989, and I have to say when I came to the middle district of Florida I had RICO on my mind. I had just spent 14 months trying a racketeering case against the Outlaw Motorcycle Club.

And in my view now, then, and will continue to be, the racketeering statute is one of the great statutes that Congress has passed for law enforcement. It enables us to do a variety of things that no other statute enables us to do. For instance, in the *Outlaw* case, I was able to indict predicate acts that stretched from December 1970 through early 1986. Why? Because the enterprise had continued in operation throughout then.

It gives us an additional penalty that the general conspiracy statute does not give us; 371 conspiracy being 5 years, the racketeering conspiracy and substantive RICO charge, 20 years apiece. Very important is it enables, the racketeering statutes enables predicate acts from all over the world and all over the United States to be incorporated in one indictment, provided the enterprise has some existence or some context, venue context, in your district.

Certainly in many, many cases, and even in the September 1991 case that we had, it has its facility, it has its place. And personally, Senator, I love RICO. It has its downside. The downside, having tried these, is proving those very difficult words in the statute, participating directly and indirectly in the affairs of an enterprise through a pattern of racketeering.

Very difficult to do. Very difficult to understand. And it is a complex area. I came in February 1989. My first—well, not my first, but shortly after that, I discussed this at length with Mr. Jackowski about the pros and cons of RICO'ing the bank, what we were going to gain and what we were going to lose.

And candidly, the way we ended up was that we were charting new waters here. This had never been done before. An international banking institution had never been taken on in this way. Never had section 1956(a)(1) and section 1956(a)(2) been used in this way. There were numerous complex, legal issues attendant to using sections 1956(a)(1) and 1956(a)(2), not the least of which is does dirty

money lose its character when it is wired offshore through a whole lot of countries? I mean, there were a lot of issues that came up in that regard.

In addition to that, section 1956 itself has a degree of complexity to it, not for me or Mr. Jackowski anymore, because we work with it all the time, but certainly for the lay person that you are presenting a case with who is going to be sitting on the jury. Your grandparents and your mother and your father sit on those juries, and if they are not attorneys and they have not heard about this stuff, it is very difficult.

What we were striving for was a simple case that was going to incorporate what this bank actually did. And we thought and concluded that it would be accomplished with the 371 conspiracy and the 1956 charges we had in there. I did not go into the discussion with Mr. Jackowski of that view.

When we talked about it and discussed it at length with the 1956 and a 371 and the 846, the narcotics conspiracy in there, we concluded that we were not going to benefit any, and that we were just going to add another level of complexity to a case that was already very complex. That is a long explanation to it, but it took a long time for me to come to that conclusion in my mind.

Mr. JACKOWSKI. Senator, if I might continue. Basically it was an application, and there were two factors that entered into my decisionmaking process. One is the application of the KISS principle, that is, Keep It Simple, Stupid. That is No. 1, because ultimately the jury was the audience for the indictment, and we had to be able to provide this case to a jury. That was No 1.

No. 2, as I said, the forfeiture provisions under 853, which are the forfeiture provisions that are intended to the 846 narcotics conspiracy count, are in essence the same as those with respect to RICO forfeiture.

The problem with the analysis, sir, is this. We had no inkling back in May 1989 that in December 1989 the trial judge would state, contrary to the state of the law, that proof with respect to the narcotics trafficking conspiracy would not go to the jury on the basis of the same proof that we were going to be able to put in with respect to the money laundering conspiracy. That is what happened here.

The judge, who is a very good trial judge, indeed the best judge in front of whom I have practiced, essentially came out of nowhere with the decision vis-a-vis the applicability of 846 to the facts of this case. We concluded that we did not have any evidence which we could introduce in our case in chief which showed that the bank did anything other than launder money.

Under the case law, as it existed at the time, going back to 1978, with the case of *U.S. v. Barnes*, out of the Second Circuit, money laundering had been defined to be an integral part of narcotics trafficking. That was an accepted legal theory. As a matter of fact, there was an Eleventh Circuit case which so held, *U.S. v. Bollinger*, that came down in 1986.

We thought we were on solid legal ground with respect to that particular issue. We thought that we could get all the forfeitures we could get under RICO under 846.

Senator KERRY. Did you get those forfeitures?

Mr. JACKOWSKI. No, we did not. And the forfeitures, sir, in my mind, that would have been available, had we convicted the bank of 846, after trial, would have been forfeiture of the license of the bank to do business in the State of Florida, because that is the place within the United States where the money laundering activity was conducted and carried out.

Senator KERRY. Did you go to bat to seek the forfeiture of that license? Did the U.S. attorney's office press for that forfeiture?

Mr. KEHOE. Senator, may I answer that, because I conducted all of those negotiations. I negotiated that.

Senator KERRY. Let me ask, was the U.S. attorney not there at that point in time?

Mr. KEHOE. He was there, Senator, but I did not negotiations with the particular attorneys and I met with the comptroller.

Senator KERRY. That is not answering my question. The question is did the U.S. attorney's office press to have the bank lose its capacity to bank in Florida?

Mr. KEHOE. Senator, may I answer the question?

Senator KERRY. I am asking the U.S. attorney, Mr. Kehoe. Would you allow him to answer the question?

Mr. KEHOE. I will allow him, of course I will allow Mr. Genzman to answer the question, Senator. But to give a full breadth of what happened, I ask after that if I might tell the Senators exactly what—

Senator KERRY. I have never stopped anybody from saying anything. And that is evident by the amount of time you have had this afternoon. I am trying to get a question in to the U.S. attorney. Did you as a matter of policy make a decision that the bank should not be allowed to practice, have banking privileges in Florida?

Mr. GENZMAN. No, Senator, we have a policy in our office that we will refer law enforcement information to a regulatory agency such as the comptroller's office in the State of Florida, in Tallahassee. But we are often asked by such agencies whether we take a position on regulatory action they may be considering. We get that from barbers' licensing agencies all the way up to banking agencies in this particular case. We have—

Senator KERRY. I am sorry, I did not mean to interrupt.

Mr. GENZMAN [continuing]. We have, this is a longstanding policy in my district, long before I became U.S. attorney. We have determined over time that the best thing we can do is provide all the law enforcement information, in other words, charges, convictions, sentencings, to these people, and to make ourselves available to flesh out the details, but to make sure that they are doing their job.

And in this case, we told the comptroller's office that we were taking no position. We did that by means of a letter, and we also sent a team of people up to talk directly to the comptroller's people.

Senator KERRY. Why would you take no position? See, that is a puzzle to me. In fact, first of all, did Justice not originally take a position; there was a letter from Chuck Saphos which originally had one position.

Mr. GENZMAN. May I clarify, because, and then this will go into this. Senator, with regard to the, this is not the only bank that we

are investigating and indicting at this time, or that we were urging a conviction on.

And every bank that we convict wants us to ask the comptroller have them revoke the license or take any regulatory effect on them. And because they argue to us that if the bank is shut down, the RTC will have to spend \$275 million, and life will be over as we know it.

I do not get involved in those, Senator. My world is very black and white. You are convicted for what you do, you are sentenced for what you do, and you are fined for what you do. It is somebody else's decision, a regulatory agency, to determine whether this institution, be it BCCI, or another bank that closed in our district, Florida Federal, or any other bank, should be closed because of their activity. There is no death penalty in any of the statutes that this bank has been indicted for.

A title 21, section 856; title 18, section 371; title 18, section 1956 (a)(1), (a)(2); and section 1957, conviction does not require that this bank's license be pulled; this particular institution was State-licensed. I went to, well, we sent a letter, our Chief of the Criminal Division sent a letter to Gerald Lewis outlining what the plea was all about.

While that was going on, the attorneys for BCCI came to me and said please call Lewis and tell them that the bank should stay open, because if the bank is open, they will be able to cooperate with you. My response to the defense attorneys at that point, Senator, was if you are dead, you are dead; if you are alive, we are going to use you.

On February 13, 1990, I flew to Tallahassee with the Chief of the Criminal Division, Mr. Zig, and sat down with the comptroller of the State of Florida, and reiterated face to face what the position was for the U.S. attorney for the middle district of Florida, and that was we were taking absolutely no position on whether or not the State of Florida wanted to close down that bank.

Now, the letter came from Mr. Saphos. I found out about that after I went back to Tampa. I called Mr. Saphos. Mr. Saphos told me that they were misreading the letter, and that that was not what he was doing, and in short order, this all took place in no more than 3 days. In short order, he sent a letter back to the comptroller, Mr. Lewis, saying, we are not asking that you keep the bank open. I called Mr. Saphos and ensured that he would clarify that decision in short order, and he did.

But the position remains the same. It is very difficult for a prosecutor or a prosecutor's office to advise a regulatory agency on licensing. We are prosecutors, we are not regulators. I do not know the ins and outs of the banking institution, and whether or not RTC or OTS or all of the alphabet agencies are going to be impacted by the decline and fall of BCCI, First American, or any other bank that happens to be in jeopardy because of a criminal indictment.

Senator KERRY. Well, assuming what you say is true, first of all, this is not an FDIC-insured bank, is it?

Mr. KEHOE. No, it is not.

Senator KERRY. So there is no RTC here.

Mr. KEHOE. I am using that as an example, but whoever is going to—

Senator KERRY. It is not relevant.

Mr. KEHOE [continuing]. Whoever is going to put this into some type of receivership, and I assume that the State of Florida, and I know the State of Florida has a receivership for their banks.

Senator KERRY. Well, were you upset when you saw the Saphos letter?

Mr. KEHOE. Yes.

Senator KERRY. And how did the Saphos letter come?

Mr. KEHOE. How did the Saphos letter come?

Senator KERRY. Why would Saphos have interceded and written a letter saying, we are therefore requesting that BCCI be permitted to operate in your jurisdiction? That is pretty clear. We are therefore requesting that BCCI be permitted to operate in your jurisdiction, with the understanding that certain accounts may be maintained by the bank, at the request of the Department of Justice, which otherwise would be closed to avoid legal and regulatory violations.

Now, he obviously wrote the letter—somebody said, you have to get a letter down to the judge or the comptroller. Do you know who? Did you ask him?

Mr. KEHOE. I asked him about this particular letter, and I said, Chuck, what is going on? And he said, as part of their cooperation, we want to use them.

Senator KERRY. Well, were they calling the shots?

Mr. KEHOE. Senator, let me finish. And I said, Lewis is reading this letter as if you are asking them to keep this bank open. And I said, I am telling you, I am speaking for the Department of Justice in this case, and the U.S. attorney for the middle district of Florida, and we are taking no position on that issue.

He told me that that was not what he was saying in this letter, and that he would clarify it. And he did. This, Senator, was a non-issue in a series of letters, and was concluded to the satisfaction of everybody involved by February 16.

Senator KERRY. Did it spark your curiosity, that attorneys for BCCI knew this letter was coming, and actually went into the comptroller and said, have you gotten a letter from Justice yet?

Mr. KEHOE. Senator, I have been doing this a long time. Nothing sparks my curiosity. I know that, in this particular instance, that obviously the attorneys for BCCI were talking to Mr. Saphos.

Senator KERRY. Well, when you say nothing sparks your curiosity, that worries me.

Mr. KEHOE. I am kidding. I am saying, Senator, that nothing surprises me in the murky world of criminal law enforcement.

Senator KERRY. That is exactly the problem. It is murky, and this is very, very murky as to why it is that Justice suddenly has BCCI lawyers knowing that a letter is coming from Washington to the comptroller, and that one day later, after you blow your top, or signal some displeasure, boom—there is a second letter that comes down and says, oh, no, that is not what I meant at all.

Mr. KEHOE. Senator, we are talking about 3 days. The letter came in on the 13th.

Senator KERRY. It came three days later, instead of one.

Mr. KEHOE. But Senator, the point of the letter is that the issue was resolved immediately with the comptroller.

Senator KERRY. That is not the issue. You do not see it, do you?

Mr. KEHOE. Senator, if you—

Senator KERRY. I know it was resolved. I acknowledge you did not take a position on the bank. What I am saying is that it strikes this Senator as not a little bit strange that, if you were indeed handling this, that it is indeed the middle district's choice, that lo and behold, out of Washington comes a letter, which the BCCI attorneys know is coming.

Now that says to me, someone was working the Washington till.

Mr. KEHOE. That says to me—

Senator KERRY. Am I wrong?

Mr. KEHOE[continuing]. What it says to me is that the individual attorneys that were involved here tried to go behind my back, and I stopped it. They knew when anything like this was going to go on, that I did not know anything about it, and I am not cc'ed on that first letter, as you can see. And I stopped it, and I talked to them about it after it took place. Well, I certainly talked to them about it before it took place, and our position remained the same.

They tried, I am sure; I am sure that these defense attorneys did not tell Mr. Saphos that they had been to me, and had made certain requests about operating in the jurisdiction.

Senator KERRY. I have no doubt about that. I am sure that they did not.

Mr. KEHOE. And Mr. Saphos' efforts were with the best intentions of law enforcement involved.

Senator KERRY. Did you receive any instructions whatsoever from Washington, or main Justice, with respect to the RICO process here?

Mr. KEHOE. One.

Senator KERRY. What was that?

Mr. KEHOE. The instruction came from Paul Coffey running organized crime, and during the time of the plea negotiations, when things were going back and forth, there was some threat about it; if these guys are not going to roll over or plead guilty, we just might RICO this bank.

Mr. Barcella, who was running the bank at the time, sent a letter to Mr. Coffey, saying that if the RICO was going to be presented to the organized crime section, please allow them an audience to be able to talk about it. That is a traditional procedure in the Department of Justice and organized crime; now I do not want to say it is followed in all instances, Senator. If there is a case of possibly the destruction of evidence, or flight of the defendants, they are not going to allow an audience.

For instance, in the *Outlaw* case that I noted to you before, there was no audience with the Outlaws' attorneys prior to a conference on organized crime on whether or not they would approve it. In this particular case, these defendants were under indictment, the bank was under indictment, and so in those particular situations, where there is no danger of flight or loss of evidence, the Department usually gives an audience. I should say does—I mean, I do not know about all the time.

Senator KERRY. Was there any instruction with respect to the decision not to bring them under RICO?

Mr. KEHOE. Absolutely not.

Mr. JACKOWSKI. Senator, may I add one bit to the record there? Mr. Kehoe indicated that occurred at or about the time of the pleas of guilty. It occurred, I believe, sir, sometime in late April 1989, right before the superseder.

Senator KERRY. Well, that reminds me. I want to clarify something. Earlier, I had mentioned the nondebriefing of a witness, and I was mistaken in my timeframe, and I wanted to correct that for the record.

I was talking about the time period between, I guess, the take-down, or somewhere in that period, and before the plea. What I was referring to was postplea; that the informant who, indeed, was part of that recording with Mr. Blum, subsequent to the plea, was not further contacted or dealt with. And I think that was the issue of concern.

Now, let me raise a couple of questions here relative to the testimony here. In the memorandum, in the testimony you refer to about Mr. Blum—and let me just say, Mr. Blum, I telephoned him this afternoon to make him aware of the comments that you had said out here about his visit with you, and he is well capable of defending himself, and will indeed, as he said to me. But he categorically, absolutely, and totally denies having said to you what you allege he said to you here. And he is on record, under oath, as having so stated.

