

**DRAFT 22 JUNE 1991**

XX June 1991

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

Dear Sir,

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

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

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

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

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

The particular matter drawn to the Bank's attention by Mr Iqbal concerned potential deposits of approximately \$600 million not recorded in the books of the Company or any of its related entities. Our work to date, has confirmed that at least the major element of these deposits appear to be valid liabilities of the Company or its

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

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

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

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


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

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

Yours faithfully,

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

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## SECTION 1: HISTORY AND CURRENT STATUS OF THE PROBLEMS

### Background

- 1.1 The Sandstorm Group was founded in 1972 with capital from Arab investors and with Pakistani management. The driving force behind the bank's achievement was Agha Hassan Abedi who had a grandiose vision of the bank, and the global role it should play. He cultivated people of influence, particularly in the Middle East, and created a culture of unquestioning loyalty among his colleagues and staff.
- 1.2 Central to his vision was the need for the bank to grow rapidly and become a force in international banking. Whilst the results of the bank were reasonably satisfactory in the 1970's, particularly with increases in oil wealth in the Middle East, the early 1980's were a period of severe economic problems. The fall in oil prices, shipping industry recession, the Suq Al Manakh crisis in Kuwait all had a severe effect on Sandstorm's business, and would also have had a significant impact on reported profitability had Abedi, and his deputy Swaleh Naqvi, not manipulated transactions.
- 3 Given the bank's vulnerability as a result of the absence of a lender of last resort, and its relationship with rest of the banking community, Abedi and Naqvi believed that profitability was essential and it could not show a weak balance sheet or poor operating results: furthermore, such profitability was critical to the maintenance of value in Sandstorm's share price which was itself essential to :
- \* maintaining the confidence of the Middle East investors some of whom had been provided with guaranteed rates of return
  - \* the sale of shares at \$40 per share giving rise to significant premiums.
- 1.4 Abedi and Naqvi had to find a way of avoiding provisions on poor lending, particularly in respect of loans to the Gulf Group, and also inflating the reported results to create the image of success. They apparently believed that the disclosure of the full extent of the losses at this time would have jeopardised the very existence of the bank. Accordingly, in the early 1980's, and possibly before, they commenced what became a very complicated series of manipulations of loan and deposit accounts, treasury activities and purchases of own shares. Naqvi contends that these were temporary measures particularly to build up the premium within Sandstorm's shares such that through nominees, it could sell the shares and thus generate sufficient profits to cover deficits.

### Non-performing loans

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



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

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

**Fictitious profits/concealed losses**

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

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

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

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

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

- (1) failure to record deposits and other liabilities
- (2) the creation of fictitious loan accounts

- (3) use of funds from Fork, which was controlled by Sandstorm management.
- (4) use of third party funds placed under management with Fork entities.
- (5) routing funds between accounts using both Fork and other affiliates, including BCP, KIFCO and SDCC and also third party banks, in order to disguise the nature of transactions, including the bogus 'refreshing' of delinquent accounts. A substantial number of companies were set up and controlled by the management of Sandstorm and Fork and used to route funds.
- (6) agreements with and unrecorded borrowings through third party banks (NCB), and investment institutions (ADIA).
- (7) purchase of own shares through nominees; and use of buy - back arrangements;
- (8) use of the underlying value of shareholdings in WXYZ to increase loans in the names of nominees.
- (9) hold harmless agreements with, and non-recourse loans to, a number of major customers, including many prominent people from the Middle East.
- (10) collusion of major customers in supplying false confirmations to the external auditors.

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

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

#### Current status

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



Financial Support Arrangements

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

- (1) the legal agreements for the transfer of loan assets to companies A, A1, and B provide that the loan assets can be reassigned to the appropriate Sandstorm entity in the event of any breach of the warranty that the loan assets do not involve any activity which is criminal or illegal and which, if revealed, might be expected to damage the international reputation of the Abu Dhabi Government. The Abu Dhabi Government has confirmed that it is not its intention to reassign the loan assets in question on the basis of the circumstances known to it at present.
- (2) insofar as the loan assets transferred to Company B of \$1,016 million exceed the amount of the guarantee of \$750 million of the Government of Abu Dhabi, the Sandstorm Group would bear any additional losses on realisation. On the basis of current information the amount of \$266 million is considered to be recoverable.

