4 *How the U.S. used an offshore bank to run guns, finance Islamic jihadists, and launder money. How its Saudi sheikh owners and American insiders defrauded depositors of over $10 billion. And how they all got away with it.*

BCCI's Double Game: Banking on America, Banking on Jihad

Lucy Komisar

CIA Director Robert Gates called it the "Bank of Crooks and Criminals International." It was a cozy partner of arms merchants and drug traffickers. And of Third World dictators and the CIA. It was part of the entourage of the Bush family and other Washington influentials. Its biggest shareholders were Saudi and United Arab Emirates sheikhs. A grand jury would call money laundering BCCI's "corporate strategy," and the money it stole—somewhere between $9.5 billion and $15 billion—made its twenty-year heist the biggest bank fraud in history. Most of it was never recovered. The George H. W. Bush administration, in power when this massive fraud was discovered, went after the bank halfheartedly and only after indictments by New York District Attorney Robert Morgenthau. But its investigation never touched the offshore system that operates in some seventy financial centers around the world where the owners of bank accounts and companies are kept secret from law enforcers. And it never touched the Persian Gulf moneymen who ran the BCCI criminal enterprise. Here's how the Bush family and its allies used and then protected the world's most criminal bank.

The Bank of Credit and Commerce International was founded in 1972 by a Pakistani banker, Agha Hasan Abedi, with the support of Sheikh Zayed bin Sultan al-Nahyan, ruler of the oil-rich state of Abu Dhabi and head of the United Arab Emirates. A quarter shareholder was Bank of America, which got out fairly early but kept its suspicions of wrongdoing to itself. BCCI spent the 1970s building its power in the developing world and then decided to make the jump to the big leagues.

A Passage of Arms

Norman Bailey, a U.S. National Security Council staffer who monitored world terrorism by tracking movements of U.S. money, began seeing references to BCCI in 1981. The NSC learned that BCCI was involved with “terrorists, technology transfers including the unapproved transfer of U.S. technology to the Soviet bloc, weapons dealing, the manipulation of financial markets,”[1] as well as gunrunning, guerrilla movements, and violations of embargoes and boycotts. BCCI routinely provided illicit arms traffickers with counterfeit documents and letters of credit.

Bailey also became aware of a relationship between BCCI and the CIA. BCCI had in fact become one of the agency’s secret bankers, handling money for covert ops all over the world. CIA Director William Casey met with Agha Hasan Abedi several times in Washington at the Madison Hotel, across the street from the *Washington Post*.[2] The CIA used BCCI branches in Islamabad and elsewhere in Pakistan to funnel some of the $2 billion that Washington sent to Osama bin Laden’s mujahadeen to help fight the Soviets in Afghanistan. BCCI handled the cash that Pakistani military and government officials skimmed from U.S. aid sent to the mujahadeen. It also moved money for the Saudi intelligence services. BCCI was more than a banker for the mujahadeen. It spread cash around to assure the passage of their weapons through Karachi’s port and customs. It even organized mule convoys to transport the arms into Afghanistan.

The mujahadeen financed their movement by taking advantage of the multibillion-dollar Golden Crescent arms-for-drugs trade. The North West Frontier Province on the Pakistani side of the border became the main processing and transit site for opium from Afghanistan. When I was in Peshawar in the mid-1980s, the frontier capital was a dusty town where horse carts vied with four-wheel-drives, and local markets sold Russian Kalashnikovs as well as a rainbow of *burkhas*, which salesmen obligingly modeled for foreign buyers. I’d gone to Peshawar to investigate the U.S. proxy war in Afghanistan, then raging just over the border. I discovered that the Americans and their Saudi partners were sending the lion’s share of covert money and arms to Gulbuddin Hekmatyar, head and founder of Hezb-i-Islami, the most fundamentalist of the Islamist military factions. I learned that the Pakistani military, the middlemen in the transfers, was skimming large amounts of weaponry and cash intended for the Afghan rebels.

A decade later, as I began to focus on investigating the secret offshore banking system, I learned that, in a reach for market share that American business analysts might marvel at, BCCI had become the central banker for everyone involved in regional black ops, running accounts for the arms and drug traffickers, the mujahadeen, the Pakistanis, and the CIA.

The CIA money passed from the U.S. to the al-Taqwa Bank in Nassau to Barbados to Karachi to BCCI in Islamabad. Al-Taqwa—the name means "fear of God"—was not a real bank with bricks and mortar, depositors, and services. It was a shell bank set up to finance the jihad and in fact was simply a correspondent account in the Banca del Gottardo, the former Swiss subsidiary of the corrupt Banco Ambrosiano ("the Vatican bank"), which collapsed in 1982 after looting customers' accounts of more than $1 billion. (That story famously inspired a subplot of *The Godfather Part III*.) BCCI also handled money from the drug trade and payoffs to Pakistani military and officials.

The BCCI operation gave Osama bin Laden an education in offshore black finance that he would put to use when he organized the jihad against America. And the CIA was well aware of its student's capabilities. After 9/11, U.S. agents headed straight for al-Taqwa's operations in Switzerland, Liechtenstein, and Nassau and shut them down. Swiss police questioned al-Taqwa's president, Youssef Mustafa Nada, who was a member of the radical Islamist Muslim Brotherhood, and Swiss agents searched his home in Campione d'Italia, an Italian tax haven on Lake Lugano.

One day in 2002 I took the ferry from Lugano, on the Swiss side, to Campione. Nada, a man who appeared to be in his sixties, met me at the dock and drove me up the winding road to his hilltop mansion, where luxurious living rooms decorated with ornate carvings and inlaid furniture reminded me of the Blue Mosque in Istanbul. He had a cultured demeanor that went with the elegant surroundings. He called a servant to bring us soft drinks.

I'd been investigating the Banca del Gottardo for several years and had developed sources with intelligence connections. One of them had sent me the confidential Nassau shareholder list of the al-Taqwa Bank, which listed members of the bin Laden family.

I confronted Youssef Nada with the list, and he acknowledged immediately that it was genuine. He said, "You can ask Mr. Nicati [the Swiss deputy federal prosecutor]. He investigated all these things. Even the FBI knew three years ago." Then he corrected himself: "They know since 1997. I talked to them

. . . . The sisters of bin Laden? Ask Mr. Nicati. It is an old story, and they know. The FBI knows it, Treasury knows it. They wrote and brought the photo of the list."