What he does say is that he was referring to the very tape that he had given you, which was based upon what people were talking about in London. And, in fact, just to make the record even more clear, here Jack Blum had come to me 1 week earlier and made me aware of what they were chatting about, and had written me a memo with respect to it. And that was part of the reason that he came to you, again, with my blessing, and knowledge, and so forth.

Where he went, subsequently, which I did not direct him to, but which I gave my blessing to; it was his idea, and his initiation, I said terrific—was to go to New York to talk to the district attorney in New York.

Now, I take it, you do not have any written notes, if I recall correctly, with respect to what Blum said to you, is that correct?

Mr. JACKOWSKI. That is correct.

Senator KERRY. You did not record it or anything?

Mr. JACKOWSKI. That is correct.

Senator KERRY. Is there any reason why you did not investigate it?

Mr. JACKOWSKI. Because I did not credit it. Senator, I mean, here is a man who says that a subcommittee of the U.S. Senate has somehow been gotten to, or paid off.

Senator KERRY. But here is a man who came to you. And I understand that, but here is a man who came to you. And this is the difference between skepticism and cynicism, I guess. I mean, the skepticism, I would think, given the totality of what he was laying in front of you, would have said, maybe we will look at this. But there was sort of a total shunting aside of Jack Blum, and in fact,

everything that he laid out to you in the tapes and so forth has been proven true.

Now what Jack says to us, and has said under oath, is that he was relating what somebody else was saying, and somehow you have misinterpreted that, and put it in some different light. And, in fact, the district attorney of New York, we checked with this afternoon, and I have a letter here that I am going to put in the record.

[The information referred to follows:]

DISTRICT ATTORNEY OF THE COUNTY OF NEW YORK,
NEW YORK, NY,
November 21, 1991.

Senator JOHN F. KERRY,
U.S. Senate, Washington, DC.

DEAR SENATOR KERRY: In response to your inquiry of today November 21, 1991, I write to clarify the record. In March of 1989, I was chief of the Investigations Division of the New York County District Attorney's Office. At that time I met with Mr. Jack Blum, who wanted to bring to our attention what has become known as the BCCI case. Mr. Blum thereafter spoke with District Attorney Robert Morgenthau, and Assistant District Attorney John Moscow. I have spoken to both Mr. Morgenthau and Mr. Moscow before sending this letter.

At no time did Mr. Blum ever seek or request money from this office for his assistance to us in the investigation of BCCI, nor did he receive any money from this office for his out of pocket expenses.

At no time did Mr. Blum ever ask us for, or suggest that he wanted, employment with this office.

At no time, during this office dealings with Mr. Blum, did he ever accuse you, Senator Kerry, of misconduct.

At the time that Mr. Blum first told us about BCCI we viewed his story with skepticism. But we interviewed him, and additional, witnesses. We looked at documents. Simply put, we investigated the case he brought to us. And his "story" was proven to be true.

Sincerely,

MICHAEL CHERKASKY.

Senator KERRY. But the district attorney says Jack Blum, when he came to him, and this is both to Michael Teraski, who is his assistant, the strict attorney, and John Moskow, who is the assistant on the case, says that Jack Blum never sought or requested any money for anything that he did for them, never received any money, did not want any employment, and never told them about any notion of the thing being shut down, or of people having shut it down. He never mentioned it to them. And that is 3 weeks after he met with you. So I find that kind of bizarre——

Mr. JACKOWSKI. How do you find that bizarre?

Senator KERRY. I personally find that extraordinarily bizarre.

Mr. JACKOWSKI. The fact of the matter is, Senator, that those words were spoken; again, I am not suggesting, and I made that clear in my opening remarks.

Senator KERRY. I understand that you are not suggesting. But what I am saying to you is Jack thinks he told you something different, and you have interpreted it differently.

Mr. JACKOWSKI. Senator, there should be no doubt that Mr. Blum told us that your subcommittee's investigation was shutting down prematurely. He said that. As a matter of fact, sir, I did not document that. But that is documented in a memorandum of a Customs special agent, concerning a phone call that he got from Mr. Blum.

Senator KERRY. I am aware of that.

Mr. JACKOWSKI. No. 2, with respect to the March 28, 1989, memorandum, which was inserted during the course, into the record, during the course of Mr. Blum's testimony here on August 1, 1991. There are certain attachments to it which I believe were provided to Mr. Blum, and were provided to, and remain, not part of the public record.

I have seen those memoranda, sir. And those memoranda contain passages concerning efforts by certain individuals to get this committee to stop its investigation.

Senator KERRY. We are very aware of that.

Mr. JACKOWSKI. So that also happened. No. 3, sir, what I say Mr. Blum said, sir, was not only heard by me, but was, in fact, heard in substance by others, including Mr. Cook, Mr. Moore, and, I believe, to a certain extent, Mr. Rubinstein. They were interviewed, sir, by staffers of the House Banking Committee, the House Judiciary Committee; and, I believe, those debriefings were attended by Senator Brown's staffers.

Your staffers did not attend that, and I believe the substance of those remarks which I attributed to Mr. Blum were relayed by Mr. Moore and by Mr. Cook, during the course of those debriefings.

Senator KERRY. I am aware of that. We were told of that. Subsequently—

Mr. JACKOWSKI. The point is, you say that it is somewhat bizarre, which seems to me to indicate that perhaps what I am saying, in your mind, might not be so. I am citing these because they corroborate, sir, the words that I attribute to Jack Blum. In addition to that, sir, I did convey, in substance, what Mr. Blum had said to other individuals within my office. And, finally—

Mr. KEHOE. Let me say that I am one of those individuals that he told in the spring of 1989.

Senator KERRY. I understand that. But what I am getting at is that Jack Blum came to me, and talked to me about that, at that time. And what has gained some sort of—because a couple of people were talked to about it at the time, was, I think, a conversation that came out of London from a couple of lawyers, which we tried to pursue.

But the fact is that this Senator is the person that sent Jack Blum to you guys with all of this information, in an effort to try to get it prosecuted. And the fact is, as I think the record shows very clearly and always has, that Jonathan Winer and David McKeon were the personal staff who were working on this at the time, who have never stopped working on it, ever, at any moment in time.

And what grew, I think, out of the fact, and may be the single mistake of significance that we made at the time, was in concession to Senator McConnell, who had raised serious issues about the politics of the moment, and what was happening with respect in—and remember, you go back to 1988, which is when this was, and the hearings originally involved General Noriega and BCCI and the bank. And the allegations at that time which surfaced in a public flareup, were that the committee was somehow, you know, pursuing this on a political basis.

At which point, in June, prompted by Senator McConnell, and in agreement with him, I announced we were not going to have hearings for the duration of the electoral process, until the election was

over. And I think that grew into somebody's ability to say, aha, they are not going forward, and so forth.

But it is a matter of record that this effort has never, quote, shut down, and so any mythology about that is mistaken. And Jack Blum says that that is not what he said to you at the time. What he was relaying to you was what the rumor was out of London, which he relayed to me. And he wrote a memo to me at the time, in which he specifically said that you ought to be incensed by this et cetera, et cetera. And he went on to discuss what we had to do in order to combat that.

Mr. JACKOWSKI. Senator, I have read the memo. What I am telling you is that when Blum uttered these words that he was passing this information on to us.

Senator KERRY. But I am surprised you would not write that down. You write everything else down. Why would not something like that, as significant as it, is merit being reduced to writing. I am puzzled.

Mr. JACKOWSKI. Senator, you don't know what I write down and what I don't write down. And second of all, I remembered it and that's good enough for me. [Laughter.]

I do not find it to be a laughing matter, Senator.

Senator KERRY. I do not either, but that is precisely why I am laughing because I think it would be—I think it is so significant and of such consequence and particularly, I mean, look at this. You write here, Mr. Blum stated the ex-BCCI officials' motives are suspect and some of this information is secondhand.

Mr. JACKOWSKI. Blum said that, not me, Senator.

Senator KERRY. Correct. And Jack Blum says, absolutely, I said that. He says, so what. Carlos Lehder's motives are suspect, but you investigated him. And you used him and let me just finish for 1 minute, it is my turn to finish.

There is not one person who comes before the Government who is an informant whose motives are suspect and you disqualify them simply because the motive is suspect?

Mr. JACKOWSKI. You seem to believe, sir, that we disqualified the information that was relayed by this particular individual. I have told you under oath that we commenced a grand jury investigation.

Senator KERRY. Has the grand jury shut down or was the grand jury shut down?

Mr. JACKOWSKI. The grand jury was not shut down, the grand jury was temporarily suspended, or as Mr. Mazur put it there was a timeout.

Senator KERRY. When was it suspended?

Mr. JACKOWSKI. It was suspended, sir, in October 1989 and it resumed the investigation.

Senator KERRY. It resumed in 1991?

Mr. JACKOWSKI. No.

Senator KERRY. When did it resume?

Mr. JACKOWSKI. It resumed, sir, after I got back from a month vacation, in September 1990. That is when it resumed.

Senator KERRY. 1990, and it shut down when?

Mr. JACKOWSKI. It did not shut down. It was temporarily suspended in October 1989 and the reason, sir, one of the reasons in my mind why this particular individual's motives were suspect was

because I believed that there was a substantial possibility that this was a plant that BCCI was trying to invade the prosecutorial camp with.

I did not trust this particular individual. I thought that there was a substantial chance that we might make investigative disclosures to him, and this person might, in turn, go back to the network of the bank and tell them, all right, this is where the Government's coming from, this is where they are point at and this is where you guys need to be careful, that is one issue.

The other issue is by getting too close to this individual, the defense, had they found out about, had we had any untoward contacts with this individual, the defense could have made a motion that somehow we had invaded their defense camp because of that individual's close association with BCCI.

So we were cautious of this individual, sir.

Senator KERRY. Well, it is interesting to me. The district attorney in New York says that they viewed the story with some skepticism, but they interviewed him and additional witnesses and they looked at the documents and simply put, we investigated the case he brought to us and his story was proven to be true.

So I think there was just a difference of attitude.

Mr. KEHOE. No, Senator, that was after the Price Waterhouse report. That witness was discredited by the district attorney's office when he went to talk to them as well.

Senator KERRY. Which witness?

Mr. KEHOE. We are talking about the witness, the first witness that Blum brought down to Mr. Jackowski. It was only after they got the Price Waterhouse report that corroborated some information and convinced this guy to testify that it bore fruit, and as I said before, Senator, the fact that another prosecutor's office did, God bless them, they did a good job. I commend what they have done, but the timing of it is crucial. We did not have that report.

Senator KERRY. Well, it did still, I mean, I guess there is a puzzle here, but it is not my battle, it is something that Jack Blum feels very strongly about and I think he says he is going to respond and I am sure you will respond and you guys can go back and forth, but I thought he did very credible work and it is just sort of perplexing to me that somebody would not come to the committee and say, Senator, let me tell you what your investigator was saying.

Or let me tell you what is going on, and I sense that it was because there was just an adversarial sense about this thing, that the politics perceptions of what existed in 1988, which is why we suspended the hearings at that time and announced publicly we were doing so and it appeared in articles in the country, subsequently has been twisted into something different and regrettably, Jack, who did I thought extraordinarily credible work is now put in a position of somehow being attacked and having to defend himself.

Mr. JACKOWSKI. Senator, I did not attack Mr. Blum, I merely recited the facts as I know them to be, with respect to the notion that somehow politics entered into my view of Jack Blum. Senator, I am not a political person. I am a professional prosecutor. As a matter of fact, I remember having a phone call, several phone calls with you, back in January 1980 with respect to Lee Rich and Stephen Michael Khalish. I don't know whether you remember those or not.

Senator KERRY. I do recall those.

Mr. JACKOWSKI. It was rather late at night with respect to the production of Lee Rich and Stephen Michael Khalish before the subcommittee and they in fact testified before the subcommittee, along with Blandon, relative to goings on in Panama.

Senator KERRY. Well the problem still remains, I guess, and maybe it is a problem in a difference in perception or something here, but when I first instructed Jack Blum to reach out to you folks and to cooperate with you and to turn information over to you, it was my anticipation that there was going to be what we could perceive as a full-fledged effort that was going to put the case together.

And Jack came back to me, as did other people like David McCain here, who has, as I said, worked on this thing nonstop from when Jack Blum was with us, and it was their perception, continually, that there simply was not a major effort going to reach out to the people that we knew were within the bank or outside the bank. Now we can argue about that at length.

I think you have done a credible job of arguing your position and of setting forth what you have done and as you, not you, but as Mr. Mueller and I and others have discussed I think we all want to try and put an end to this process of the past and place some faith in the process of what is happening now and in the future, with an understanding that this thing is going to come to closure and that it is going to proceed but it is not say a small statement that there are significantly more attorneys, and significantly more assets, and significantly more investigators, and significantly more grand juries now working on it today than there were when this information was originally brought to you. And I think that is its own kind of statement.

Senator BROWN. Thank you, Mr. Chairman. I wanted to finish up on the Blum statements and quickly go through them and ask, if you would, to give us your observations with them and my purpose is frankly to have these statements side by side so that we have got a concern and the answer to it.

Mr. KEHOE. Yes, Senator.

Senator BROWN. The observation was made by Mr. Blum that, "no effort was made to prosecute the coffee-smuggling incident."

Mr. KEHOE. Senator, that particular investigation was not in the middle district of Florida, it never was in the middle district of Florida, so I mean with all due respect and clarification and again it goes back to my apples and oranges, type of analogy that I laid out before.

It wasn't in the middle district of Florida, from what I understand. It was a Miami case out of the southern district of Florida.

Senator BROWN. Are you aware if an effort was made to forward the appropriate information to the appropriate district?

Mr. KEHOE. It may have been, Senator, Mr. Blum spent a significant amount of time in the southern district of Florida. I was a prosecutor in the southern district of Florida for some time. Mr. Blum was down there quite a bit. I am sure that Mr. Blum forwarded that information to the U.S. attorney's office because candidly, Senator, he knew a lot of people in that office.

Senator BROWN. But by your offices, nothing was forwarded?

Mr. KEHOE. It didn't come to our attention, Senator. It wasn't on our plate.

Senator BROWN. The next one on page 62, quoting him further, "a review of the record indicates that no effort was made to prosecute any of the people involved until an IRS agent, almost at the end of the term of the grand jury, himself insisted that a case be brought against the arms smuggler who was involved in it."

Mr. KEHOE. I am not sure I understand that reference.

Senator BROWN. This again relates to the coffee.

Mr. KEHOE. Again, Senator, it was just reference to, that is, that particular defendant was not something in the middle district of Florida. That was in the southern district of Florida.

Senator BROWN. In the allegation on page 84, "there was never a serious effort to plea bargain the individual defendants."

Mr. KEHOE. Senator, that is absolutely categorically incorrect. Our plea bargain in the middle district of Florida is very firm and very stringent. And what our plea bargain is, is you plead to the indictment and then if you cooperate you engage in what is known as, I am sure the Senator knows, what is known as substantial assistance, and once you plead and once you demonstrate that you have cooperated, it is the Government's determination whether or not it will file a substantial assistance motion.