Problem loans

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

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

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



		Exposure at 29.12.1990 <u>£ m</u>	Estimated losses <u>£ m</u>
Adham	- appears to have acted in a nominee capacity in respect of SDCC, ATB (a UK bank) and <span style="border: 1px solid red;">FIIL</span> , as well as WXYZ.	249	199 (highly uncertain)
KIFCO	- a non consolidated affiliate. Exposure relates to parked loans to avoid provisioning and fictitious loans for debt servicing.	125	125
Other	- largely accounts of no commercial substance set up for debt servicing.	201	201
		<u>1,017</u>	<u>937</u>
Total Company A1		<u>1,611</u>	<u>1,531</u>



Company B

Pharaon		21	15
Gulf	- exposure significantly understated due to use of external funding.	783 (200) Provisions	
		<u>583</u>	513
Other	- miscellaneous bad lending and accounts that have been manipulated. Some recovery prospects.	548 (136) Provisions	
		<u>412</u>	<u>222</u>
Total Company B		<u>1,016</u>	<u>750</u>

Unrecorded deposit liabilities

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

1.19 These unrecorded deposit liabilities fall into three categories:

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

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

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

Fork

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

**Responsibility for and knowledge of the irregularities**

**Management**

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

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



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

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

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

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

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

Zafar Iqbal - CEO

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

to have accepted instructions in respect of this matter from **Nacvi** without question.

(2) Over the period from April 1990 to December 1990 we believe that **Iqbal** had substantial, if not full, knowledge of all of the matters dealt with in this report, yet did not disclose them, even in response to direct questions, until much later.

(3) Over the last year he has given additional responsibilities to various individuals, including some of those listed below, who appear to have been involved in fraudulent transactions.

**Bashir Tahir**

General Manager  
BCC Emirates

Involvement in questionable transactions including nominee shareholdings, Fork loans and false confirmations.

**Qaiser Raza**

Joint executive for  
Asia/Middle East  
formerly general manager  
for NBO

5

False accounting for loans subsequently found to be part of **the Gulf Group** exposure.

**A Hafeez**

Company  
Secretary

(1) Appears to have controlled nominee share transactions particularly in the name of **W Pharaon** booked in Fork.

(2) Involvement in side agreements under which Sandstorm capital notes are repayable on demand.

**A Chaudhry**

General Manager  
Europe

Was the General Manager of **BCP** for the period [1984] to 1990 when routing of funds was most significant.

**M M Haque**

UK Region

Property transactions with **Virani** booked in the name of nominees.  
Misrepresentation with respect to beneficial ownership.

**B Chowdry**

General Manager  
UK Region

(1) On instructions from **S Naqvi** created fictitious customer loans to cover up misappropriated funds in 1990.

(2) Responsible for **the Virani Group** and account officer for **Altock Oil** and **Sh AA Ibrahim**.



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

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

Directors

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

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

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

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

Shareholders

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

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

- 1.34 We have discussed with HE GF Mazrui his own accounts with Fork which show that he received funds in 1986 and earlier from transactions purporting to be dealing in Sandstorm shares where it now is apparent that he had no risk of loss. He has confirmed that he has benefitted from such transactions arranged by Mr Abedi and that in April 1990 he informed other senior government officials of his involvement. We are unable to establish the extent to which his position in relation to Abedi and Naqvi may have been compromised as a result of these transactions but we have become aware of his confirmation of what has now been revealed to be a fictitious loan in the name of the Crown Prince of Abu Dhabi. He could not recollect signing the confirmation that was presented to him by Iqbal and suggested to us that his signature might have been forged.
- 1.35 We have also seen circumstantial evidence of a proposed share transaction with ADIA in 1981 on a guaranteed return basis; and an "out of book" loan from ADIA in 1988 to finance the [unauthorised] buy-back of shares from Sh Khalid Bin Mahfouz.



## SECTION 2: SHARES AND CAPITAL NOTES

- 2.1 Sandstorm was established in 1972 with an original share capital of \$2.5 million. Through a number of scrip and rights issues this had increased to \$845 million at 31 December 1990. It appears that over the bank's history extensive use has been made of nominee arrangements to finance these increases in share capital. Shareholdings appear to have been financed both directly by loans from Sandstorm and Fork, and also from accounts and companies under the control of Abedi and Naqvi. The use of nominee arrangements through Fork entities has enabled Sandstorm to disguise the beneficial ownership of shares and has also provided a pool of shares for setting guaranteed yield obligations and other adjustments, including the generation of funds from share trading.
- 2.2 Some shareholders, including members of the Ruling Family of Abu Dhabi, acquired shares on the basis of guaranteed rates of return and others acquired their shares on the basis of buyback arrangements. These seemed to have been a practice to gain the favour of influential people in the Middle East. There is a risk that remaining shareholders may make claims in respect of losses incurred on Sandstorm shares which were purchased by them on the basis of buyback or guaranteed rate of return, and to date one such claim has been made by a former shareholder.
- 2.3 Investigation work continues in this area but as at 31 December 1990 some four million shares (\$40 million nominal) are effectively owned by Sandstorm or Fork through a number of nominees, including Sheikh Kamal Adham, Wabel Pharaon and Faisal Fulaij. We are informed that other nominee shares were purchased by Sheikh Khalifa and the Government of Abu Dhabi during 1990. If all these purchases were those of nominees, which may well have been the case, it would appear that some 45% of the share capital of Sandstorm was in the hands of nominees at 31 December 1989, whilst a further 11% was owned by Fork entities.
- 2.4 There is evidence that holders of capital notes entered into side agreements with Fork which provided for repayment on demand instead of in accordance with the terms of the capital note issue. There exists the possibility that the remaining note holders have entered into similar arrangements.