Then the interview was over. Nada drove me over the bridge that connects Campione to Lugano and dropped me at the train station.

Halfway across the globe, the alliance between BCCI and the CIA was equally productive in the Americas. NSC staffer Oliver North set up Panamanian shell companies and secret BCCI accounts to handle payments of $20 million for arms to the Nicaraguan Contras and to Iran in 1985 and 1986. As part of his illegal operation, BCCI provided more than $11 million in financing for 1,250 U.S. TOW antitank missiles sold to Iran's Revolutionary Guards in a deal to buy the release of American hostages in Lebanon. Checks signed by North were drawn on BCCI's Paris branch, which—not surprisingly—had no records of the account when U.S. law enforcement agents later sought them. BCCI also handled Reagan–Bush administration payoffs to Panama strongman Manuel Noriega, who became a BCCI client at the CIA's suggestion. Syrian drug dealer, terrorist, and arms trafficker Monzer al-Kassar made a deal to sell $42 million worth of arms to Iran as part of North's plan, using BCCI's offshore Cayman Islands branch to run the cash.

BCCI also helped Saddam Hussein, again with the complicity of his Washington friends. The bank funneled millions of dollars to the Atlanta branch of the Italian government–owned Banca Nazionale del Lavoro (BNL), which was Iraq's American banker, so that from 1985 to 1989 it could secretly loan $4 billion to Iraq to help Saddam buy arms. Congressman Henry Gonzalez held a hearing on BNL in 1992 during which he quoted from a confidential CIA document reporting that the agency had long been aware that BCCI headquarters was involved in the American branch's loans to Iraq.

Kickbacks from 15 percent commissions on BNL-sponsored loans were channeled into bank accounts held for Iraqi leaders via BCCI offices in the Caymans as well as in offshore Luxembourg and Switzerland. BNL was a client of Kissinger Associates, and Henry Kissinger was on the bank's international advisory board, along with Brent Scowcroft, who would become George Bush Sr.'s national security adviser. In light of that connection, Bush administration indignation at Iraq's "oil for food" payoffs is rather disingenuous. Bush and his friends knew that Saddam was taking payoffs on their watch: their favorite criminal bank was moving the money. In a pre-9/11 incident of imperial blowback, the weapons bought by Saddam with BNL funds were used during the first Gulf War against American troops and their allies.

Another satisfied weapons buyer was terrorist Abu Nidal, Palestinian founder of Fatah and Black September. A BCCI client since 1981, he had a $60 million London account to pay for arms and logistics. A London BCCI bank manager, Ghassan Qassem, discovered that his best customer was the world's most-wanted terrorist when someone showed him Abu Nidal's photo in the French newsmagazine *L'Express*. The manager took the information to BCCI headquarters and was told, "Destroy it immediately, and go back to your branch, and don't you ever mention it to anyone, because the general manager has got enough problems without having to add any more." Qassem alerted agents of MI5, one of the British intelligence services, who traced payments from the BCCI account of a Syrian intelligence operative to an Abu Nidal agent who in 1986 had used his girlfriend in an unsuccessful attempt to smuggle a bomb aboard an Israeli airliner at Heathrow in London. The British warned the CIA, which apparently was not interested—or perhaps already knew.[3]

The bank's drug trade clients were not only politicals. The United Arab Emirates, home of prominent bank shareholders, was a favorite laundering spot for hot cash. By the mid-1980s, the Drug Enforcement Administration (DEA), the IRS, and, of course, the CIA knew that BCCI was laundering cocaine money and had set up numerous branches in Colombia to handle accounts for the Medellín and other drug cartels. According to a classified 1986 CIA report, "Many of BCCI's illicit banking activities, particularly those related to narco-finance in the Western Hemisphere, are believed to be concentrated in the Cayman Islands facility."[4] DEA agents for C-Chase, the operation that first put BCCI in the U.S. dock, discovered $19 million laundered via transfers through BCCI branches in Panama, Geneva, Paris, London, and Nassau.

Offshore Secrets

Abedi moved BCCI's headquarters to London in 1976, but the bank actually operated through a network of offshore centers, especially Luxembourg and the Cayman Islands, as well as in Lebanon, Dubai, Sharjah, and Abu Dhabi, the last three part of the United Arab Emirates. The secrecy of offshore banking and corporations was the key to BCCI's operations and deceptions. Offshore centers—also known as tax havens—allow clients to open bank accounts and companies with hidden or fake owners. They register "shell companies," listed in the names of "nominees," hire front men, and then "layer" them into webs of holding companies, affiliates, and subsidiaries. Records are divided among myriad jurisdictions. The purpose is to move money in a way that muddies the paper trails. No single government can follow what a crooked company is doing. No one can unravel the series of fictitious transactions. Offshore is used to hide and move money for drug and arms traffickers, dictators, terrorists, corrupt officials, financial fraudsters, tax evaders and other cheats. Offshore exists because the world's big banks want it to exist—they make a lot of money from those secretive branches. BCCI couldn't have invented a better system.

BCCI incorporated in offshore Luxembourg. Then BCCI Holdings was set up, with BCCI SA in Luxembourg to deal with Europe and the Middle East, and BCCI Overseas in Grand Cayman, also offshore, to handle developing countries. BCCI's Caymans "bank within a bank," the International Credit and Investment Company, was just a post office box that by 1990 "held" over $7.5 billion in assets. Audit duties were divided between Ernst & Whinney and Price Waterhouse, which didn't share information with each other. The Bank of England was charged with oversight for fifteen years, and it said that everything was just fine.

By 1977, BCCI had 146 branches in forty-three countries. Its assets rose from $200 million to $2.2 billion. Bank of America smelled a rat because of the poor documentation of loans, and it bailed out in 1978—but without raising any alarms in the U.S. Warnings might have depressed the stock, which BofA sold at a profit, turning a $2.5 million investment into $34 million. Silence was indeed golden.

By 1983, BCCI had 360 offices in sixty-eight countries: 91 in Europe; 52 in the Americas; 47 in the Far East, South Asia, and Southeast Asia; 90 in the Middle East; and 80 in Africa. By the mid-1980s, it was in seventy-three countries and had assets of $22 billion.