Congress has given prosecutors one of the best tools they have ever had with the change in 5(k)1.1 motions as well as rule 35 motions. That change comes as, that the Government has to make the motion to determine whether or not a defendant is going to get a substantial assistance motion. They have put that arrow, Congress has put that arrow in our quiver. They have the opportunity to come in and plead and cooperate. It was not forthcoming. They engaged in what Mr. Genzman referred to before as a scorched-earth policy, they were going to take us to the mat and so that is why we went to trial.

The policy was set out very clearly. There were negotiations with the various defense attorneys about pleading. They said we can't plead under those circumstances. It's better for our defendants to go to trial. They said, well, we accept that, we are professionals. Let the games begin. But to say that there was no concerted effort is just not so.

Mr. JACKOWSKI. Senator, let me try to add to that if I might. One of the aspects of plea negotiations is to attempt to obtain a proffer of what a defendant will say, in terms of his cooperation with the Government. With one exception, sir, all of the defendants through their counsel declined to provide us with a proffer of what their testimony might be. That's No. 1.

No. 2, they also, sir, had an unrealistic expectation of the amount of time to which they would be exposed to should they plead guilty. They wanted 5 years in jail. That is not in accordance with the middle district of Florida's plea policy and it is not in accordance with the Department of Justice policy relative to plea bargaining in sentencing guidelines cases.

No. 3, there was a fundamental difference of approach with respect to these defendants. My eye and my office knew these guys were no different than common dopers. Their defense attorney feared them as being the whitest of white-collar criminals. They

wanted these defendants treated as white-collar criminals. We were not willing to do that, sir. In addition, quite frankly, the defense attorneys, especially the ones from Washington, thought they could come down to Tampa and beat us.

Moreover, the defendants themselves thought that they had been victimized by the Government and were not guilty. Under all of those circumstances, that I have described, plus the policy considerations that Mr. Kehoe has described, we had to take them to trial. We did and we convicted them. And that strategy as Mr. Kehoe and Mr. Genzman have indicated has, in fact, borne fruit. Evidence the indictment, on seal by the middle district of Florida, on September 6, 1991.

Senator BROWN. Compare for me, if you would, the 5 years that they were willing to accept with what they got.

Mr. JACKOWSKI. I understand your question. Under the guidelines, sir. Under our calculations they were looking at somewhere, Mr. Awan and Mr. Bilgrami, as long as the narcotics conspiracy count was still in the indictment, were looking at between 20 and 30 years in prison. The other defendants were looking at between 5 and 15 or 16 years in prison.

Once the narcotics conspiracy count was no longer a factor, that exposure to prison would have been lessened. Ultimately, Mr. Awan and Mr. Bilgrami received sentences of 12½ years. So they were looking at the most between 12½ to 15 years, sir. Just given the money laundering counts, with the absence of a narcotics conspiracy.

But the plea negotiations were conducted under the proposition that they plead to the narcotics conspiracy because the judge had not yet at that time, issued his December 5, 1989, order.

Senator BROWN. Even with that major difference, they ended up with 2½ times as much time?

Mr. JACKOWSKI. That is correct. The more culpable defendants, Mr. Awan and Mr. Bilgrami, who were the ringleaders of the conspiracy who we were able to put our hands on.

Senator BROWN. Page 84 again, quote, "I find it hard to find why they are disinterested in 1988, but are so interested in January of 1990 that they give everything else away with respect to the bank." You have covered some of this. Any other comments?

Mr. KEHOE. I would reiterate what I said before. Mr. Blum is a private citizen. Mr. Blum is not part of the plea negotiations. Mr. Blum, quite candidly, Senator, doesn't know the facts, but he is making a public statement about them. With all due respect, it was just simply incorrect.

Senator BROWN. It is not my intention to administer water torture here.

Mr. KEHOE. I understand.

Senator BROWN. I think it is important for you to have an opportunity.

Mr. KEHOE. I mean, I understand and I appreciate that, Senator. And it is somewhat disturbing when someone gives an opinion and pontificates about a particular scenario about which they know very little, or nothing for that matter, not having been involved in those plea negotiations that I conducted, and that is what hap-

pened, and many of the comments that Mr. Blum put before this committee, with all due respect, are just totally incorrect.

Senator BROWN. Page 90.

Senator KERRY. If I could intercede there for 1 minute. I would be interested in having, and I am not going to trouble you with it now, but I would like to have an annotated listing, if you will, when you say the statements you put before are incorrect. If you could just submit that, I think that would be important to have for the record.

Mr. KEHOE. Absolutely, Senator.

Senator BROWN. Page 90, quote, "to finish their failings, as well as in the southern district of Florida, the southern district had been aware for at least 14 months, possibly longer, that CenTrust a very large S&L, \$2 billion down the hole, the president with a yacht as large as a destroyer, an office worthy of the Emir of Kuwait," I do not think he is describing a Senate office here—"this case has been in the hands of the U.S. attorneys, that was not his quote. This case has been in the hands of U.S. attorney for the southern district of Florida, there has yet to be an indictment."

Skip, "are there more important cases in the southern district than a \$2 billion S&L fraud type of criminal mess? What is he doing?" I appreciate that you are not representatives of the southern district of Florida, but a thought—

Mr. KEHOE. I can answer to a degree, I mean we are essentially in the third inning of a nine-inning game. I mean we have not cases under investigation. These are protracted, complicated investigations so much so, Senator, that Congress in the FIREA statute of 1989 and 1990 I believe it was, increased the statute of limitations to 10 years. This is tough stuff.

These matters are under investigation and they continue to remain under investigation as ongoing matters, and to say at any point that they have stopped and that nothing has happened is just totally incorrect.

Senator BROWN. Your point being, one, the statute of limitations has not run out and, two, they are under continuing investigation.

Mr. KEHOE. They are under investigation and Senator, but to be honest with you, with the complexity of bank failures and with this particular bank I am not sure, because I am not involved, but having been involved in bank failure investigations, they take up a tremendous amount of time from the local corner bank to the more, the bigger banks with branches around the country.

Senator BROWN. Thank you. Page 98. These remarks deal with the story of documents that have been turned over to the American Embassy in Panama, where they were shipped from Panama to Miami. When witnesses got to Miami and the DEA headquarters, the box had been opened and the documents were missing, as I understand it. The quote is, "the documents were missing. We raised it in the hearing, the DEA said we have an internal affairs investigation to my knowledge, the documents were never found and no one was ever prosecuted."

Mr. KEHOE. That occurred when I was in the southern district of Florida, Senator, and the prosecutor who was involved in that is Dick Gregory, a friend of mine, and he has been a friend for many years.

There was an investigation conducted by the southern district of Florida. Another friend of mine, who is an AUSA down there by the name of Bruce Udolf, conducted that investigation with the witness and with the witness and the agent that was involved, the conclusion was that while it appeared that the box had been opened, all the documents were there.

Apparently, the gentleman was confused because his wife had packed the box. He was in the United States. His wife had packed the box and he wasn't sure whether or not it was original documents or a computer printout. His wife had apparently put a computer printout in there, as opposed to the original documents, and once that was clarified the investigation was over.

Senator BROWN. You are saying the documents, in effect, were not lost?

Mr. KEHOE. That is correct. Now Senator, that was the conclusion of the U.S. attorney general's office as well as DEA and the witness himself.

Senator BROWN. Something you can help me to understand. This may well fit into the area of background more than anything else, but this is earlier testimony. Or I guess the prepared testimony that you had given us. It said Mr. Blum also obtained a copy of the draft of the Customs Service press materials based on confidential internal Department of Justice memorandum, at some point prior to the unsealing of the indictment.

Mr. Blum provided copies of these materials prior to the unsealing of the indictment to Robert Altman and his partner, John Kovin of the Clifford & Warnke law firm.

These materials later formed the basis of numerous pretrial motions which questioned the sufficiency of the Government's proof and its conduct of the undercover investigation. A serious charge. Tell me what you based those comments on.

Mr. JACKOWSKI. Sir, I based those comments on, No. 1, the fact that there was first of all there were motions, were in fact, motions alleging sufficiency of proof problems with respect to, at least one of the defendants.

Included within those documents was a statement authored by myself which was true at the time it was written that is July 21, 1988, that to date only six of the nine bank officers have been documented as having direct knowledge of the narcotics proceeds.

That was true in July 1988. It was not true at the time the indictment was returned, in October 1988. The reason it was not true is because we had obtained such evidence against such defendants by October 1988. That was essentially the problem.

The reason why I know this happened is because that specific comment within those documents did in fact form the basis of the Brady motion, and motions to dismiss.

Senator KERRY. Can I just intercede here? I was struck by that today and so when I called Mr. Blum this afternoon to enquire about the statements, Mr. Blum said that is building innuendo into a charge that is simply false. He says he was given the documents by Customs and they were the press release that Customs put out and that he personally, they were not secret. That is what he says. As I said I am going to let Jack Blum answer these things.

Mr. JACKOWSKI. Jack Blum does not have to defend himself on this point. That is the point I am trying to make if I can finish.

Senator KERRY. Well, it certainly reads in that way.

Mr. JACKOWSKI. I disagree that it criticizes Mr. Blum. Mr. Blum didn't leak those documents. Higher ups within the U.S. Customs Service leaked it. The reason why I know those documents were leaked is because attached to the Brady motion was a declaration by either Mr. Kovin or Mr. Altman to the effect that they got them from Mr. Blum before the unsealing of the indictment. That is one way I know it. The other way I know is it because Mr. Blum in fact told me that he got these documents from Customs.

Senator KERRY. That is what I am saying.

Mr. JACKOWSKI. He didn't think and there probably was no reason to believe that there was anything wrong with Customs giving him those documents. They were representative of the press package of Operation C-Chase. The problem with that, Senator Kerry, was that there were disclosures of these documents made to Mr. Blum and these documents were passed to the bank before the indictment was unsealed.

Senator KERRY. The way it was put here is that after a criticism of William Von Raab you talk about how incredible it is the lives of undercover agents are jeopardized and then you say Jack Blum, an investigator, also found out about the impending takedown in advance and Blum describes his knowledge and so forth and then you say he also obtained a copy and there is no context in which—

Mr. JACKOWSKI. Let me try to add the context. You had testifying in front of you today, Mr. Mazur. Mr. Mazur's life was at risk. The bottomline is no one had any business for whatever purpose to whomever leaking that investigation before those arrests were made. That is the point, Senator.

Senator BROWN. Let me see if I can understand what is being said here. A draft press release, disclosing important material was given to someone who gave it to a counsel, an attorney for related defendants—

Mr. JACKOWSKI. That is in essence what happened here. This is a long story. To try to give you the short, to try to give you a short version—

Senator BROWN. I am just trying to underline, the Customs Service would hand out draft press releases.

Mr. JACKOWSKI. I don't know the answer to that, Senator. I could only speculate on that.

Senator BROWN. But an undercover operation.

Mr. JACKOWSKI. I could only speculate on that, sir.

Senator BROWN. Is there any information on why Blum would pass it on to Mr. Altman or how is it that you know that?

Mr. JACKOWSKI. I know that because Mr. Blum told me he got it from Customs and gave it to Altman and Kovin and because Kovin and Altman filed the motion with a statement under oath by Mr. Kovin saying they got it from Mr. Blum. That's how it is that I know that.

Why Mr. Blum would do that, I believe he did that because at this time, this subcommittee was attempting to get information pursuant to its subpoenas from the Clifford & Warnke firm on

behalf of BCCI. And he wanted to share this with them as part of his effort to get his subpoenas or get this subcommittee's subpoenas complied with.

I believe, in substance, I don't know that but that seems to me the most logical reason why Mr. Blum would do that. And that's purely speculation on my part, with respect to Mr. Blum's motives.

Senator BROWN. Changing subjects on you for a moment. The question had been asked earlier about the takedown decision being influenced in Washington. I guess that the obvious questions that come to mind it how is a decision on the takedown made on Operation C-Chase?

Mr. JACKOWSKI. Sir, as I recall, there were discussions back in January 1988 between SAC-Tampa of Customs and also the ARCE-Miami of Customs. ARCE means Assistant Regional Commission for Enforcement for Customs in Miami, with respect to when the case was going to be taken down.

I believe, sir, it was as a result at least of those discussions that Customs came up with the view that the case should be taken down by October 1988.

I want to make the record perfectly clear on this. With respect to the timing of the takedown date, I personally supported that date because I felt that the goals of the investigation could be completed by that time, No. 1.

No. 2, in my view, the goals of the C-Chase investigation were concluded by October 1988. The reason for that is because the money laundering culpability of BCCI, which was the principal goal of the investigation as it in fact developed, had been established.

It was a goal of the investigation to investigate, in an undercover capacity, First American Bank. This was a money laundering investigation, not a bank takeover investigation as it was originally began, sir.

Senator BROWN. Who is it who made the decision?

Mr. JACKOWSKI. To take the case down in October 1988. The decision being made at one point in time, back in earlier during the year. Is that your question?

Senator BROWN. Well, the decision with regard to the takedown. Who made the decision?

Mr. JACKOWSKI. Senator, I can't answer that. You have to give me a timeframe. Or, if you won't—

Senator BROWN. In the February area.

Mr. JACKOWSKI. I don't know, sir. I believe that decision was made by SAC-Tampa in conjunction—special agent in charge of Tampa, in conjunction with the ARCE, Assistant Regional Commissioner for Enforcement in Miami, as well as in consultation with SAC's of other offices and ARCE's of other divisions of Customs that were involved in this operation.

I was consulted relative to the decision and I personally had no problem with the October 1988 date.

Senator BROWN. Do you have any information that would indicate someone in Washington made that decision?

Mr. JACKOWSKI. I don't have the information at all that someone in Washington made that decision. You have to realize that Customs is a bureaucracy and in a bureaucracy this was an important

case. And I'm speculating here and perhaps I shouldn't do this, but I would suspect that that is probably the type of decision that was probably discussed with officials of the U.S. Customs Service in Washington, DC. I don't know that. I want to make the record perfectly clear relative to that.

Senator BROWN. Thank you.

Senator KERRY. Gentlemen, just a few quick questions. Is this any problem, Mr. Kehoe, with, in respect to the plea agreement and a double jeopardy problem, subsequent prosecutions of BCCI?

Mr. KEHOE. In what respect, Senator?

Senator KERRY. Well, just a question of whether or not it is being exposed for fundamentally the same crime and tried again on the same basis.

Mr. KEHOE. Senator, I mean if, the Blockburger test obviously has a different element of the offense than—if there is an element of an offense that is different, then there's not going to be any double jeopardy problem.

Now, for instance, the particular case—say, for instance, that the bank and several individuals are charged with, you know, a RICO out of some other place, say, out of one of the districts that's currently investigating it. There would be no double jeopardy.

Senator KERRY. Has this been raised?

Mr. KEHOE. Oh, sure, we've discussed it at length within the Department.

Senator KERRY. Has it hampered any prosecutions in any other districts?

Mr. KEHOE. No, we've discussed this particular issue at length, Senator, with Mr. Miller in his meetings with other U.S. attorneys, recently, I might add, on that particular issue and with the fraud section, et cetera.

Senator KERRY. Is Justice satisfied that this issue is not going to be an impediment?

Mr. KEHOE. I think that every time you have a case, it is going to have to be addressed. I mean, as we move up the line, we talk about a particular indictment. Could we envision a situation where it could be a double jeopardy?