## SECTION 3: ROUTING ARRANGEMENTS

- 3.1 Mr Naqvi's office in London was the source of instructions for the movement of funds in order to cover the exposures on loan accounts. These routings transactions were effected by the "special duties" department on the instructions of Mr H M Sheikh, Mr I Imam and Mr A Naqvi through a number of bank accounts including those controlled by Mr Kazmi of Fork.
- 3.2 From the routing bank accounts already identified it is possible to see that the initial transactions took place on a small scale in 1981 and remained fairly insignificant until 1984. Transactions appear to have ceased by 1990, with the exception of some accounts at NCB controlled by Mr Kazmi of Fork which were used until [September 1990].
- 3.3 The level of activity reached its peak in 1986 when some \$1.6 billion was passed through bank accounts on the instructions of members of the special duties department. This seems to coincide with the disclosure of the increasing difficulties on the Treasury activities.
- 3.4 The end of the year 1986 also appears to have been a turning point in the method of operation of routing accounts with a significant reduction in activity passed through affiliated banks.
- 3.5 Funds were needed to manipulate the records of the Gulf Group loan accounts as well as to make good the deficiencies of the treasury operations and it seems that to some degree these two problems were separately managed. A close relationship with Gulf Group Companies enabled the "special duties" department to open accounts in customers names at a number of banks including BCP Luxembourg, Security Pacific, French American, Habib Bank and Royal Bank of Scotland, Singapore. To date eleven such accounts have been identified but available documentation remains patchy and further accounts may well exist. Proper account opening forms and confirmatory letters of payment instructions were procured from the Gulf Group in order to avoid any suspicion about the purpose and nature of the transactions.
- 3.6 Aside from these Gulf Group bank accounts, the "special duties" department also needed to generate transactions for other customer loan accounts. Relationships were established with BCCI executives at other locations who would pass payments across their nostro accounts apparently without the need for a full customer mandate. These transactions were generally effected by telexes using the BCCI London test key or on the basis of personal telephone calls from members of the department. These arrangements with BCP Zurich, BCCI Spain - Madrid, KIFCO and National Bank of Oman and SDCC were made possible by the knowledge that they originated from the highest levels within the Bank and no doubt the staff felt that they were providing an essential service to the President's office. The recording of these transactions appears to have been irregular and they were either not entered in the ledgers or effected by single sided, but compensating entries.
- 3.7 Transactions passing through Spain, Kuwait and Oman all appear to have been identifiable to the ultimate beneficiary of the funds, however, transactions through BCP were marked "PAY WITHOUT MENTIONING OUR NAME" with the result that the recipient was unable to identify the source of funds.



- 3.8 Accounts operated by management of Fork add a further dimension to these routing arrangements. Accounts were opened at BCP Luxembourg, Credit Suisse and National Commercial Bank in the name of Fork 'client accounts' or in the name of companies which had come under the control of Fork management. It appears that almost all transactions were sourced by memo's or telephone calls from the "special duties" department to Mr Kazmi who would instruct payments to be made by Fork staff in Cayman, or on the basis of telephone calls to the branch managers. Mr Kazmi would, if needed, then visit Switzerland to sign confirmatory letters covering the execution of transactions.
- 3.9 The ability of the "special duties" department to undertake transactions of this nature was undoubtedly facilitated by the corporate culture of the Group, and a general belief expressed by a number of those involved that whatever was being undertaken by the President's office had to be in the best interests of the Bank.