Bribes to central bankers and finance ministry officials bought it central bank deposits, or sometimes the right to handle a country's use of U.S. commodity credits, or special treatment on processing money transiting a country with monetary controls, or the right to own a bank in a country where foreigners were not allowed to do so. In Peru, $3 million that moved through a Swiss bank in Panama won BCCI $250 million in deposits from President Alan García's administration.

In all, BCCI corrupted officials in Argentina, Bangladesh, Botswana, Brazil, Cameroon, China, Colombia, the Congo, Ghana, Guatemala, India, Ivory Coast, Jamaica, Kuwait, Lebanon, Mauritius, Morocco, Nigeria, Pakistan, Panama, Peru, Saudi Arabia, Senegal, Sri Lanka, Sudan, Suriname, Tunisia, the United Arab Emirates, the United States, Zambia, and Zimbabwe.

BCCI knew how to collect profits from criminal enterprises, but it wasn't very good at normal business. In 1983, it set up a division to trade in the stock and commodities markets. To cheat countries on taxes, trades would be executed in London but booked in the tax-free, bank-fraud-friendly offshore Cayman Islands. (Citibank had done the same with currency trades in the 1970s, but, after the Securities and Exchange Commission exposed its tax scam in 1981, the just-appointed Reagan SEC director of enforcement, corporate lawyer John M. Fedders, gave the bank a pass, explaining, "I do not subscribe to the theory that a company that violates tax and exchange control regulations is a bad corporation. . . ."[1] Abedi must have read the newspaper reports.) BCCI traders lost more than $800 million in speculative trading in U.S. Treasury bonds from 1979 to 1986, but they shifted the losses to hidden records in the Caymans.

Friends in High Places

A bank heavily involved in criminal activity knows the importance of prominent friends. Abedi turned to the Middle East, where he found a few dozen major investors.

Abu Dhabi Sheikh Zayed and his family paid no more than $500,000, but they were the owners of record of almost one-quarter of the bank's shares. A large part of the investment was risk-free—with guaranteed rates of return and buyback arrangements. Sheikh Kamal Adham, head of Saudi intelligence from 1963 to 1979 and brother-in-law of the late Saudi King Faisal, was the CIA's liaison in the area and became one of BCCI's largest shareholders. George Bush Sr. knew Adham from when Bush ran the CIA in 1975. Another investor was Prince Turki bin Faisal al-Saud, who succeeded Adham as Saudi intelligence chief.

With the cash it collected, BCCI made about $2 billion in insider loans to shareholders and others with close affiliations to the bank. For example, Kamal Adham borrowed $313 million, including the money to buy his shares. Ghaith Pharaon, the son of an adviser to King Fahd, was also a BCCI investor as well as a front man for the bank's illegal purchase of three U.S. banks. He got loans of $300 million.

The loans of the Arab backers were written off the books or paid on paper by moving money among offshore banks. BCCI was, in effect, a huge Ponzi scheme. While the Pakistani bankers and their friends took money out, money was paid in by 1.4 million depositors, many of them South Asian small businesspeople or immigrants.

The Arabs' interest in the bank was more than financial. A classified CIA memo on BCCI in the mid-1980s said that "its principal shareholders are among the power elite of the Middle East, including the rulers of Dubai and the United Arab Emirates, and several influential Saudi Arabians. They are less interested in profitability than in promoting the Muslim cause."[5]) The Abu Dhabi princes also enjoyed the favors provided by BCCI's "special protocol department," which, according to the later investigation by Senator John Kerry, provided big investors with prostitutes, especially teenage virgins.

The bank also had American friends.

The Democrats: Jimmy Carter and Associates

Jimmy Carter met Abedi through his former treasury secretary, Bert Lance, who had been bailed out by the banker after he got into hot water in an investment in a Georgia bank. Traveling on BCCI's Boeing 707, Carter accompanied Abedi on trips to Africa aimed at getting officials to deposit foreign reserves with BCCI. In return, the former president got an $8 million donation for health projects. Carter would later defend BCCI when it was charged with criminal acts.

Lance also introduced Abedi to Jackson Stephens, Carter's roommate at the U.S. Naval Academy. Owner of Stephens, Inc., of Little Rock, Arkansas, the largest privately owned investment bank outside Wall Street, Stephens helped smooth BCCI's way in the U.S.

Andrew Young, Carter's UN ambassador and later mayor of Atlanta, took an annual $50,000 consulting retainer from BCCI as well as a line of credit for a loan balance of $150,000 that was later forgiven by the bank. Young earned his fees by introducing Abedi to business and government officials in more than a dozen developing countries and helping him get deposits from their central banks.

The Republicans: The Bushes and Their Associates

The Bushes' links to the bank passed through Texas businessman James R. Bath to major BCCI shareholder Khalid bin Mahfouz. Bath invested money in the U.S. on behalf of bin Mahfouz, and the two, with a third partner, Ghaith Pharaon, shared ownership of Houston's Main Bank. In 1976, when Bush Sr. was head of the CIA, the agency sold some planes from Air America, a secret "proprietary" it had used during the Vietnam War, to Skyway, a company owned by Bath and bin Mahfouz. Bath then helped finance Bush Jr.'s oil company, Arbusto Energy, Inc., in 1979 and 1980.

Harken Energy Corporation, which had absorbed Arbusto, got into financial trouble in 1987, and Carter's friend Jackson Stephens helped it secure $25 million in financing from the Union Bank of Switzerland (UBS). As part of that deal, a place on the board was given to Harken shareholder Sheikh Abdullah Taha Bakhsh, whose chief banker was bin Mahfouz. When George Bush Sr. was elected president in 1988, Harken benefited by getting some new investors, including Salem bin Laden, who was a half-brother of Osama bin Laden, and Khalid bin Mahfouz. Osama bin Laden himself was busy elsewhere at the time—organizing al-Qaeda.

Buying into the U.S.

BCCI had offshore branches scattered throughout the world, but it needed to expand into the U.S. Its money transfers were in dollars, and as an offshore institution without a U.S. charter it had to use Bank of America as its correspondent bank. A correspondent account is an account a bank has in another bank through which it can move money for itself and clients. But BCCI had problems, because it didn't want to supply BofA with the necessary documentation about money transfers. That would have made it difficult to launder criminal cash, an essential part of its business. It tried to buy the Chelsea National Bank in New York but was turned down by state authorities because BCCI's corporate division into two offshore centers meant that no bank regulator could see what was going on worldwide.