I will give you an example, Senator. As you know, with chips and money coming in and out of the United States, that technically is the jurisdiction of the southern district of New York for many of the money laundering activities that took place in the middle district of Florida. Certainly, if they turned around at that point and decided they were going to put some type of 1956 case or 371 case together, based on those transactions, it would clearly be double jeopardy.

Senator KERRY. Are you currently receiving adequate cooperation from BCCI with respect to as per the agreement?

Mr. KEHOE. They have been cooperating with us, Senator.

Senator KERRY. They are cooperating.

Mr. KEHOE. Yes.

Senator KERRY. And has that information led to any other drug traffickers being prosecuted?

Mr. KEHOE. I'm going to have to decline to answer that, Senator. I will say this, Senator. In a broad sense, the cooperation's been fruitful.

Senator KERRY. Mr. Morgenthau testified before us in May and at that time, Mr. Genzman, he told us that he had written to you a letter on March 8, asking for certain documents. Have those documents been provided to him?

Mr. GENZMAN. I believe that has been cleared up, Senator. I don't believe at that time I was aware of what the issue was and I was somewhat surprised. But the explanation I gave then was that around that time, the Department of Justice in Washington was coordinating with his office and it might have been that that was referred by our office, his request was referred by our office, without my even seeing it to the Department of Justice.

Not having heard any further on that, my assumption is that that is no longer an issue. As a matter of fact, we have had some regular contact with Mr. Morgenthau's office on ongoing cooperation and that has not come up.

Senator KERRY. You do not know whether or not, do you know, Mr. Kehoe, have those documents been provided?

Mr. KEHOE. Senator, you're going to have to reference me to the particular documents that we're talking about. I know that we have been—we have had steady contact with Mr. Morgenthau's office. As I think I spoke to one of your staffers consistent with some of the contact that we have been having concerning a witness and the need.

And Mr. Morgenthau's office is assisting us in this regard because we have a mid-January trial date on a particular witness. He wants to use him.

Senator KERRY. Is that Chinoy?

Mr. KEHOE. That's the one.

Senator KERRY. Can Chinoy be made available to him?

Mr. KEHOE. Yes, Senator. He has been down to the middle district of Florida to debrief him. The issue is whether or not if he goes to New York, the defense is going to attempt to use his transfer to New York as a postponement of his trial or his plea.

We have been in contact with Mr. Morgenthau's office and they have said yes. We don't want to let that happen.

Senator KERRY. The point is, that is not an issue.

Mr. KEHOE. It's not an issue.

Senator KERRY. Fine. Have the foreign bank secrecy and confidentiality laws stood in the way of BCCI cooperating with you folks in a meaningful way?

Mr. KEHOE. It has been an issue that has come up, Senator, I must say, but we have been able to work around it in several respects. But I will tell you that it has come up candidly.

Senator KERRY. And when you say it has come up, it is, in fact, substantively a problem.

Mr. KEHOE. Well, the view of some of some BCCI was, well, you know, this might be a crime in a particular jurisdiction. How can we get around this? Normally, what happens is you go to the country and have the particular institution and they say, well, we don't mind doing this.

Senator KERRY. So, you are not finding it an impediment.

Mr. KEHOE. Yet.

Senator KERRY. And are there any occasions where BCCI has failed to provide you with documents you are seeking?

Mr. KEHOE. Without going into the nature and extent of the whole operation, we have asked them for some documents and asked them for supplements. And if you say, we want something out of the chute and this isn't everything we wanted, we have to go back and forth. I mean, certainly that has happened, Senator, with every institution, every defendant that I've ever had that has cooperated with us. You have this tug back and forth where you say, we want this and they give you this and you say we want in addition to that.

Senator KERRY. I hesitate to say this in front of a couple of people who seem every bit as skilled as any Senator in keeping the floor, but is there anything that you have not had a chance to say that you are frustrated about or that you particularly think you have a chance to lay on the table?

Mr. KEHOE. We have a charge to talk now, Senator. Is that what you're saying?

Senator KERRY. With some limitations. Mr. Kehoe, I think you have had enormous—if we really break this record down, I would suggest that you have probably dominated the day in terms of time to talk.

But if you have anything that you would like, at this point, that you feel you have not had a chance to say, open season.

Mr. GENZMAN. Thank you for your time, Senator.

Senator KERRY. This has been the easiest afternoon you have had, Mr. Genzman.

Mr. GENZMAN. I would defer to my colleagues on many issues such as these and I'm proud of the fact that they've been able to field these questions better than I could.

Senator KERRY. Mr. Jackowski?

Mr. JACKOWSKI. Senator, all I can say is as I told you before, I do appreciate the opportunity to be here and it has been an educational process for me and I hope for you, as well and for the record.

Senator KERRY. I beg your pardon.

Mr. JACKOWSKI. I hope it's been educational for the record, because quite frankly, I think it is important that the record be complete with respect to some certain aspects of the hearings that these subcommittee has previously conducted and I think that was one of the things that we tried to do here today.

Senator KERRY. Well, I appreciate that. Let me say to you that I think there are still issues on the table that need to be sorted out in terms of who is saying what and I am not going to dig here in every aspect of that now. But I do think it would be very helpful for you and I would like for the committee to have your assessment of where statements have been made that are just inaccurate according to you.

And if you would show what the inaccuracy is, then that would give us a chance to evaluate that, which we will do. And I hope that over the last couple of years that we have gained some reputation for fairness and being straightforward on this.

I will draw a conclusion and I will have an opinion and I do not hesitate, as you know, to say it when I feel it. But I also am perfectly willing to admit if we have screwed up or misread facts or not done something correctly. I still stand by some strong feelings

that I have, but on the other hand I think you have explained some of the decisions you have made.

They may be some very legitimate differences of opinion as there often are in how someone approaches a case or what somebody thinks, the relevancy of one thing is versus the relevancy of another. And those are things human beings can differ on and that is what makes our system of government interesting.

I appreciate very much your being here and I say again, and I do not, I am not kidding when I say this. I truly respect your undertakings, your commitment, the job that you have done and I think, there is no question in my mind, how hard you folks have worked at this. So that is not the issue as far as I am concerned.

There are other judgmental issues, but those are always on the table. And reasonable human beings can differ about those kinds of things. But I certainly respect your work and I do credit the fact that you had a successful prosecution. The only question some people have is, as Bob Mazur suggested, could it have been more, might it have been. Who knows. And those are the questions that we all face in this process.

Senator Brown?

Senator BROWN. Mr. Chairman, I understand earlier in the hearing that a question regarding why Mr. Jackowski would leave Florida and move to Colorado came up. [Laughter.]

I, for one, think he showed great judgment in that decision. [Laughter.]

It is very difficult to snow-ski in Florida and of course, the quality of football is not nearly as good. [Laughter.]

Seriously, we look at this with some benefit of hindsight or at least I am speaking for myself, because, as you know, the chairman has been involved in this from the earliest date.

And we, I think, of necessity, are focusing on areas where we can change the law, where we can improve the process and procedures to find out why things did not get done more quickly. And that I think is our responsibility. But I hope you do not mistake that enthusiasm for our job as a personal criticism of any of you.

The reality is, as I understand it, you have gotten the No. 1 conviction for money laundering in this Nation's history under your belts. You have achieved an award that is dramatically bigger than anything that has ever been won in that area. And there is no question that you have worked very hard in this.

So I hope, as you leave today, you will not come away with the feeling that we do not appreciate what clearly is a very spectacular case that has come to rest and our enthusiasm to see if there are not things that can be done to improve the process is not meant as a personal criticism for any of you or for the devotion that you have shown for your job.

Senator KERRY. The only comment I would add to that is that I am confident that there are going to be additional indictments. I do not have any question about it. I hope there is not going to be too much delay in some of them that some people seem to have a feeling that could be ripe now perhaps and maybe we can talk about privacy here.

But I think that there will be more indictments. I have no question. You have got a lot of people working on this now. But my ob-

servation stands that I wish there would have been that many people working on it or I wish we would have had the power of that grand jury back a couple of years ago, because I truly believe there was a lot to lay on the table at that point in time.

Now that is not, you do not control that. You are operating without a lot of resources. And, if anything has been underscored in this, both this morning and this afternoon, it is the real handicap of this process, of a couple of people working long hours and a couple of investigators who have almost got to suspend an investigation in order to prepare for a trial and go back.

There is not a defense attorney out there who does not understand it and there is not a corporate defendant out there who does not understand it, which is why they are prepared to spend \$40 million hiring 23 attorneys to stand up against you alone. And the imbalance of that—

Mr. JACKOWSKI. It was a fair fight, Senator. [Laughter.]

Senator KERRY. You do not hire them with any ego, do you, Mr. Mueller? But that is what makes you capable of doing what you do.

Gentlemen, I really appreciate the time and the effort and thank you for your patience and I particularly want to thank your boss, Mr. Mueller, for his patience. His hair has gotten grayer even sitting here this afternoon and we appreciate it. Mr. Mueller, if you want to come up and take a seat, the rest of this panel will be excused and we will try to get through here as rapidly as we can.

Mr. Mueller, let me ask you to rise. Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MUELLER I do.

Senator KERRY. I know you have an opening statement. You may proceed.

TESTIMONY OF ROBERT S. MUELLER, III, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF JUSTICE, WASHINGTON, DC

Mr. MUELLER. Mr. Chairman, as you know, I'm the Assistant Attorney General in charge of the criminal division of the Department of Justice. I am pleased today to have the opportunity to address the Department's role in the investigation of the Bank of Credit and Commerce International.

I've been Assistant Attorney General since the fall of 1990 and I've been personally involved in the BCCI investigation since the summer of this year. My principal role over the past few months has been to oversee the ongoing Federal investigations and make certain that the investigations are conducted professionally, are properly organized and coordinated, and the prosecutors have access to all the necessary resources to do a responsible, professional investigation.

I have been involved almost continuously in Federal law enforcement since I became an assistant U.S. attorney in the 1970's. The BCCI investigations have been and will continue to be, as long as I am involved, conducted by the Department of Justice prosecutors according to the highest standards.

This matter is, I know the subcommittee is aware, is extraordinarily complex, one of the most complex investigations ever undertaken. That is not said as an excuse or a defense, but simply as a

fact. Further, as has been pointed out previously, it is premature in our view to assess our performance. We cannot even fully respond to criticism because we cannot reveal grand jury proceedings or the details of our investigations.

Indeed, I must say, I find myself and we find ourselves in much the same position in this investigation as we found ourselves in the Pan Am 103 investigation, maybe 1 year ago. We then had many critics of the Pan Am 103 investigation. Reporters and others, including Members of Congress, were critical of the delay in reaching a conclusion to that investigation.

There are allegations of a political agenda driving that investigation. And we are unable to defend ourselves because the investigation was ongoing. As in the Pan Am 103 investigation, I believe our record will speak for itself when the BCCI investigations and prosecutions have concluded.

The record also showed that the criticism of the Department on its handling of the BCCI investigations, those criticisms are fundamentally unfair. The Department of Justice was conducting a major investigation of BCCI as early as 1987 in Tampa, FL. U.S. attorney Robert Genzman and his assistants have, I must say, quite ably discussed that prosecution at length and quite clearly, there's no need for me to review their testimony.

The investigations did not stop with the sentencing of the defendants in Tampa in November 1990. Since July 1991, the Department of Justice has returned two major indictments. One is the September 5, 1991, indictment in Tampa, alleging racketeering and money laundering offenses. The other is the November 15, 1991, indictment in Washington, alleging racketeering and other offenses based on the secret acquisition and control of Independence Bank and the parking of securities in CentTrust.

They were not our first BCCI indictments. They are not expected to be the last. We are pursuing all leads aggressively in every corner of the globe.

I want to turn now to some of the criticisms that have been leveled at the Department of Justice over the past few months. One charges that the Department was deliberately dragging its feet in pursuing allegations of criminal wrongdoing by BCCI. The allegation that prosecutors have deliberately failed to do their duty is absolutely and categorically false.

The report regarding BCCI, released by the majority staff of the House Judiciary Subcommittee on Crime and Criminal Justice, on September 5, 1991, found no evidence of any influence peddling affecting the Justice Department's handling of this case. And to my knowledge, no one in Government, within or without the Justice Department, has made any attempt to delay or bog down this investigation or to protect any persons from being prosecuted. Nor, to my knowledge, has anyone in the Department or in any other agency attempted to conceal any wrongdoing by the bank.

With the benefit of hindsight, it is easy to forget that BCCI is and was a foreign institution, largely operating outside the United States. It was permitted to accept deposits in the United States and had very few offices and employees here. Although it secretly acquired interests in American banks, many of the key events, even regarding those transactions, occurred overseas.

BCCI was not an ordinary bank. It was set up deliberately to avoid centralized regulatory review. Its officers were sophisticated international bankers whose apparent objective was to commit fraud on a massive scale.

And what is often overlooked is that, to a great extent, the regulatory process in the United States worked properly. The Federal Reserve, to its immense credit, did its job, unlike many of the nations in which BCCI did do business. The United States did not permit BCCI to take deposits from its citizens. Whatever massive fraud may have been perpetrated against depositors overseas, no such fraud occurred in the United States.

While it is true that BCCI was able to acquire secret interest in several federally insured American banks, notwithstanding the efforts of the Fed, the exposure of American citizens to financial losses could have been dramatically higher.

Now the Department has been criticized for purported delays in bringing the indictments against BCCI and its officers, and I must say that the claim is simply untrue. The Department has now brought three major indictments of BCCI beginning with the first Tampa indictment in 1988 and continuing up to last week. Each of those indictments was brought when the evidence had been developed sufficiently to support the charges.

Indeed, the Department has moved with remarkable speed, given the complexity of the matters involved. The Department, in the form of the U.S. attorney's office in Tampa, was quick to follow up on additional leads coming out of the Tampa convictions of November of last year. And this last August and September, a followup money laundering indictment was returned and unsealed.

Last week, we returned an indictment charging BCCI with illegally obtaining control of Independence Bank operating out of Encino, CA. It was only in May of this year that we received the referral from the Federal Reserve on this bank. Again, as I've indicated before, the Department fully expects to bring additional indictments over the ensuing months.

The Department is aggressively pursuing all allegations of wrongdoing of BCCI and its employees. It is conducting investigations through a Washington-based task force, and in a number of U.S. attorneys' offices. At present, 37 Federal prosecutors, supported by dozens of agents and supervisory and support personnel, are conducting or supporting investigations nationwide. Two major indictments are pending and others will likely follow.

The Washington task force alone has interviewed dozens of witnesses and returned tens of thousands of pages of records. It is interviewing witnesses and securing evidence in locations such as Britain, France, Abu Dhabi, Pakistan, Egypt, the Cayman Islands, the Channel Islands, Argentina, Peru, and other countries.

In conclusion, Mr. Chairman, I want to reiterate that the Department of Justice has been working on the BCCI matter since 1987. We have obtained significant convictions already. We have two major indictments pending and we are devoting the resources necessary to ensure that if there is additional wrongdoing yet to be uncovered, it will be pursued professionally, relentlessly, and impartially, wherever it may lead.

Thank you for the opportunity to give those opening remarks, Mr. Chairman, and I'm certainly pleased to answer any questions you might have.

The prepared statement of Mr. Mueller follows:]

PREPARED STATEMENT OF ROBERT S. MUELLER III

Mr. Chairman, my name is Robert S. Mueller III. I am the Assistant Attorney General in charge of the Criminal Division of the Department of Justice. I am pleased to have this opportunity to address the Department's role in the investigation of the Bank of Credit and Commerce International ("BCCI").

I have been Assistant Attorney General since the fall of 1990, and I have been personally involved in the BCCI investigation since the summer of 1991. My principal role over the past few months has been to oversee the ongoing federal investigations, and to make certain that the investigations are properly organized and coordinated, that they are being conducted professionally, and that the prosecutors have access to all the resources necessary to do a responsible and professional investigation.

Before I describe the current status of the investigations, and review some of the Department's past efforts, I want to make several points.

First, I consider myself to be a law enforcement professional. I have been involved almost continuously in federal law enforcement since I became an Assistant U.S. Attorney in the early 1970's. The BCCI investigations have been, and will continue to be as long as I am involved, conducted by professional prosecutors according to the highest professional standards.

Second, to my knowledge no government official—not at the State Department, the White House, the CIA, or anywhere else—has attempted to influence these investigations in any way. Furthermore, there is no political component to these investigations, and any suggestion to the contrary is entirely false.

Third, we are responsible, ethical prosecutors. We will not indict simply to get favorable press coverage or to quiet our critics. We require evidence sufficient to prove a crime beyond a reasonable doubt, and we will not indict if that evidence does not exist.

Fourth, this matter is extraordinarily complex—one of the most complex investigations ever undertaken. That is not an excuse or a defense, but simply a fact. It is unrealistic to expect overnight results if we are to maintain professional standards.

Finally, it is premature to assess our performance. We cannot even respond fully to criticism, because we cannot reveal grand jury proceedings or the details of our investigations. Our record when the investigations and prosecutions have concluded will speak for itself.

I believe that a fair review of the available facts will show that the Department of Justice has done an excellent job on the BCCI investigations, and that the criticisms of the Department are fundamentally unfair. The career, professional prosecutors whom I represent here today are proud of their accomplishments thus far, and I am confident that a complete review of the factual record will support that conclusion.

THE TAMPA PROSECUTION AND SUBSEQUENT INDICTMENTS

As you know, the Department of Justice was conducting a major investigation of BCCI as early as 1987 in Tampa, Florida. U.S. Attorney Robert W. Genzman and his assistants have discussed the Tampa prosecution at length, and I will not repeat their testimony. I do want to emphasize, however, that the Tampa prosecutions were a success. The Department of Justice convicted the bank and five high-ranking officials of serious crimes—something no other law enforcement agency in the world has been able to do. We obtained the largest monetary penalty that has ever been imposed on a financial institution for money laundering in this country. The five BCCI officers all received substantial prison terms ranging up to 12½ years without parole.¹ We are the only law enforcement agency in any country to have achieved such a result against this bank, and we are proud of that accomplishment.

The investigations did not stop with the sentencing of the defendants in November, 1990. Since July, 1991, when I became personally involved in the BCCI investigations, the Department of Justice has returned two major indictments: the Septem-

¹ Of the remaining seven individual defendants in the first Tampa indictment, two were convicted in Great Britain on evidence supplied by the U.S. Government; one had his case dismissed before trial; three are fugitives; and one has recently been extradited by Great Britain to the United States to stand trial in Tampa.

ber 5, 1991 indictment in Tampa, alleging racketeering and money laundering offenses, and the November 15, 1991 indictment in Washington, alleging racketeering and other offenses based on the secret acquisition and control of Independence Bank and the "parking" of securities in CentTrust. Those indictments were not the first BCCI indictments, and they are not expected to be the last.

We are pursuing leads aggressively in every corner of the globe. We will follow the evidence wherever it may take us. And we will make every effort to bring to justice any person, regardless of his or her rank or position of influence, who has committed a crime that can be proven beyond a reasonable doubt in a court of law.

I want to turn now to some of the criticisms that have been leveled at the Department of Justice over the past few months.

ALLEGED DELIBERATE "FOOT-DRAGGING" BY THE DEPARTMENT OF JUSTICE

One of the most frequently-repeated charges has been that the Department of Justice was deliberately "dragging its feet" in pursuing allegations of criminal wrongdoing by BCCI. One witness has even accused the Department, before this very Subcommittee, of being under the sway of so-called "influence peddlers" who somehow corruptly persuaded us to ignore our duty to enforce the criminal laws of this country.²

The allegation that prosecutors at the Department of Justice have deliberately failed to do their duty is absolutely and categorically false. The Staff Report regarding BCCI released by the Majority Staff of the House Judiciary Subcommittee on Crime and Criminal Justice on September 5, 1991 (the "Schumer Report") found no evidence of any "influence peddling" affecting the Justice Department's handling of this case.³ Nor has this Subcommittee, or any other congressional committee, uncovered any such evidence.

To my knowledge, no one in government, within or without the Justice Department, has made any attempt to delay or block this investigation or to protect any persons from being prosecuted. Nor, to my knowledge, has anyone in the Justice Department, or in any other agency, attempted to conceal any wrongdoing by the bank. At all times, for the past 4 years, the career prosecutors in the Department of Justice have been doing what they are compelled by their oaths of office to do: to investigate and prosecute criminal activity in a professional and impartial manner.

The claims that Department prosecutors have deliberately failed to prosecute the bank because of "influence peddling" are not merely inaccurate. Those allegations insult the integrity, and denigrate the hard work, of every career law enforcement agent and attorney who has worked on the BCCI case since it began, and whose diligence has led to the only successful prosecution of BCCI and its officers to date.

ALLEGED FAILURE TO BRING TIMELY PROSECUTIONS

Among the principal criticisms of the Department of Justice's performance have been that the Department failed to react quickly enough to so-called "strong leads" and "warning signs" regarding BCCI; that the overall federal effort was not sufficiently coordinated; and that the Department has, and continues, to engage in inordinate delay in the bringing of indictments.

A proper understanding of what the Department of Justice did, or did not do, regarding BCCI requires an initial understanding of a number of different matters: the structure and operations of the bank, the dates that allegations of crimes were made to the Department, and the respective roles of prosecutors and bank regulators.

1. *The Structure and Operations of the Bank.* With the benefit of hindsight, it is easy to forget that BCCI is and was a foreign institution, incorporated, headquartered, and largely operating outside the United States. It was not permitted to accept deposits in the United States, and had very few offices and employees here. Although it secretly acquired interests in American banks, many of the key events, even regarding those transactions, occurred overseas. More importantly, most of the witnesses, documents, and defendants were and remain outside the jurisdiction of the United States.

² Testimony of William von Raab, Senate Foreign Relations Committee, August 1, 1991, transcript at 81-82 (morning session).

³ "Subcommittee Staff Report Regarding Federal Law Enforcement's Handling of Allegations Involving the Bank of Credit and Commerce International," September 5, 1991, at 23 ("... no evidence has yet been uncovered that would indicate that so-called 'influence peddling' affected the outcome in Tampa").

Equally important, BCCI was not an ordinary bank. It was set up deliberately to avoid centralized regulatory review, and operated extensively in bank secrecy jurisdictions. Its affairs are extraordinarily complex. Its officers were sophisticated international bankers whose apparent objective was to keep their affairs secret, to commit fraud on a massive scale, and to avoid detection.

2. *The Timing of Allegations of Criminal Activity.* The allegations of criminal activity by BCCI and its officers may be grouped into three sets of charges: money laundering of narcotics proceeds and other illegal activities; regulatory violations involving the secret ownership and control of American banks; and a worldwide bank fraud on depositors and creditors, in the nature of a "Ponzi"-type scheme.

a. *Money Laundering.* Virtually all of the information coming into the Justice Department regarding BCCI prior to 1991, with only a few exceptions, concerned some form of money laundering—the offense for which the bank was prosecuted in Tampa. The case in Tampa was an enormous undertaking, and may be fairly said to be one of the largest money laundering prosecutions in U.S. history. Furthermore, the Department of Justice outside of Tampa did not simply ignore other information it received regarding BCCI's money laundering activities; when evidence existed, cases were prosecuted.

b. *Secret Ownership of Banks.* The statements on the Tampa tapes in 1988, and the subsequent information obtained from a confidential informant in 1989, suggesting that BCCI secretly owned American banks were the first indications of criminal activity by BCCI other than money laundering. That information—which was extremely limited, and consisted principally of rumors, gossip, and hearsay—was referred to the Federal Reserve in December 1988. The Federal Reserve, however, was not able to collect enough evidence to satisfy even a civil standard of proof until July, 1991, after it had reviewed a copy of the Price Waterhouse report in London in December 1990.

c. *The Worldwide Bank Fraud.* Evidence regarding the so-called "Ponzi Scheme"—the allegation that the entire operation of the bank was a gigantic fraud—was not known to anyone in the government until the bank's own auditor, Price Waterhouse, uncovered the information in June 1991. In other words, auditors working inside the bank, with access to internal foreign bank records and officials in foreign jurisdictions, were apparently unable to discover the problem until the middle of this year. It is unrealistic to expect that U.S. officials could have reached the same result any sooner.

3. *The Roles of Prosecutors and Bank Regulators.* What is often overlooked, in the effort to fix blame for what happened in this case, is that to a great extent the regulatory process in the United States worked properly. As a foreign bank, BCCI's presence here was regulated by the Board of Governors of the Federal Reserve. And the Federal Reserve, to its immense credit, did its job. Unlike many of the nations in which BCCI did business, the United States did not permit BCCI to take deposits from its citizens. Whatever massive fraud may have been perpetrated against depositors overseas, no such fraud occurred in the United States. And whatever massive losses depositors may have suffered overseas, no such losses occurred here.

While BCCI may have acquired secret interests in several federally-insured American banks, notwithstanding the efforts of the Fed, the exposure of American citizens to financial losses could have been dramatically higher. The Federal Reserve refused time and again to permit BCCI to accept any deposits in the United States. What agencies and branches it was permitted to open were allowed only to make loans and otherwise to serve the customers of its overseas offices. American depositors were thus spared the devastating personal losses caused by the bank in other countries around the world.

The work of the Federal Reserve has been largely overlooked in the rush to criticize the federal government's performance in the BCCI matter. What is also overlooked, however, is that the Department of Justice is not a bank regulatory agency. The Department of Justice does not audit or examine banks. It has no power to regulate the conduct of banks, or even to close them in the wake of criminal activity. It must prove its charges beyond a reasonable doubt, not according to the lower civil standard of proof enjoyed by bank regulators.

With that framework in mind, I want to turn to some of the specific criticisms that the Department has not brought timely prosecutions against BCCI or its officers.

ALLEGED FAILURE TO HEED "STRONG LEADS" AND "WARNING SIGNS"

One of the principal criticisms of the Department of Justice has been that it ignored so-called "strong leads" and "warning signs" regarding BCCI. As I have stated, virtually all of the "leads" and "signs" coming into the Department of Jus-

tice prior to 1991 appear to have involved money laundering activity, and the bank was prosecuted aggressively for money laundering crimes.

The chief criticism, however, has been that the Department of Justice failed to follow through on evidence that it received, beginning in 1988, that BCCI secretly owned American financial institutions. I understand that the testimony of Mr. Genzman and his assistants has addressed this point, and so I will be brief.

To my knowledge, the Department of Justice learned for the first time in 1988, through statements made by BCCI officer Amjad Awan to the undercover agent in the Tampa case, that BCCI might secretly own American banks. The essence of the information received by the Department of Justice regarding the allegations of secret ownership was passed on to the Federal Reserve after the October 1988 take-down of the undercover case.

The Department was not telling the Federal Reserve, however, anything which the Fed did not already suspect. When, on December 27, 1988, one of the IRS agents assigned to Operation C-Chase phoned the Federal Reserve and passed the information along,⁴ the Fed noted that the information was uncorroborated,⁵ and that it was the "kind of allegation that [they] had heard before."⁶ Nevertheless, the Federal Reserve in Richmond initiated an investigation in January, 1989, but that review did not produce any corroborating evidence.⁷

According to the Federal Reserve, the key piece of evidence that enabled them to establish the connection between BCCI and First American came late in 1990 in the form of a tip concerning a previously unknown Price Waterhouse auditor's report dated October 3, 1990.⁸ Before that report's existence was known, the evidence of BCCI's ownership of First American simply was not there—even to satisfy the Federal Reserve's lower civil standard of proof, much less the rigorous criminal standard.

It is therefore very questionable, to say the least, whether a greater exchange of information between law enforcement and bank regulators would have made any material difference. While it is easy to claim, in hindsight, that evidence sufficient to support a criminal conviction could have developed long ago, that is sheer speculation, not a valid criticism.

ALLEGED LACK OF COORDINATION

A further criticism of the Department of Justice has been that it failed to coordinate properly with other federal agencies in the pursuit of BCCI's criminal activities. In evaluating the accuracy of that criticism, some important points must be borne in mind.

First, the Department of Justice cannot freely exchange information with other federal agencies. For example, the Department cannot reveal the existence of evidence obtained in undercover investigations until the investigation is completed and arrests have been made. It is prohibited by law from revealing grand jury information. And it cannot reveal confidential law enforcement information to other agencies other than for criminal law enforcement purposes.

Second, other agencies have restrictions on the exchange of information which prevent the free flow of information. For example, there are strict restrictions on the dissemination of classified information. Disclosure of tax information is governed by an elaborate set of statutory restrictions. The Privacy Act prohibits disclosure of certain types of information. Even a seemingly simple exchange of information, such as the sharing of computerized law enforcement information, may raise profound privacy concerns.

Third, federal law enforcement functions are deliberately spread among a variety of different agencies. The Department of Justice itself vests substantial law enforcement authority in the 93 U.S. Attorneys in districts around the country. That decentralization of law enforcement provides great benefits in terms of efficiency and response to local needs, but also may create coordination problems in the initial stages of a large investigation.

⁴ Testimony of Virgil Mattingly, Senate Banking Committee, May 23, 1991, at 125; Testimony of Virgil Mattingly, Senate Foreign Relations Committee, August 1, 1991, at 56 (afternoon session).

⁵ Testimony of William Taylor, Senate Foreign Relations Committee, August 1, 1991, at 56 (afternoon session).

⁶ Mattingly testimony (5/23/91) at 125.

⁷ Mattingly testimony (5/23/91) at 126; Mattingly testimony (8/1/91) at 56 (afternoon session).

⁸ Mattingly testimony (5/23/91) at 123 ("That's when all of this thing came together."); *id.* at 130; Mattingly testimony (8/1/91) at 35 (afternoon session); Testimony of Robert Morgenthau, Senate Banking Committee, May 23, 1991, at 176.

The Department of Justice clearly recognizes the need to ensure adequate inter-agency coordination and communication. The establishment of the Interagency Bank Fraud Enforcement Working Group in Washington, DC, was an important step forward in improving the government's response to financial institution crime, as was the recent establishment of the Financial Crimes Enforcement Network (FinCEN).

An examination of the Department's response to matters such as BCCI must, however, be tempered by practical considerations. It is unrealistic to expect that a criminal matter of this magnitude can occur, over the course of a decade and in 70 different countries, and later be investigated and prosecuted by law enforcement officials acting in perfect synchronization from the very beginning.