So Abedi decided to finesse the regulators and infiltrate the American banking system. Fortunately for him, other U.S. bank regulators were not as stuffy as the New York authorities. BCCI bought banks secretly with the help of prestigious and politically well-connected friends in the U.S. and wealthy friends in the Persian Gulf. By the end of the 1970s, BCCI had four major banks, including National Bank of Georgia and Financial General Bankshares (later renamed First American), operating in the District of Columbia, Florida, Georgia, Maryland, New York, Tennessee, and Virginia: the better to launder money into the American financial system.

Ghaith Pharaon—the Saudi partner of the Bushes' friends James Bath and Khalid bin Mahfouz—was a front man for purchase of National Bank of Georgia and several others. With a loan from BCCI, he bought Bert Lance's shares in the National Bank of Georgia for twice their market value. Lance's friend Jackson Stephens in Arkansas helped organize the stock purchase. Lance, who was in financial trouble at the time, also got a loan from BCCI for $3.4 million—with no collateral or set interest.

Another important friend to BCCI was Clark Clifford, Lyndon Johnson's defense secretary and adviser to several presidents. When I interviewed him in the 1970s, he made a show of taking me to his office window and pointing out how it overlooked the White House. So close to power! Introduced to the conspirators by Lance, Clifford and his protégé Robert A. Altman helped BCCI secretly—and illegally—buy Financial General Bankshares. Clifford became chairman of the bank after it was renamed First American, while Altman became its chief executive. Clifford was legal counsel to both BCCI and First American.

The covert shareholders included Sheikh Kamal Adham, Prince Turki bin Faisal al-Saud, another Saudi intelligence operator, Abdul-Raouf Khalil, and Sheikh Khalifa bin-Salman al-Khalifa, prime minister of Bahrain, whose brother, Bahrain's ruler, gave Harken Energy its famous offshore drilling contract. Five nominee companies controlled by bin Mahfouz and his brothers bought shares in First American Bankshares. Fronting for the clandestine owners were former Missouri Senator Stuart Symington, retired Air Force General Elwood Quesada, and retired Army General James M. Gavin. Symington, who had run in the Democratic presidential primary in 1960 with Clark Clifford as his campaign manager, became chairman of Credit and Commerce American Holdings, a shell company in the offshore Netherlands Antilles that had been set up to buy the U.S. banks with BCCI money.

BCCI's American front men sought government permission to acquire First American, assuring the Federal Reserve, which has authority over federal banks, that they were investing their personal funds supplemented by money borrowed from banks not related to BCCI. The Fed, headed by the Teflon-coated Paul Volcker, had some evidence that BCCI was behind the deal but didn't act on it. The CIA and the State Department told the Fed that they had no concerns about the Middle Easterners behind the purchase. And BCCI's hired guns, Clifford and former Federal Reserve Counsel Baldwin Tuttle, were so reassuring.

The only protest came from Sidney Bailey, Virginia commissioner of financial institutions, who noted that the bank was owned by a series of foreign investors via shell companies registered outside the United States. The money was coming from a small French bank acting as a *prêt-nom* for BCCI. Later Bailey said, "I felt like a voice in the wilderness. The Fed paid little attention to what I had to say."[6]

Clifford spent thirteen years as chairman of First American Bankshares and BCCI's lawyer, but he would later claim that he didn't know that BCCI controlled the bank. Altman also finessed the truth when he was asked if First American's stockholders had borrowed money from BCCI, declaring, "We don't have access here to such information." The records may have been elsewhere, but BCCI had loaned both Clifford and Altman money to buy and then sell BCCI stock, transactions that made Clifford $6.5 million and Altman $3.3 million.

First American certainly knew how to make friends. It loaned $1 million to Michael Deaver, an official of the Reagan White House, who then became a lobbyist for the Saudis. It gave another loan to conservative journalist Robert Novak. Its board included lobbyist Robert Gray of Hill and Knowlton (which lobbied for the embattled BCCI on Capitol Hill) and Karl G. Harr Jr., an aerospace lobbyist who had served on the National Security Council's Operations Coordinating Board (which oversaw CIA covert operations). The CIA had several accounts at BCCI and First American,[7] facilitating the movement of at least half a million U.S. government dollars to Panama's Manuel Noriega.

The Kerry Investigation and the Tampa Case

Washington lawyer Jack Blum had been associate counsel to the Senate Foreign Relations Committee during 1972–76 and in that capacity had handled both the committee's investigation of corrupt foreign payments by American corporations and its investigation of the international petroleum industry. Before that he had been assistant counsel to the Senate Antitrust and Monopoly Subcommittee. He was a passionate foe of corruption and knew a lot about criminality inside the U.S. government.

He was hired as special counsel to John Kerry's Subcommittee on Terrorism, Narcotics, and International Operations to investigate the relationship of narcotics law enforcement to American foreign policy interests. Ever since the Reagan administration had squelched revelations of drug dealing by its Nicaraguan Contra protégés, Kerry had wanted to look at the connections between U.S. foreign policy and drug trafficking. But he'd been blocked in the Senate. Finally, he began hearings in 1987 that lasted into 1988.

Blum explained to me, "The Foreign Relations Committee was looking at the relationship between drug trafficking and arms dealing and the way we run foreign policy. Did we ignore all the stuff going on to support the war in Nicaragua? We got into the issue of money laundering." Blum said that he stumbled across Lee Ritch, who had completed a prison sentence in the U.S. for drug trafficking. Ritch was born in Florida but was a Cayman Islands citizen through his father. He told the panel, "I used to launder my money in the Cayman Islands. The U.S. wised up, and the bankers told me to shift to Panama. In Panama, I'm told the only guy to talk to is Noriega. He sends me to BCCI." Democratic Senator Sam Nunn of Georgia, chairman of the Permanent Subcommittee on Investigations, heard the same information at his own hearing, but he ignored it. So did the Justice Department.