ALLEGED "DELAYS" IN BRINGING INDICTMENTS

The Department has also been criticized for its purported delays in bringing indictments against BCCI and its officers. Those criticisms have been strongest in recent weeks, in the wake of various congressional hearings and media reports of misconduct by BCCI and its employees.

The claim that we have not brought indictments quickly enough is simply untrue. The Department has now brought three major indictments of BCCI, beginning with the first Tampa indictment in 1988, and continuing up to last week. Each of those indictments was brought when the evidence had been developed sufficiently to support the charges, and not earlier.

I want to emphasize again that BCCI was deliberately structured to evade regulatory review throughout the world. Even Price Waterhouse, the bank's own auditors—working inside the bank, with access to records and witnesses worldwide—apparently could not uncover the fraudulent nature of the bank's affairs until mid-1991.

I also want to emphasize that this investigation involves, to an unusual degree, matters occurring outside the United States. Most of the defendants, witnesses, and documents in this case are located overseas, frequently in bank secrecy jurisdictions (such as the Cayman Islands) or countries with which we do not have an extradition treaty (such as Abu Dhabi). It is extremely time-consuming, and sometimes very difficult, to piece together such a case.

The Department fully expects to bring additional indictments over the ensuing months. However, international and multijurisdictional investigations such as this, involving complex financial transactions occurring around the world, are extraordinarily complex and time-consuming. The Department cannot and will not indict on rumor, speculation, or hearsay. We require legally admissible evidence sufficient to establish guilt beyond a reasonable doubt. We will not indict simply to obtain favorable press coverage, or in response to political pressure.

CIA REPORTS

Let me now turn briefly to the issue of the CIA's involvement regarding BCCI. First, much has been made of the fact that the CIA apparently produced and circulated reports relating to BCCI in the 1980's. For example, Mr. Von Raab has testified that in 1988 he was given a 1986 CIA report describing the "questionable" and "criminal" activities of the bank.⁹ Regrettably, the Justice Department was not on the CIA's dissemination list for BCCI reports until 1990, and therefore the Department never received this 1986 report at the time it was disseminated.¹⁰

In any event, Mr. William Taylor of the Federal Reserve has testified that the 1986 report contained undocumented evidence that could not be followed up,¹¹ and Mr. Von Raab himself told the Senate that the report he saw "didn't prove to be particularly useful * * * as an investigative tool."¹² Furthermore, almost all of the information reported by the CIA, like all of the other information regarding BCCI's criminal activities that we were receiving at that time, concerned money laundering, which is exactly what the Department of Justice was already investigating.

⁹ See Testimony of William Von Raab, Senate Foreign Relations Committee, August 1, 1991, transcript at 71 (morning session).

¹⁰ Although the FBI and DEA, both of which are Department of Justice components, received certain classified reports concerning BCCI earlier, the 1986 report was not disseminated to either agency.

¹¹ Taylor testimony (8/1/91) at 73 (afternoon session) ("the information in the CIA report is more or less speculative in the sense that it's not documented with any evidence that you could follow up on * * *").

¹² Von Raab testimony (8/1/91) at 71 (morning session).

Second, there have been a number of irresponsible allegations that the CIA somehow blocked or delayed the prosecution of BCCI by interfering with the investigations of the Department of Justice. Those claims are absolutely without foundation. At no time, to my knowledge, has anyone from the CIA, or any other agency, attempted to obstruct or interfere with the Department of Justice's investigation and prosecution of BCCI.

NEW YORK INDICTMENT

I want to turn now to the allegation that the Department of Justice has failed to cooperate with the investigation of BCCI by Manhattan District Attorney Robert Morgenthau.

The claim that the Justice Department has not cooperated with Mr. Morgenthau is unwarranted. The Department has provided substantial assistance to his office since the July 1990 convictions in Tampa, and continues to do so today.

Prosecutors from Mr. Morgenthau's office were provided long ago with unlimited access to all exhibits and the hundreds of tapes made during Operation C-Chase; access to indices to all exhibits and tapes; copies of approximately 1,000 pages of information, including affidavits; copies of all tapes and transcripts, as requested; unlimited access to all agents who worked on the Tampa case; access to witnesses; and detailed financial flow-charts.¹³

That cooperation continues today. For example, the U.S. Embassy in Abu Dhabi, at the request of the Criminal Division's Office of International Affairs ("OIA") has presented a request to the government for the expulsion of Swaleh Naqvi to stand trial in Mr. Morgenthau's case.¹⁴ OIA is also working with Mr. Morgenthau's office to prepare an extradition request to Pakistan for Agha Hasan Abedi. Just last week members of the BCCI task force and Mr. Morgenthau's office conducted a joint interview of an important BCCI witness.

The Department is in touch with Mr. Morgenthau's office on a continuing basis. I have personally directed that all attorneys involved in the BCCI investigation cooperate with Mr. Morgenthau's office to every reasonable extent the law allows. I have also told Mr. Morgenthau on several occasions that he should report any problems to me directly. Any claim that the Department of Justice has interfered with, or failed to cooperate with, Mr. Morgenthau's office is simply wrong.

MONEY LAUNDERING FORFEITURES

Next, I want to address one of the findings of the Schumer Report concerning BCCI's guilty plea in the Tampa case. As the Schumer Report found, the guilty plea was prompted not by any outside influence from Washington, but by the legal situation created by the trial judge's order precluding use of the drug statutes to forfeit from BCCI any of the money it had laundered. Under the court's order, the government faced the prospect, if it had taken the bank to trial, of having to *give back* to BCCI the \$14 million that had been obtained from it in 1988.

When the Department of Justice first proposed what became the Money Laundering Control Act in 1985, we included a provision that would have made "any money or other property involved in [the] offense" subject to forfeiture.¹⁵ But this provision was eliminated. The Senate Report, issued on September 6, 1986, says that the purpose of the change was to limit forfeiture to "the commissions earned by the money launderer" and to preclude forfeiture of the other money involved in the offense.¹⁶

The absence of this provision is what prevented the government from going to trial against BCCI and obtaining the \$15 million—or any other property BCCI had used to commit the money laundering offenses—through forfeiture. When Congress limited money laundering forfeitures to the "commission" earned by the launderer, it limited BCCI's forfeiture exposure in this case to approximately \$250,000, which is the sum total of the commissions the bank received.¹⁷ If we had gone to trial and convicted BCCI, that is all the forfeiture we would have gotten, \$250,000.

¹³ See Letter from Genzman to Morgenthau dated March 8, 1991, and attached documents.

¹⁴ The United States does not have an extradition treaty with Abu Dhabi.

¹⁵ See S.1335 in the 99th Congress.

¹⁶ S. Rep. 99-433, 99th Cong., 2d Sess. (1986), at 8-9.

¹⁷ The assertion of William Von Raab that \$15 million "was actually less than the bank had made from its money laundering activities" is simply false. See Von Raab testimony (8/1/91) at 68 (morning session). The assertion of Mr. Jack Blum is similarly false. *Id.* at 69 (morning session).

The Justice Department came back to Congress in 1988 and got the law changed, so that today laundered money is subject to forfeiture. Because, however, changes in the criminal law do not apply retroactively, we could not make use of that provision in 1990 when the trial was to take place.

CURRENT INVESTIGATIONS

The Department is aggressively pursuing all allegations of wrongdoing by BCCI and its employees. It is conducting investigations through a Washington-based task force and U.S. Attorney's offices in Tampa, Miami, and Atlanta, with related investigations and proceedings in three other cities. At present, 37 federal prosecutors, supported by dozens of agents and supervisory and support personnel, are conducting or supporting investigations nationwide. Two major indictments are pending, and others will likely follow.

Enormous investigative undertakings such as this require a balancing of the need to coordinate efforts and the need to minimize bureaucratic inefficiency. Multiple, overlapping witness interviews, grand jury subpoenas, and document demands from prosecutors around the country could prove disastrous, particularly in foreign countries where officials do not appreciate the decentralized nature of our law enforcement system. Accordingly, certain types of investigative work have to be coordinated closely. On the other hand, prosecutors and investigators must be given sufficient latitude to expend their energies productively. The task force approach, with selected independent but coordinated U.S. Attorney investigations, has been chosen to achieve that difficult balance.

The Washington task force alone has interviewed dozens of witnesses and reviewed tens of thousands of pages of records. It is interviewing witnesses and securing evidence in locations such as Britain, France, Abu Dhabi, Pakistan, Egypt, the Cayman Islands, the Channel Islands, Argentina, Peru, and other countries. It is reviewing proposed charges involving a wide variety of apparent criminal violations.

The Department's prosecutors are conducting a Herculean effort at high speed and under extremely difficult circumstances. The fact that the Department of Justice is aggressively pursuing its investigation does not mean, however, that it will return indictments regardless of the state of the evidence. As I have said repeatedly, the Department will not return an indictment simply to get favorable press coverage or to quiet its critics.

CONCLUSION

In conclusion, Mr. Chairman, I want to reiterate that the Department of Justice has been working on the BCCI matter since 1987; we have obtained significant convictions already; we have two major indictments pending; and we are devoting the resources necessary to ensure that if there is additional wrongdoing yet to be uncovered, it will be pursued professionally, relentlessly, and impartially wherever it may lead.

Senator KERRY. Thank you very much, Mr. Mueller. I appreciate it. I must confess I am a little uncertain as to where to begin for a couple of reasons.

First of all, it is late. We have been here all day and it is a long number of hours. But second, there is a strange road that has been pursued since 1987. I mean, your last comment was, we have been investigating this since 1987. And technically, that is accurate.

Mr. MUELLER. I disagree with the word technically. I think it is accurate.

Senator KERRY. Well, in 1987, you had Bob Mazur and the Customs folks who were fundamentally investigating it. You really only have an assistant U.S. attorney who, as they have all testified, is doing the trial preparations, trial counseling, and so forth.

He is not investigating. He is sort of guiding that or whatever, but the investigation was a Customs investigation. The bank was chosen haphazardly, coincidentally, however you want to call it. I mean, he just happened to pick this bank. He was talking to other banks. This bank proved fruitful. Boom, lo and behold, he is in the bank, and for 1988 and 1989, that is what it is.

There was not a full-time assistant U.S. attorney until 4 months before the takedown. And even then, you had this individual saying we did not have enough resources. They were not able to get the tapes down. They were not able to get transcriptions. They were not able to look at documents and so forth.

In fact, there is an acknowledged timeout, as they called out, as of the takedown itself, the series of first arrests. Then you have a plea agreement. The bank pleads out and to everybody's best sort of sense of things, there is silence on the BCCI front.

I mean that is the perception, Bob, and I am just giving you what—and that comes to us and other people because a lot of reporters were talking to sources, we were talking to sources and the sources all said nothing is really happening.

Then you get into 1989. I think I am correct. January 1990, you have a plea. And at that time in time, there began to be sort of a public hue and cry. But there was enough dissension about the plea that a number of my colleagues joined in writing a letter to the judge admonishing against moving in that direction and there was a certain amount of critical energy about what was happening.

Then a series of articles appear which begin to doubt whether anybody is taking this seriously. And then there is sort of a resurgence of activity. But it was not until after the Wall Street Journal, the Washington Post and the New York Times had begun to front-page Bob Morgenthau's efforts that all of a sudden there was a flurry of newly assigned personnel, new activities, subpoenas issued, and so forth.

So, that is why I say technically. Because the perception really is that there is a gap between 1990 and the latter part of 1991.

Mr. MUELLER. Senator, I have a difficulty dealing with perceptions, perceptions from the outside. In particular, because as you well know as a prosecutor, you cannot disclose what you have been doing and when you have been doing it. Several of your assumptions, I think, are erroneous.

And that is that it was not until July of this year, as a result of newspaper articles and the like, that additional resources were put in, that additional investigations were open. That's just simply incorrect. The information relating to the takeover or the purchase of interests in American banks was passed on to the Federal Reserve early on, as was testified to previously.

Federal Reserve tried to obtain information and evidence of that and was not able to until the Price Waterhouse report disclosed that which was in records, not in the United States, but in records in London, Abu Dhabi, and elsewhere.

When the referrals were made to the U.S. attorney's offices as a result of the Federal Reserve's investigation, based on the Price Waterhouse report, we immediately began assigning assistant U.S. attorneys to conduct those investigations.

Senator KERRY. Right. That was in 1991, right?

Mr. MUELLER. That's correct.

Senator KERRY. But we were working very closely with the Federal Reserve too. We were constantly talking to the Federal Reserve investigators. And I say to you that there was a constant sort of perplexion at the fact that most of the energy seemed to be

coming out of New York and that is just the reality. And that is a reality, not a perception.

Mr. MUELLER. Let me deal with that perception if I might. You have indicated——

Senator KERRY. We are into reality now. We are going to switch from perception.

Mr. MUELLER. Well, let me deal with your perception with reality. And that is that you indicated before that Bob Morgenthau ran with the ball and like Greg Kehoe will say, any prosecutor that make a case, God bless him, and Bob Morgenthau made a case.

But the case of Bob Morgenthau is not the case that I think you were intimating before. And that is, BCCI's acquisition of control over either independents, First American Bank, National Bank of Georgia, or CenTrust. He has not brought any case based on those allegations. The only Federal or the only Government entity that has, has been the Federal Government, the Justice Department.

Senator KERRY. His jurisdiction is not as broad as yours.

Mr. MUELLER. No, but what I'm saying is that while Bob Morgenthau made a case, it was the case based on the Price Waterhouse report and to his credit, he got the Price Waterhouse reports as a result of two of his prosecutors being in Europe at the end of 1990.

Senator KERRY. Let me ask you this question, then. Why do you think that Jack Blum, whom I first directed to say, turn everything over to the Feds, got frustrated enough that on his own he decided that he ought to go up to New York?

Mr. MUELLER. I can't answer why Jack Blum did what he did. I think you heard previously today from the assistants who dealt with him their view of the dealings with him. And, as I say and as I've said before, we, and the direction has gone out from me, that we will cooperate and I think have cooperated with any other prosecutorial body, whether it be Mr. Morgenthau or the Serious Fraud Office in London, who has responsibility under their jurisdiction of prosecuting cases. And we have done that and we will continue to do that.

But in response to this specific question with regard to why Mr. Blum decided to go to the southern, not the southern district, but to the Manhattan district attorney's office, I can't answer that.

Senator KERRY. Where was the principal information that came out of Tampa processed in terms of the larger aspects of this case?

Mr. MUELLER. I don't understand what you mean.

Senator KERRY. Did it go to U.S. Attorney Stephens or did it go into main Justice and was farmed out? Who is overseeing the broader aspects of the case which I have referred to, the arms dealing, the international Ponzi scheme, the artificial sales, conceivably, of banks and purchases of banks? Where was all of that being funneled? Was there one center that was processing that?

Mr. MUELLER. You had certain allegations being made in the U.S. attorney's office in Tampa, if that's what you are referring to. And they were, as you heard previously, the ones that were either pursuing that information or passing it on to the Federal Reserve.

There were as of, I think, the beginning of this year, a number of investigations that were being undertaken in various U.S. attorneys' offices. And it is a function of the way we do business, that the independent, relatively independent, but the various U.S. attor-

neys' offices, conduct the investigations to the point where they come in conflict with investigations in other districts or in certain classes of cases where there's a necessity to go to the Department of Justice.