Blum said, "We go poking around. I found a guy who had worked for BCCI. I met him in Miami. He said, 'That's their major line of work. They're a bunch of criminals.' He goes on to say that in addition to handling drug money, they were managing Noriega's personal finances and that the bankers who did that lived in Miami. Noriega even carried a BCCI Visa credit card." So Blum subpoenaed that information.

José Blandón, a former Panamanian diplomat who had turned against Noriega, told Blum that BCCI was Noriega's bank and played a role in major criminal activity, including moving the money of the Medellín cartel. Blum allowed federal customs agents to listen to the testimony from another room and to keep tapes. When Customs Commissioner William von Raab asked the CIA what it knew about the bank, he got lies from Deputy Director Robert Gates. Bush's Treasury Secretary Nicholas Brady told Raab to stay away from the case. Raab was removed from the investigation, and, when he persisted, was told to resign.

Blum heard the same story of BCCI lawlessness from Amjad Awan, head of Latin American operations for BCCI and Noriega's personal banker. He got Awan to admit that BCCI had criminal clients, laundered drug money, and secretly owned and controlled First American Bank.

Tampa, Florida, a sunny port on a bay running into the Gulf of Mexico, is noted for handmade cigars, shrimp, and phosphate shipping. It attracts some of Florida's west coast tourism, personnel from nearby MacDill Air Force Base, and some less savory characters. The BCCI scandal began to unravel with a drug trafficking case that year in Tampa. Blum said, "We find out about coming arrests for money laundering [in the Tampa drug-trafficking investigation, Operation C-Chase]. We started with laundering drug money, but then pursued it much further and got in testimony a pretty good layout of the criminal nature of the bank. Having done that, we wrote a report and said the matter needs further investigation. But the Justice Department doesn't pick up on any of the clues. I talked to them. I got a leading figure in the bank [Awan] to turn evidence to the government, which didn't want to listen. I taped him for three days with undercover agents in a hotel room in Miami; the government didn't transcribe the tapes."

Blum persuaded two former BCCI officials to meet with federal prosecutors in Tampa. Both informants believed and said that BCCI controlled First American. The federal prosecutors issued a few subpoenas but did little else to investigate the allegations or even to give the information to the FBI or other agencies. Blum said, "The feds wanted to make only a limited case in Tampa; they didn't want to investigate other ramifications. Their story is they had their case and didn't want it messed up with extraneous stuff. The notion that the other stuff was extraneous boggles the mind!"

In October 1988, a month before the U.S. presidential election, the bank and eight of its employees were indicted for laundering millions of dollars for the Medellín cartel. The indictment said nothing about Noriega, who was still on the CIA payroll, a relationship that Republican candidate George Bush Sr. had initiated when he headed the agency. Blum alerted Kerry, who released a deposition about Noriega's ties to drug running and BCCI.

But the Justice Department, under Attorney General Richard Thornburgh, made a plea bargain with the bank in which defendants admitted the charges. Five Pakistani bankers got from three to twenty-five years in prison. Curiously, their lawyers did not allow them to plea bargain themselves, which might have reduced the sentences but would also have provided information about BCCI. The Justice Department went for the narrowest case possible. It declined to use the RICO (Racketeer Influenced and Corrupt Organizations) law—invented to aid prosecution of drug traffickers and organized crime—which would have threatened confiscation of the bank's assets.

BCCI's fine was $14 million—about what the undercover agents posing as drug traffickers had deposited! The U.S. attorney's office in Tampa agreed not to charge the bank or any affiliates with other federal crimes "under investigation or known to the government at the time of the execution of this agreement." Justice even wrote letters to state regulators asking them to keep BCCI open! The deal kept the bank alive and discouraged the jailed officials from telling more.

Kerry attacked the pact as a "sad commentary on a country that is supposed to be taking money laundering extremely seriously. . . . When banks engage knowingly in the laundering of money, they should be shut down." When the Justice Department countered that no statute allowed the government to close banks that launder money, he drafted one. It was killed by the Republicans, led by Senator Orrin Hatch, who made a speech declaring BCCI to be a good corporate citizen. Then Hatch asked BCCI to lend $10 million to one of his friends.

Meanwhile, tapes of witnesses talking about the link between First American Bank and BCCI and about payments to American officials disappeared. Blum said, "There's no question in my mind that it's a calculated effort inside the federal government to limit the investigation. The only issue is whether it's a result of high-level corruption or if it's designed to hide illegal government activities."[8]

Federal attorneys later said Justice Department officials told them that BCCI was a "political" case and that Washington decided how to investigate and prosecute it. The CIA needed a dirty bank, and it wasn't going to blow the whistle on this one. When Kerry's investigators tried to find out what the CIA knew, the agency repeatedly lied or withheld information. But Blum discovered the agency's ties to the bank. He found that during the 1980s, the CIA had prepared hundreds of reports that discussed BCCI's criminal connections—drug trafficking, money laundering—and its illegal control of First American Bank. Those in the know, former CIA Directors Richard Helms and William Casey, later lied and said that they hadn't a clue. The CIA blocked investigation of leads in the case. Documents were destroyed, an agent later reported.[9] The CIA provided its reports to Treasury Secretary Donald Regan, who didn't act on them and did not provide information to the prosecutors in Tampa.

The Treasury and Justice Departments also sat on evidence. A report by staff of New York Democratic Rep. Charles Schumer noted that Customs had been tipped off to BCCI's criminality in 1983 by a Jordanian arms dealer and coffee smuggler. In 1984, the Internal Revenue Service was told about BCCI money laundering by the former chauffeur at BCCI Miami. But IRS agents' requests to investigate the bank were turned down by their superiors. In 1986, the IRS got information from India about BCCI money laundering in several countries. No action was taken. A DEA agent taped a BCCI official in a sting telling how he could launder the agent's money. No further investigation. The Schumer report found that there had been hundreds of tips on BCCI to federal agencies.

Robert Mazur, the undercover Customs investigator who ran a sting against the bank in Tampa, found his proposals for more intense investigations led to threats of transfer, so he quit in disgust and went to the DEA. The Justice Department ordered key witnesses not to cooperate with Kerry and refused to produce documents subpoenaed by his subcommittee. Justice tried to gag Mazur, but he finally told the subcommittee that hundreds of leads about BCCI crimes had been ignored, including by Paul Volcker's Federal Reserve. When an agent of the Tampa drug-bust team, David Burris, told a Fed regulator that a BCCI employee had said that the bank controlled First American and a bank in Georgia, the regulator said he couldn't act without documentation.