And so, to the extent that the independent investigations could and were being pursued by the various U.S. attorneys' offices, they were being pursued by the various U.S. attorneys' offices with contacts with the Department of Justice where appropriate.

There came a point in time where the referrals build up from the Fed and it began apparent that there would be conflicts between the districts and it became apparent that a higher degree of coordination would be necessitated. And at that point—

Senator KERRY. What was that point?

Mr. MUELLER. Approximately June or July of this year.

Senator KERRY. Why would that not have been self-evident back in 1988 and 1989 when you had evidence of First American being owned, National Bank of Georgia being bought, New York money transactions taking place, Bob Morgenthau investigating, Washington-based bank with Virginia, Maryland, Georgia, Florida, all involved? Why would it not have immediately been sucked into main Justice and made a primary focus—particularly given the international aspects?

I know an individual U.S. attorney can deal with the Bank of England.

Mr. MUELLER. I think you hear the testimony of the witness today, from the U.S. Tampa U.S. attorney's office. To the extent the allegations should be better pursued by, for instance, the Federal Reserve, the information was passed on to the Federal Reserve.

Senator KERRY. So essentially you are saying that it was left to the Federal Reserve to make a case which they referred to you and you prosecuted this year, or you have now indicted?

Mr. MUELLER. The allegations with regard to First American Bank, for instance, related primarily to—

Senator KERRY. Well, not just First American. I mean what Fed Reserve has now produced to you as a result of the indictment of Ghaith Pharaon, among others?

Mr. MUELLER. I am sorry, the question was?

Senator KERRY. The Fed Reserve's referral to you has resulted in the indictment of Ghaith Pharaon, among others, has it not?

Mr. MUELLER. That is correct.

Senator KERRY. And Mr. Naqvi?

Mr. MUELLER. That is correct.

Senator KERRY. And so forth—so that is not—I mean that could be First American, but that is not specifically what they were indicted for. They were indicted for a series of things, right?

Mr. MUELLER. Well, if you are referring to the indictment that was returned last week, it is an indictment of the BCCI entities, Mr. Abedi, Mr. Naqvi, and Mr. Pharaon, with regard to the acquisition of control of the Independence Bank, not First American Bank, as well as the parking violation with regard to Centrust. It did not encompass the First American transaction.

Senator KERRY. When did the first—speaking of Centrust—when did the first knowledge of Centrust being linked to BCCI surface to Justice?

Mr. MUELLER. I do not know that off the top of my head, Senator. Now are you talking about main Justice, or are you talking about a U.S. attorney's office?

Senator KERRY. I guess any of them.

Mr. MUELLER. That, I just do not know off the top of my head.

Senator KERRY. Can you maybe supply that to us, for the record?

Mr. MUELLER. Yes, I can try, I will find that out and supply that to you.

[The information referred to follows:]

No information was provided by Justice as of January 3, 1992.

Senator KERRY. And can you shed any light for us, Mr. Mueller, on the whole issue of the Saphos letter of how that would have come about? It is my understanding that letters also went to California and New York.

Mr. MUELLER. That is correct.

I mean what I can shed is what was explained to you by Mr. Kehoe before. There was a letter sent, and—

Senator KERRY. Do you know what would have initiated it?

Mr. MUELLER. I do not know what initiated it, other than that the letter that was initially sent was sent for the purpose of assuring that if the Florida regulator decided to leave the bank open, that we had the benefit of a plea bargain, and that we would be able to monitor the accounts of narcotics traffickers who would be using that bank in the future—but only if the bank remained open.

Now, that first letter is ambiguous, at best. But it was rectified within 3 days. But that was the intent of the first letter. And to the extent that it was read to be ambiguous, within actually a day and a half afterward, it was rectified. And that is what Mr. Kehoe testified to before.

Senator KERRY. Just a couple of quick questions, and I will turn it over to my colleague—as you know, there was a big issue recently, and I guess you were dragged into it in your role as head of the Criminal Division, to investigate the Ed Rogers situation.

Mr. MUELLER. Yes.

Senator KERRY. When you went to Abu Dhabi, recently, in connection with BCCI, did you meet with Mr. Rogers over there?

Mr. MUELLER. I have never met or spoken to Mr. Rogers.

Senator KERRY. You have never seen him anywhere, ever?

Mr. MUELLER. Never, not to my knowledge. He may have been in the crowd, some place, but I have never been introduced to him, and I did not know the gentleman.

Senator KERRY. Did you—it is my understanding that he was in Cairo at some meetings there. Have you had any knowledge of that?

Mr. MUELLER. I did after the fact when I attempted to ascertain what, in fact, did happen.

Senator KERRY. And I take it that he was there in connection with the Adham, Mr. Adham, and some of the negotiations that were going on? Is that accurate?

Mr. MUELLER. Well—

Senator KERRY. Do you know what the circumstances were? Let me ask it that way, do you know what they were?

Mr. MUELLER. I do not know the circumstances or the reasons why he was there. I do know, as we—as I put into a letter to Congressman Schumer in response to his, that immediately prior to an interview taking place with one of our prosecutors, that prosecutor was introduced to Mr. Rogers in a very perfunctory manner. Mr. Rogers apparently was in the room prior to the interview being initiated; after the introduction Mr. Rogers left and the interview went forward.

The same thing happened——

Senator KERRY. Did that prosecutor know Mr. Rogers?

Mr. MUELLER. No, had never met him before, had never talked to him——

Senator KERRY. Had never met him before?

Mr. MUELLER [continuing]. Before, did not know who he was. And in fact, the same occurrence happened the following day, where the prosecutor went to the hotel room where the interview was to be conducted, was introduced to a gentleman, and he had forgotten his name. After he came back, he found out, again, that it was Mr. Rogers.

But Mr. Rogers immediately left the room, and the interview went forward. And to my knowledge, that is the only contact that Mr. Rogers had with any of the prosecutors or individuals assigned to the BCCI matter.

Senator KERRY. How did the Justice Department first make contact with Mr. Adham in connection with BCCI?

Mr. MUELLER. Through his attorney.

Senator KERRY. Through his lawyer?

Mr. MUELLER. Through his attorney, Plato Cacheris.

Senator KERRY. A different lawyer.

Mr. MUELLER. Pardon?

Senator KERRY. Not Mr. Rogers', but a different lawyer?

Mr. MUELLER. Plato Cacheris.

Senator KERRY. OK.

Mr. MUELLER. And all negotiations were with that individual. None were with Mr. Rogers.

Senator KERRY. And nobody—did anybody inform you that he might be there or anything?

Mr. MUELLER. Absolutely not.

Senator KERRY. OK.

Have you been able to learn, or has it been part of your inquiry to understand how Mr. Adham, himself, came to know Mr. Rogers' availability or anything?

Mr. MUELLER. I have no——

Senator KERRY. You do not know any of that detail?

Mr. MUELLER. I do not know any of that detail, and I'm not—no, we do not know that detail.

Senator KERRY. Senator Brown.

Senator BROWN. Thank you.

You mentioned earlier that the other aspects of the BCCI case are under investigation.

I assume that means that you are reluctant to discuss publicly what might come up in the future?

Mr. MUELLER. I think I am precluded from doing that, Senator.

Senator BROWN. You can appreciate my interest in knowing whether or not the coffee-smuggling operation and the disguised—and as near as we can tell—illegal takeover, or control of the First American is on that list?

Mr. MUELLER. What I can tell you is that an aspect of that was indicted, Mr. Bilbeisi was indicted in the southern district of Florida on income tax charges relating to that matter. And that is a matter of public record. But beyond that, I am really precluded from going forward, sir.

Senator BROWN. In the interest of accommodating the committee you have summarized your testimony. In the draft that we had, you had a section that dealt on the CIA report and transfer of information. As, I think the Department is aware, Senator Kerry and I have offered an amendment that would require the forwarding of information that has a significant impact on the safety and soundness of banking institutions to be forwarded to the Federal Reserve.

That really came out of the testimony before this committee from the CIA. They had a report involving the illegal takeover, or the illegal control of First American in 1985. They did not advise the Federal Reserve of that report. And they did not even identify who made the decision to not advise the Federal Reserve.

And thus far, they have not taken any disciplinary action against the person who made the decision not to identify the Federal—or notify the Federal Reserve.

Now that may well change, those latter aspects of it. But in drafting this amendment, we had been in touch with the Department to try and get their input. And as near as I can tell, the Department is still opposed to the amendment in spite of the changes we have tried to make in it.

But it would be helpful to us to understand the problem with requiring Federal agencies to notify the Federal Reserve when they have information that significantly affects the safety and soundness of banks.

Mr. MUELLER. Senator, I must confess that I am not familiar with the amendment. If I might know—talk generally about obtaining information from the CIA, NSA, or any—DIA—any of the other intelligence agencies—the information that comes from an intelligence agency, as I think Mr. Genzman indicated previously, tends to be very conclusory. But it may give you leads—even though it is conclusory and it's not something you can put into court.

The problem has always been, and it has been in an area in which—in the area in which we have played on this field is generally in espionage cases, and most recently in narcotics cases. We have a very difficult time dealing with information that comes with the intelligence community, because of the discovery requirements under the Federal Rules of Criminal Procedure; and the concern that if we have in our hands intelligence information that has to be made available to defense counsel, we may be in a position at some point in the trial of having to dismiss a case or disclose the sources and methods of certain information coming from the intelligence community.

Now I—in having dealt with the intelligence community for a period of time as an AUSA, I have seen in the last 2 or 3 years, I think, a complete change of attitude toward helping law enforcement, particularly in the narcotics area where Director Webster determined that the intelligence community should be more supportive than it had been in the past, despite the problems that are there.

But anybody who is familiar with the interface between the intelligence community and the criminal justice system, has to understand that there are very, very difficult issues that have to be resolved before you can move ahead.

I only speculate that those difficult issues, as to the possible disclosure of sources and methods balanced against the need to prosecute an individual, might be behind some of the concern about your amendment.

Now let me just finish off by saying that in this particular case, there have been assertions that there were a number of CIA reports that came to the law enforcement authorities, whether it be money laundering or bank regulatory offenses.

To my mind, there were one—or maybe two—although conclusory, relatively specific items of information did not reach the Justice Department. And in fact, the Justice Department, I do not think, was on the list for disclosure or for circulation of CIA reports until, let's say, 1990.

The only other comment I would have with regard to these supposed voluminous, numerous reports, is that not only were they conclusory, but they tended to be reports that would summarize actions that we had taken, or information already known to us in the money laundering area.

And it not only would they have been not very helpful, it would have been duplicative. And in some cases, they reported on that which we had done—in other words, the response to the fact that we had indicted BCCI in money laundering, and the affect that that would have on the operations, whether it be in Latin America or somewhere else.

So I want to put in perspective exactly what we have obtained from the CIA, and make the point that what we have received could not have been the basis for any conceivable prosecution. At the most, had we received in 1985 the conclusory statement about the ownership, it might have been a lead, but it would have been yet another rumor that was already in the hands of the Federal Reserve—even as early as 1985.

Senator BROWN. Well, I appreciate the comments you have made, and I think they are helpful.

Two observations, at least in my mind—it strikes me that while you, of necessity, focus on what you can use in court, and what will cause you potential disclosure problems in those proceedings. For the Federal Reserve, it strikes me, there is some value in being notified that an illegal takeover has taken place or in the process of taking over. And in their standard of evidence, the purpose may be accomplished simply by getting them to initiate an investigation, which is different than the constraints you are under.

But the second point I wanted to make, and hoped that you might consider—my belief is that good legislation, if it is drawn up

by legislators and imposed on administrators, is often not very good. It is not because people's intentions are not very good. I think, at least in this case the intentions are correct.

But good legislation is one that reflects all the facts, and an understanding of the facts. To have an agency say look, we do not care whether you are willing to take care of all the cases and problems we bring up to you or not, we are going to oppose it—is not the way to help bring about good legislation.

Mr. MUELLER. I hope that hasn't been the response of the Department. If it is—

Senator BROWN. It has been exactly the response of the Department.

Mr. MUELLER. I will assure you, Senator, that we will go back and give that thorough scrutiny, and be glad to discuss that with you or your staff, to determine the grounds which we—on which we based our opposition—I assume from what you said that we did—and see if we cannot work around that, and come up with a piece of legislation that helps all of us in the future—but particularly us. I mean we want the information. The prosecutors want the information from the CIA. They want the information wherever they can get it.

And it can only be helpful. And as I said, I think there has been somewhat of an about-face in the last 2 years, in the intelligence community, and the willingness of the intelligence community to help the law enforcement community.

So I would be more—I would offer our assistance in drafting effective legislation. And I apologize to the extent that you or your staff met a stone wall.

Senator BROWN. You know, I do not say it for that reason. I guess these proceedings sometimes take on an adversarial context. But at least in my experience, good legislation is not necessarily the product of that adversarial context. It does not mean that everybody is always going to agree. But even those of us with a limited ability, sometimes can draft pretty good legislation if we have all the assistance we need.

Mr. MUELLER. That's a line I have heard by defense counsel a number of times in court. And I always watch out when somebody says even those of us with limited ability.

We would be very happy to work with you, Senator. I think we have worked with both this committee, and with both the chairman, and hopefully with yourself in structuring legislation that would be helpful to us.

Senator BROWN. Thank you.

Senator KERRY. Thank you, Senator Brown.

Mr. Mueller, just a few quick questions, and we will wrap up here.

But would you, looking back at this now, recognizing what has happened with New York, the contentiousness, and looking at the number of people you now have assigned to this, and the number of areas of inquiry that exist, and the size of the scandal, had you been there—and I acknowledge you were not the ones calling the shots, you were not there on this—but would you have done anything differently in this effort?

Mr. MUELLER. Well, with the advantage of hindsight, I think anybody would say gees, perhaps we should have had more resources helping out Mark Jackowski—but I would venture to say, as I say that, in the same sentence, that those resources probably would have been put on the first priority. And that was transcribing the 1,000 hours of tape. And I—ultimately it got done.

I can also tell you, Senator, that I am sure there are 50 cases out there just like BCCI, that next summer, or whenever, are going to come out, and we are going to have and look back, and say gees, I wish we had put additional resources on it.

I would, I think, strongly disagree with you, however, in your assertion that had you had a grand jury—and you indicate that our prosecutors have huge egos—but I would disagree with you that even though you have spent time in a prosecutor's office, that had you had a grand jury, that you would have broken this case back in 1988 or 1989.

And I say that for the following reasons: The documents that have led to the prosecutions—apart from the money laundering—had been put together by the Price Waterhouse people. And they have given both Bob Morgenthau, and our office, and the U.S. attorney's offices the ability to proceed, where before-hand we did not have that ability. And you look at the witnesses that had come to you before, someone like, I think, Amjad Awan had come, and I think spoken to your committee, or at least to your investigators, and lied, prior to the takedown.

It—you need the documents and you need the witnesses. And without both, you are not going to make a case. So even if you had a grand jury back in 1988 or 1989, I am fairly convinced in my mind, until we had the conclusions of the Price Waterhouse report, based on records overseas, that nobody would have been able to proceed either with criminal charges or even with civil charges.

I think quite clearly from the testimony of the Fed, they wanted to pursue it, they did what they could to pursue these same charges, with expertise beyond what we have in the U.S. attorney's offices or even in main Justice, and were thwarted in that, because they did not have access to the records.