Ineptitude? Bungling? Or protection of a politically connected criminal bank? Blum told me, "When I first looked at it, I thought there's something nefarious or embarrassing. What is it? Their own incompetence? Worse? You never know the answer." He noted, "This whole collection of people were wrapped up in the Bush crowd in Texas. Prominent Saudis played a key role."

Kerry was a junior senator, and his terrorism and narcotics subcommittee mandate was limited to looking into connections between those two issues. When the subcommittee tried to schedule public hearings on BCCI, it was blocked by the Justice Department and the Senate. He found lack of support from key Democrats, who didn't want to stir up financial scandals after some—including Banking Committee Chair Donald Riegle—had been embarrassed by revelations that they had received contributions from savings and loan crook Charles Keating. Keating and his Lincoln Savings and Loan invested millions of dollars in Trendinvest, an offshore speculator in foreign currencies. One of Trendinvest's board members was Alfred Hartmann, manager of BCCI's Banque de Commerce et Placements and vice chair of Bank of New York–Inter-Maritime Bank, both in Geneva. Lincoln's collapse cost taxpayers $2.5 billion. Embarrassment trumped corruption, so the chair of the Foreign Relations Committee, Senator Claiborne Pell, blocked further hearings.[10]

Blind Oversight: The British Accountants and the Bank of England

The accountants Price Waterhouse UK helped perpetuate the fraud. The fellows running BCCI were not as bright as they thought they were. They were playing with $10 billion in depositors' money, buying and selling currency, trading in commodities; when they lost, they covered up by cooking the books. They hid losses with invented trades through networks of shell companies protected by offshore secrecy. But by 1986 Price Waterhouse had discovered losses of $430 million in commodities trades, the entire cash capital of the bank. By their rules, the auditors had to tell only the managers, who were running the dirty bank, not law enforcement agents who might protect the depositors or creditors. And they didn't tell Price Waterhouse in the U.S., which was auditing BCCI operations stateside.

Until 1987, Price Waterhouse shared accounting duties with Ernst & Whinney, but that firm quit, unhappy at not having access to all the books worldwide. Still, even as sole auditor, PW was blocked by bank secrecy laws from getting information from subsidiaries in offshore jurisdictions such as Switzerland. And PW backed down in surprising cases. The loan files in London were written in Urdu, but when PW sent an Urdu speaker to the bank, he wasn't allowed in. The auditors didn't insist. When BCCI would not identify borrowers, the auditors again backed down.[11] PW may have had other concerns. Price Waterhouse partners in the Caribbean had taken BCCI loans of over $500,000.[12]

In spite of expressions of concern by other countries' regulators, PW kept BCCI's fraud and parlous condition secret. When it learned that BCCI had bought First American Bank illegally through nominees, it didn't tell Price Waterhouse in the U.S. In its audit conclusion, it lied that its picture of BCCI's books was "true and fair."

Price Waterhouse in the U.S. might nevertheless have had a clue. Robert Bench was associate deputy comptroller of the currency in the Treasury Department when he was sent a copy of a CIA report on BCCI. He quit to go to work for Price Waterhouse on the BCCI account.[13] It wasn't until 1991 that Price Waterhouse UK told the full truth. At the request of the Bank of England, PW wrote the confidential *Sandstorm Report,* which detailed the phony records and shell companies, the use of Middle Eastern nominees, the Ponzi schemes.

Another failure in oversight was the work of a committee from eight countries set up in 1987 by the Basel Committee, the central club of the world's big banks, to look at BCCI's operations in the wake of rumors of funny dealings and big losses. The committee was next to useless: It took no action even after the Tampa charges became public knowledge.

In 1988 and 1989, the Bank of England learned of BCCI's involvement in the financing of terrorism and in drug money laundering, but it didn't shut BCCI down. In 1990, when Price Waterhouse reported to the Bank of England about BCCI fraud, the bank still took no action. The bank even tried to keep the accountants from cooperating with agents of New York District Attorney Robert Morgenthau, who was conducting the only serious investigation of BCCI.

England's central bank thought it was just fine for BCCI in 1990 to move its headquarters, officers, and records out of British jurisdiction to Abu Dhabi, where someone else would have to worry about it. When indictments were finally handed down, the government of Abu Dhabi refused to provide the records to criminal investigators in the U.S. or the UK.

Morgenthau: The Tide Turns Against BCCI

With Kerry's support, in 1989 Blum went to see New York District Attorney Robert Morgenthau. Morgenthau had been district attorney for New York County (Manhattan) since 1975. He was the most important financial crimes investigator in the United States. He still is. Blum told him about the Justice Department's refusal to look into BCCI's involvement in drug money laundering and other crimes. Morgenthau opened an investigation and ran into a wall of obstacles from Justice, which refused to cooperate, grant him access to witnesses, or share information. Morgenthau even had to send a fax to the U.S. attorney in Tampa asking him to please answer his telephone.[14] His chief investigator, John Moscow, learned about the tapes that the Tampa prosecutors had made of Blum's informants. However, for months, said Moscow, they had insisted that there were no such tapes.

Then Morgenthau received a gift. The chairman of BCCI's internal review committee in London, Masihur (Arthur) Rahman, told his bosses that the bank's true finances had been distorted by deception and manipulation, and he resigned. He got phone calls threatening him and his family with death. Rahman contacted Morgenthau's office and revealed the Price Waterhouse audit report that, through a series of phony loans, BCCI had gained secret ownership of First American Bankshares, now an $11 billion U.S. interstate bank holding company.

In May 1991, Kerry finally got a one-day hearing before a banking subcommittee, which refused to provide staff for the hearing; Kerry used his own people. Senator Claiborne Pell did his friend Clark Clifford a favor by delaying issuance of subpoenas until the hearing was over. The Justice Department ordered key witnesses not to cooperate, and it refused to supply subpoenaed documents. After Kerry threatened that he would put a permanent hold on the nomination of Robert Gates as CIA director, an agency official testified that the CIA had known about BCCI for years and that it had accounts in BCCI. After Blum told Pell that he had found evidence linking BCCI to First American, Pell had him dropped from the committee payroll.

Blum said the bank's friends prevented more Kerry hearings: "They got it out of Foreign Relations. . . . We later learned that BCCI, between September 1988 and July 1991 when the bank closed, spent $26 million on lawyers and lobbyists trying to keep themselves in business. They hired people on both sides to shut [the investigations] down." Finally banking investigators began to be interested and to discover the BCCI use of front men to buy American banks. In January 1991, after several years of sitting on its hands while receiving damning information about BCCI, the Federal Reserve ordered an investigation into BCCI's control of First American. In March, it announced that BCCI had illegally acquired about 60 percent of First American, and it ordered BCCI to submit a plan for divestiture. It further announced that it would fine Ghaith Pharaon $17 million for his role in the scam acquisitions.

The Bank of England, working with the government of Abu Dhabi and auditor Price Waterhouse, had been trying to reorganize BCCI and cover up the bank's criminality. But in June 1991 the Bank of England notified the Federal Reserve that a new Price Waterhouse audit showed massive fraud at BCCI. Two weeks later, British regulators closed down BCCI's operations in eighteen countries and ordered tight supervision or restrictions in forty-four others. Seventeen branches in the United Arab Emirates and three branches in Pakistan, where BCCI was still politically well connected, remained open.

Years later, documents would show that Bank of England officials had suspected fraud at BCCI for at least seven years. A £850 million ($1.6 billion) willful negligence suit against the bank brought by liquidators Deloitte on behalf of creditors was dropped in 2005 after a negative ruling on the claims by the British High Court.

The Indictments

District Attorney Morgenthau consistently went for tougher indictments that targeted the American and Saudi powers behind BCCI, while the Justice Department sought to limit the scope of prosecutions to the old drug trafficking charge.

In July 1991, a New York County grand jury handed down an indictment that named BCCI, its Cayman Islands subsidiary ICIC (actually several companies, including International Credit and Investment Company Overseas and International Credit and Commerce Overseas, joined under that rubric), and six individuals, including Abedi, Clifford, and Altman. It charged them with a multibillion-dollar scheme that included defrauding depositors, falsifying bank records to hide illegal money, and committing larcenies totaling more than $30 million. It charged that the bank was indeed a criminal enterprise whose corporate strategy had been to seek out flight capital, black market capital, and proceeds of drug sales. It charged that Clifford and Altman had taken millions in fake loans, stock deals, and phony legal fees, and that Khalid bin Mahfouz had stolen as much as $300 million from the bank. It also indicted Ghaith Pharaon and Faisal Saud al-Fulaij, the former chairman of Kuwait Airways. Kamal Adham agreed to cooperate with the investigation.

Morgenthau's revelations moved the New York Federal Reserve Bank (not Volcker's Fed in Washington, which had allowed BCCI front men to buy First American) to coordinate an action to shut BCCI down. John Moscow, who ran the Morgenthau investigation, had persuaded Gerald Corrigan, president of the New York Fed, that BCCI was dirty and had to be closed. The Fed fined BCCI $200 million and took steps to ban its shareholders, including Ghaith Pharaon, Kamal Adham, and Faisal Saud al-Fulaij, from participating in banking in the U.S. It also fined bin Mahfouz $170 million.

Finally, in August, a federal grand jury in Tampa indicted Swaleh Naqvi and five other BCCI officials, as well as a reputed Colombian drug baron, Gerardo ("Don Chepe") Moncada—but not Abedi or the bank. It focused only on drug money laundering and the connection to Noriega (no longer America's friend), not on fraud against the bank's depositors. It used mostly old C-Chase information, extended to some of BCCI's chief executives, and ignored leads, witnesses, and evidence that would have revealed the bank's large-scale frauds (even bribery of the Georgia legislature) or exposed the CIA and Reagan-Bush illegal use of the bank. Attorney General William Barr, who had replaced Thornburgh, formerly worked for the CIA. BCCI pleaded guilty to conspiring with Colombia's Medellín cartel to launder $14 million in cocaine proceeds.

In October 1991, Assistant Attorney General Robert Mueller III oversaw a federal grand jury indictment of Clifford and Altman for conspiring to defraud the Federal Reserve Board by misleading it about BCCI's relationship with First American, obstructing the Fed's inquiries into BCCI, and lying to the Fed about BCCI's loans to First American shareholders, including the loans that the Washington lawyers themselves had taken. But he didn't go after bin Mahfouz or other well-connected oil-kingdom Arabs. And he didn't echo Morgenthau's charge that BCCI had been a criminal enterprise since 1972. Or that the bank had paid millions of dollars in bribes to central bankers or other financial officials in a dozen developing countries. He never got around to interviewing all the witnesses who knew about BCCI dealings or to persuading the CIA to tell what it knew. Kerry's report noted that the Justice Department had repeatedly blocked his own and Morgenthau's investigations into BCCI. The department had lied to other investigators, ignored money-laundering evidence, and refused to provide documents or witnesses that might target Bush friends.

In November, Justice announced an indictment of BCCI, Abedi, Naqvi, and Pharaon. Again the indictment was limited, focusing on BCCI's secret ownership of shares in two banks in California and Miami.

Finally, in December 1991, Justice issued a major indictment against the bank, which pleaded guilty the same day to federal and state charges of racketeering, involving money laundering and the illegal takeover of First American and other U.S. banks. It agreed to pay more than $550 million in U.S. assets, part of which would go to a "victims' fund" and part to bail out First American and Independence Banks. A fine of $10 million would go to New York. But only one of the accused was arrested, in France; by then the others were safely out of reach in the Middle East or Pakistan.

Morgenthau's investigation continued. In July 1992 a New York grand jury indicted Khalid bin Mahfouz and an aide for defrauding BCCI and its depositors of as much as $300 million, using depositors' money to buy his bank shares. The U.S. Federal Reserve alleged that bin Mahfouz had breached banking regulations. But he could not be touched by American criminal law in Saudi Arabia, and Morgenthau dropped the charges in 1993 after bin Mahfouz agreed to settle for $225 million. He and the National Commercial Bank also made a $253 million deal with BCCI's creditors to resolve their claims. Kamal Adham, the former Saudi intelligence chief, agreed to pay a $105 million fine. The fines in the end topped $1.5 billion, but this was a fraction of the amount that had disappeared, and nobody went to jail. The Justice Department didn't go after bin Mahfouz, a Bush family friend and money source, at all.