And I venture to say that Bob Morgenthau—I am sure you have had conversations, and the staff has had conversations with him—will have said that the key to unlocking it was putting together the documents, and the summary of the documents that you found in the Price Waterhouse report, together with witnesses' testimony.

And going back to what happened in Tampa, I tend to think that when Greg Kehoe sits here and says my strategy was to go after the individuals and make them talk, that's a strategy that I would have chosen back then. Because that is a strategy, as a prosecutor, that I have used. And I think it is probably the strategy that you used in Middlesex County as a prosecutor to bring a big case. And I would have done exactly the same thing. I would have put all the pressure I could on those individuals to cooperate, so that I knew that I had individuals who were going to tell the truth under the threat of doing more time in jail, and make certain that the case that I made was a case that would stand up under scrutiny when it went to court.

The other thing I would need, in addition to the witnesses, are the documents. And as I say, the first inclination we had was the Price Waterhouse report. That doesn't give us, and you can't walk into court with the Price Waterhouse report. You still have to get the underlying documents.

But we have the conclusions and the summaries of a review of the documents that gave us the ability to say hey, look, that which had been suspected, perhaps as early as 1980, really occurred.

Senator KERRY. The reason I stand by my assertion is we issue the rate subpoenas. And we would have gotten the documents. But we did not have the ability to back up our subpoenas, which is one of the tougher parts of Congress. To back up a subpoena, you have to go to the floor of the U.S. Senate. And in 1988, there was no mood here, whatsoever, to back it up—which is one of the reasons, incidentally, Jack Blum began to express frustration. And a lot of us did. And people got a sense of institutional barriers, if you will.

And the joy—well, not the joy, that is the wrong word—but the facility of a grand jury is such, as you well know better than anybody, that the capacity to compel, and the capacity to bring those witnesses through in a matter of days or weeks, and to compile the documents is an extraordinary investigative tool, used to great avail by a lot of people.

That is one of the things that never surfaced here in the early days of this effort. And that was one of the reasons. But beyond that, would you have done anything differently? I mean the resource issue is key.

Mr. MUELLER. Well, I think looking at it from my own involvement, there are probably two things that I would have done differently. One is I would have, I think, pursued sitting down with Bob Morgenthau earlier. We made overtures, and we missed each other on a couple of occasions. But I think that would have been helpful. Because I think there has been some miscommunication as to what is wanted and what has been provided.

And I befault myself for not having pursued that, and sat down with him one-on-one. We set up meetings, we had our prosecutors talking with each others. But that does not substitute for sitting down one-on-one with a person. That is one thing, and that is going to occur, since the issue has been raised again.

The second thing that I look back on, and that is the way our system works in the Federal Government. And that is, with U.S. attorneys offices handling particular charges, along with agents in that district. And I think that is, by far, the appropriate system, and the best way to go.

And to the extent that there are not—there are no conflicts between districts, then it really is debilitating for Justice to step in, and to try to coordinate. And the decision was made by me, basically, at the outset, to let the investigations run independently. Because I felt that they would be more effectively run independently, and that we could coordinate at the Justice Department level well enough to assure that all of the allegations were being pursued, were pursued, and coordinated sufficiently so that the cases were brought expeditiously.

Because when you pull something in, and you control from main Justice, there is a downside. You have all of the assistants who

were in the particular district. You have the agents who are familiar with the charges. They have their own grand juries. They are in midstream. And to the extent that you try to pull it out, you undercut the thrust of the investigation.

But there comes a point in time where there are four or five U.S. attorneys office, all of which wish to have their assistants and their agents sitting at an interview of one person. And you have to do a different degree of coordination. And as we have gone down this path, I think we have enhanced the coordination to respond to the necessities of having just two or three people conducting an important interview.

And those problems of coordination are exacerbated when it's not just the U.S. attorney's offices that are conducting their independent investigations, but you have other prosecutorial offices in the United States and overseas who either have the witnesses, or want access to those witnesses. And you have to structure the investigations in such a way so that you maximize your ability to conduct an investigation in a thorough and expeditious manner.

And if you asked me, I would probably say that we probably should have enhanced the coordination from main Justice earlier than we did. Because we're ending up with a number of people in interviews, and interviews were getting delayed because somebody wanted to be there. Those things happen.

Senator KERRY. Well, I think that is a very fair assessment and I appreciate it.

I mean I think it is sort of naturally a human fact that if you have 100 leads out there, and you only have a few people, it is almost inevitable that people can draw a conclusion when 75 of those people do not get reached, that something is not happening. And it is not purposeful, it could well be inadvertent or unwillingly. But that is what people are going to feel is a consequence of it.

I do not believe there was a willful inadvertence here. I think it happened, which is one of my frustrations.

Is there not, therefore, in all of this, a lesson also about, perhaps even something more macro, which is turf and coordination? Do we need to think up here in the Congress about a different line of communication for the overall law enforcement coordination? Now you have the IRS out there, under Treasury; you have Customs under Treasury; you have the FBI, and you have the DEA; you have your—I mean do we need to rethink this?

Mr. MUELLER. I think we all continuously need to address the problem.

I know when I first started as a prosecutor, and I saw the various jurisdictions, and I also had some, on occasion, deal with the Royal Canadian Mounted Police, who were all under one umbrella. And my initial reaction was, as a prosecutor, wouldn't it be helpful if we had one, national, law enforcement agency?

Over a period of time, though, I think in this country, there is a natural and perhaps deserved desire not to have a national police agency. And in the same way that we have checks and balances between the three branches of Government, to a certain extent there are checks and balances between the agencies.

That does not mean, however, that there are not areas in which there should be better coordination, less turf battles, in areas where there could be consolidation of agencies or responsibilities.

But it is something that, I think, probably requires continuous discussion with an understanding that there are a number of people, particularly up here, who would have some substantial aversion to one, national police agency.

Senator KERRY. I would share that. I think it is true. I think it is more a question of how to deal with the coordination issue. It is something to think about in the long-run.

What about the international money laundering? It seems to me that the testimony of Mr. Mazur confirms what many of us have been saying, and what we fear, which is that this is, you know, so huge, and so instantaneous, and so subject to subterfuge and clandestine operations, et cetera, that in this modern world of ours with international marketplace, and instant transfers of huge sums of money, is this just out of our ability to be able to track, or is there a supercomputer capacity and tracking capacity that simply has not been implemented, and some software that would help us to—I know the Fin-cen is in the making and so forth. But is that adequate? Or is there something more that we have to think of resource?

Mr. MUELLER. I think Fin-cen is very good in handling certain types of investigations, and to providing the analytical support.

As to the wire system, we are undergoing a review of that, along with Treasury, to determine whether there is some mechanism, some way that we can do a better job of tracking it. And I am still somewhat ignorant of all the ins and outs of the wire transfer system. And I am in the process of trying to educate myself more than I perhaps have been in the past.

I know people in our money laundering office have been up to New York with the perspective, or with the goal of trying to come up with additional ways to monitor wire transfers, for instance, and to see if we cannot come up with some better ability to track and initiate investigations into money laundering.

But it is a very difficult issue, as I am led to believe. But we are trying to make advances in that area.

Senator KERRY. I have just been passed a note that informs me that the bank bill just passed the Senate by a voice vote. That happens to have title 9 on it, which is the anti-money laundering provisions that I authored—but also, the bank charter revocation provisions, which we hope will be a new tool to enable you folks to rattle the cage of some of these banks that do not want to help comply and work as part of the solution to it.

And I hope it will be a useful tool, I really do.

Mr. MUELLER. We all like to rattle the cage.

Senator KERRY. If it is the right one.

Mr. Mueller, I think this has been a long day. And I am prepared to call an end to it.

We now have a new attorney general; you have a new boss. Yesterday, I think it was yesterday, it might have been the day before—no, it was yesterday—we completed a process of looking at some documents that we had been trying to get from the Justice Department.

I appreciate your role in helping to make those documents available to me, and to the committee. Frankly, it kind of confirmed to me a sense that there really does not have to be the kind of contentiousness that has existed. That, you know, I saw the document, and it seemed pretty straightforward and simple. And I can assure you that you are not going to see them in public—we do not have them, nor even any recitations of them, and there have not been any today.

But it seems to me——

Mr. MUELLER. I am sorry.

Senator KERRY. I am just going to say that I think it is important to try to make that the rule, rather than the exception, and to try to have a communicative process here that meets your needs, but at the same time, meets the congressional oversight needs. And there really is a complication in this notion of, quote “executive privilege.” We are not the first people to raise it. It has been a time-honored bone of contention between Congress and the Executive—sometimes for better reasons than for others.

But it is my hope that under Attorney General Barr’s leadership, and under yours, that as the committee tries to just wind this process up, we can work through the rest of those documents as readily and easily as I thought we did yesterday, with as little fuss.

And I hope that will be possible.

Mr. MUELLER. You mentioned about publicizing some of them. I understood that Mr. Mazur’s letter was released today. And am I wrong——

Senator KERRY. Only partially.

Mr. MUELLER. And I wasn’t certain of the circumstances under that. I think we discussed the fact the Treasury, not the Justice Department, had some concerns about that——

Senator KERRY. Treasury notified us of concerns with respect to any individuals who might be compromised by name or by identification, because there were some allegations made in the letter that were not rebutted, and that might subject them to embarrassment, or—for reasons that were fair. And we made a judgment about that. And, in fact, I personally took out any references that referred to any individual, or to any of those specific items.

So that the only part of it that was made public, in my judgment, was the gravamen of what Mr. Mazur had said here today, in terms of what he found as difficulties in his relationship that caused him to depart. And I think that was it.

Mr. MUELLER. Well, I guess we—we had not heard from Treasury that that had been agreed upon. But the——

Senator KERRY. Treasury wrote us a letter, wrote me a letter and Senator Brown a letter, in which they had laid out their concern. And so we, I thought, had adequately addressed the concern. And that was quite sensible.

Mr. MUELLER. But going back to your initial comments about the process we went through yesterday—to the extent that we can—I think we would very much, with regard to our documents, be willing to go through similar processes in the future. And we have done it not only with this committee, but with other committees.

And we would hope that to the extent that we can, we can make available to you those documents that you need to have in front of

you, as I know you understand, because we have discussed it. And Mr. Kehoe has been present when we discussed it, to the extent that certain of those documents relate to ongoing investigations, confidential informants and the like. Then we have, quite obviously, some very real problems.

But I can assure you that with regard to this particular investigation, and as far as I am concerned with any investigation that I am aware of, we have nothing to hide.

And part of my concern and frustration is given our responsibilities as law enforcement officials, we cannot let you see those portions of document, or have access to grand jury records, that will support us when we make certain assertions.

And it is frustration to have to redact a document because people read into that a desire by the Government not to put out there that which may be embarrassing. And in my mind, we have nothing to be embarrassed about in this investigation. And it would be our preference to give you access to just about everything that we could. But we have to operate as you, I know, understand, under certain restrictions.

So I would hope that we can work this out in the future. That is the bottomline.

Senator KERRY. Let me say to you, simply, about that, Mr. Mueller, that for better or worse, there is a trust factor that is assumed by Senators and Congressmen when they are sworn in. And merely by election to the U.S. Senate, one is given what is called code clearance which is the highest clearance our Government gives.

And on most matters, any U.S. Senator can walk up to Senate 407 and read the daily intelligence, read precisely what is happening with respect to Libya and Qadhafi, with respect to the Soviet Union, with respect to many of our allies and friends, and with respect to all nominations that come up here. We read FBI reports in many cases. We read what are mere allegations.

And most of them, most of them, never reach the light of day—not all of them—

Mr. MUELLER. That is the issue, particularly when you have—

Senator KERRY. But that is part of the problem in our Government. It is not appropriate, and there is no constitutional basis for any agency making its own determination that the Congress, the elected representatives of the people, somehow cannot see something. And I understand the assertion, and the principle that it is based on.

But it remains a major bone of contention in terms of how the process works. There is no way for us, as the elected representatives of the people, to make a judgment about whether or not something is or is not happening, or has or has not been done, if the document supporting it could be kept from us, and nobody can talk about it. Because it is, so to speak, an ongoing investigation.

I can assure you, that there are very few ongoing investigations in the country that amount to the level of security issue of most of the information that crosses our desks that is classified.

I think somewhere there has to be an element of a process of some trust. And I thought you reached out yesterday and did a good job of, you know, blanking out a specific name, or whatever—

but providing for us the capacity to make a judgment that the gist of this was, you know, appropriate.

And that allows us to deal with conspiracy theories by the press; to deal with assertions of arrogance and all the rest of it. And we can stand up and say, hey, let me tell you something. These guys are doing precisely what they have said. And they are doing a damn, good job. And it is better for you to have us standing up and saying that, rather than joining in the human cry, or claiming that somehow you are wrongly keeping something from us.

And I bet you, you win 99 out of the 100 times, by virtue of doing that—and would simply and facilitate your lives, significantly. That is just my feeling.

Mr. MUELLER. I can tell you, Senator, to the extent we are able to do it, we do it. And what is helpful also to us is to know the specifics of what you are seeking.

I mean, quite often, as you well know, we get requests that would be thrown out of any civil court. Because it would constitute abuse of the discovery process. And we are asked—we are given whole-sale requests for document, many of which contain sensitive matters.

To the extent that we can enter into a dialog with a Senator or the staff, and narrow the issues, and pinpoint certain documents, as we did yesterday, we are always willing to do it. And there is some mutual trust. And that is necessitated. And I cannot think of an occasion in the last 1½ years that I have been in, or 2 years that I have been in Washington, now, and been somewhat involved in this process, where we have not attempted to reach that kind of compromise where we provide to you that which you need; but also protect that which must be protected from our perspective.

Senator KERRY. Let me just say, also, that I have high expectations. I think we have a good person in there, who has been very direct with us in the confirmation process. Had we had a recorded vote, I would have cast my vote for him. I have known you a long time. But you have not been involved in the BCCI thing the whole route.

I am convinced that the Justice Department is all-out on this now. I believe that. And I think there are going to be indictments, and a lot of things yet to come in it.

And I am convinced, also, that you are one of the good professionals in this process. You could be doing a lot of other things, not the least of which is out there earning a hell of a lot of money. And you have been at this for a long time as an assistant U.S. attorney, as a first assistant, and now down here in Washington.

So I have no quarrel with your abilities or your capacity or professionalism in this. I know that the Justice Department is going to complete this task. But I am not walking away from my earlier perceptions and so forth of the new regime, and the new outlook.

But I hope for the country's sake, there is going to be a much better relationship. Because we need it desperately. We do not need entities of Government, the bickering and quarreling on the front pages of our papers. We really need a cooperative effort.

And I hope that from this point on, we are going to have that sense with regard to BCCI. And I am confident that we will. Do

you have anything that you want to—and I do not want to cut you off?

Mr. MUELLER. No, I think I have said enough.

The only thing I will say is that the new Attorney General, I think articulated it in his confirmation hearing, a desire to work with Congress as a co-equal branch of Government. And to the extent that we can cooperate, we do want to cooperate, understanding that some of the strictures under which we do have to operate.

And so we look forward again to dealing with and working with this subcommittee in the future.

Senator KERRY. Thank you.

We stand adjourned.

[Whereupon, at 7:20 p.m., the committee adjourned, to reconvene subject to the call of the Chair.]

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