Clark Clifford evaded trial by using the Pinochet defense: his health. Altman got off after convincing gullible jurors that he—an executive worth millions of dollars in pay and stock benefits—just didn't know who the bank's true owners were. Clifford died in 1998 at the age of 92. Altman is still a lawyer and lives in the Washington suburb of Potomac, Maryland, with his wife, Lynda Carter, the actress of 1970s *Wonder Woman* fame.

What happened to the billions of dollars sucked out of BCCI and never repaid to depositors? International banks' complicity in the secret offshore banking system has effectively covered up the money trail. But in the years after the collapse of BCCI, Khalid bin Mahfouz was still flush with cash, and the former financier of George W. Bush became a financier of Osama bin Laden. In 1992, bin Mahfouz established the Muwafaq ("blessed relief") Foundation in the Channel Island of Jersey, providing it with as much as $30 million. The U.S. Treasury Department called it "an al-Qaeda front that receives funding from wealthy Saudi businessmen."

The $21 billion National Commercial Bank of Saudi Arabia that bin Mahfouz owned was the world's largest private bank. NCB was affiliated with Inter-Maritime Management SA, a subsidiary of the Bank of New York–Inter-

Maritime Bank in Geneva. By coincidence, another Inter-Maritime subsidiary, Unimags Trading, shared a Geneva address with SICO, the Saudi Investment Company run by Yeslam Binladen. SICO is the holding company of the Saudi Binladen Group (SBG), the largest Middle East construction company, which operates through a web of offshore companies and is owned by the extended bin Laden family. Yeslam is the half-brother of Osama bin Laden.

The connections are interesting. Khalid bin Mahfouz was a board member of the Dar al-Mal al-Islami (DMI), the House of Finance of Islam, a Geneva-based bank charged with distributing subsidies by the royal family in the Muslim world. DMI, founded in 1981 and with estimated assets of $3.5 billion, also had connections to the bin Laden family: its twelve-member board of directors included Haydar Mohamed bin Laden, Osama bin Laden's half-brother.

DMI's president, Mohammad al-Faisal, was also an investor and board member of al-Shamal Bank, which held al-Qaeda members' accounts. The U.S. complained to Saudi Arabia in 1998 that the National Commercial Bank was funding Osama bin Laden's activities in Afghanistan and Chechnya. In testimony during U.S. trials of suspects in the 1998 attacks on American embassies in Kenya and Tanzania, an al-Qaeda collaborator, Essam al-Ridi, recounted how bin Laden transferred $230,000 from al-Shamal Bank to a bank in Arizona to buy a plane to fly Stinger missiles from Pakistan to Sudan. Further, al-Faisal's DMI was a major shareholder of al-Taqwa, the shell bank in Nassau used by the CIA and al-Qaeda.

In 1999, American investigators looking into the attacks on U.S. embassies in Africa found suspicious transfers of tens of millions of dollars from NCB to "charities" believed to funnel money to Osama bin Laden. Some of these "charities" were run by the bin Mahfouz family. The Saudis ordered an audit, which confirmed the transfers to bin Laden. Altogether, $2 billion was missing from the National Commercial Bank. The Saudis put bin Mahfouz under house arrest and forced him to sell his shares. But the money he ran still flowed to Osama bin Laden.

Add to the history of derelictions by the Senate and House Intelligence Committees that they did not pursue revelations of involvement by CIA and Saudi intelligence officials in a bank that financed illegal drug and arms trafficking and terrorism. Nor did most other members of Congress seem to care. The Kerry subcommittee report in 1992 revealed that the White House knew about BCCI's criminal activities; that the CIA, which used BCCI for secret banking, had lied to congressional investigators; and that BCCI routinely paid off American public officials. Except for Democrats Schumer of New

York and Henry Gonzalez of Texas, both of whom issued damning reports, the Hill displayed little interest.

Serious investigations with backing by congressional leadership might have turned up answers to some of the questions the Kerry report posed: questions about BCCI and American influentials, including the relationship with late CIA Director William Casey; the use of BCCI by central figures in the "October Surprise" (the Reagan-Bush payoff deal with Iranian militants to keep American hostages imprisoned until after the 1980 Carter–Reagan election); the financial dealings of BCCI directors with S&L fraudster Charles Keating and his front companies; and the nature of financial and real estate investments in the United States by major shareholders of BCCI.

The report wondered about BCCI's international operations, including the extent of the bank's involvement in Pakistan's nuclear program; BCCI's manipulation of commodities and securities markets in Europe and Canada; its relationships with convicted Iraqi arms dealer Sarkis Sarkenalian, Syrian drug trafficker, terrorist, and arms trafficker Monzer Al-Kassar, and other major arms dealers; its financing of commodities and other business dealings of international criminal financier Marc Rich; and the sale of BCCI affiliate Banque de Commerce et Placement in Geneva to the Cukorova Group of Turkey, which owned an entity involved in the Atlanta branch of Italian bank BNL, which handled arms sales to Saddam Hussein, among others.

The Kerry subcommittee said it could not begin to answer such questions without the documents it was denied by authorities in the U.S., the UK, and Abu Dhabi. A large number of the documents the bank controlled were destroyed: after investigations started and the Pakistani chiefs fled, there were seven fires in the fireproof London warehouses where BCCI stored records. In one of them, four firemen were killed. No one was ever charged.

Notes

1. Jonathan Beatty and S. C. Gwynne, *The Outlaw Bank: A Wild Ride into the Secret Heart of BCCI* (Washington, D.C.: Beard, 2004 [1993]), p. 315.
2. *The BCCI Affair: A Report to the Committee on Foreign Relations, United States Senate, by Senator John Kerry and Senator Hank Brown*. December 1992, 102nd Congress, 2nd Session, Senate (the *Kerry Report*).
3. Peter Truell and Larry Gurwin, *False Profits* (Boston: Houghton Mifflin, 1992), p. 135.
4. James Ring Adams and Douglas Frantz, *A Full Service Bank: How BCCI Stole Billions around the World* (New York: Simon & Schuster, 1992), p. 238.