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## SECTION 4: TREASURY

## Background

- 4.1 Central Treasury was a division of the Head Office of Sandstorm Overseas. It was set up in London in 1982 to provide a centralised and coordinated vehicle for the investment of surplus funds generated by Sandstorm worldwide. On a day to day basis investment and liquidity management services were rendered within prescribed guidelines to Treasury by the central support office in London.
- 4.2 Treasury activities fell into two distinct functions:
- \* The investment function which traded in CDs, treasury bonds and various dealing activities; and
  - \* The liquidity management function which utilised surplus liquidity generated by the BCCI group. Any funds in excess of the investment requirements were placed on the inter bank market. The liquidity management functions were performed through the London Branch of SA under the overall direction of a manager within Treasury.
- 4.3 Treasury activities were managed up until 1985 by Ziauddin Akbar who was also responsible for the Grand Cayman branch of Sandstorm Overseas, which managed the accounts of a number of significant customers and shareholders. A Treasury Committee including PC Twitchin, A Gillani, M Rahman, S Jamil, S Samad, Z Akbar, S Naqvi and A Hafeez was set up to monitor treasury activities. The effectiveness of the treasury committee appears to have been compromised since these activities continued to be accounted for as part of the Grand Cayman branch and Akbar was never called to account for treasury results separately. Because he appeared to be generating significant profit his activities continued in an uncontrolled manner, and he was given increased responsibilities in the use of all surplus Sandstorm funds for trading and investment purposes.
- 4.4 Akbar appears to have developed close links with a major customer of the bank, AR Khalil. It appears that Khalil made funds available to Akbar for trading purposes on a profit share basis, in return for which he allowed Akbar to use his name and that of his companies (Razat Associates Inc and Maram Trading Co) to be used for trading for the account of Sandstorm. Akbar traded in a number of markets, including commodities, futures and options, and to disguise the nature of his activities, he split Treasury into two as follows:
- \* Normal treasury activities, as described above
  - \* Number two account activities, which appear to have been carried out in the name of particular clients. These activities were physically segregated, performed by different staff and outside the scope of external audit on the basis that they were for the account of private clients. In actual fact, Akbar appears to have been trading in the name of private clients but for the account of Sandstorm. In so doing he exposed Sandstorm to significant risks and lost considerable sums of money.
- 4.5 Through false accounting using number two account funds, Akbar supplemented profits reported by the normal trading activities. In order to satisfy profit targets, Akbar created a number of pool accounts in the name of AR Khalil which used deposits credited to clients'

accounts, loans drawn down in the name of AR Khalil and other prominent customers, unrecorded deposits and certain external funds. No attempt was made to segregate clients' funds from those of Sandstorm.

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

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

#### Methods of concealment of treasury losses

- 4.8 Investigation work to date has indicated that Akbar used a variety of techniques to fund and conceal the true nature of the transactions undertaken. These included:
- \* misappropriation of deposits without depositors' knowledge to provide funds to adjust non-performing and bogus loan accounts, and Treasury losses.
  - \* misappropriation of external funds deposited under trust with Sandstorm and Fork to be managed on behalf of a few prominent people who are also shareholders of Holdings.
  - \* the creation of loans with no commercial substance in the names of people without their knowledge.
  - \* selling certificates of deposit placed with the Central Treasury (without informing the depositor), and using the proceeds to fund adjustments.
  - \* routing funds through Fork, BCP, KIFCO, SDCC and other affiliates and third parties to make adjustments prior to accounting reference dates and audit confirmation dates, which were often reversed at a later date.
  - \* maintaining a pool of funds in the private named accounts of Khalil which were used freely by Z Akbar to fund adjustments. The funds were never those of Khalil alone; his name appears to have been used only to classify the accounts as being for the general funding activities of the Treasury Division.



- 4.9 Akbar left Sandstorm in 1986, shortly after the discovery of losses on option trading. He subsequently provided S Nacvi with a statement in which he set out the losses he had apparently incurred in earlier years from treasury trading activities which he had effectively hidden from Sandstorm management, together with a significant inflation of the profits of Treasury activities. The inflation of profits was particularly significant in 1982, 1983 and 1984 when fictitious profits were supposedly \$108 million, \$ 136 million and \$234 million respectively. The full statement is attached as Appendix III. For the period 1977 to 31 December 1985 Akbar claimed that the total amount of these losses/fictitious profits was \$633 million but this is before adjustment for losses of \$225 million booked in the 1985 accounts as a result of our treasury review.
- 4.10 Whilst the details of Akbar's statement are incapable of confirmation because the records from these earlier years are sparse and incomplete, it is clear that there was a major misappropriation of funds and falsification of accounting records in the early 1980s..
- 4.11 Akbar took certain documents relating to his management of Treasury with him when he left. In 1988 he used this information to blackmail Sandstorm, which paid \$32 million to prevent him disclosing the true nature of the activities of Treasury Division. We have had no access to Akbar, who is currently in jail in connection with the money laundering case in Tampa, or any of the executives involved in the day-to-day management of Treasury under him.

Funding of treasury losses

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

Funds utilised

		\$ m
Unrecorded deposits		400
Fork managed funds		250
WXYZ secured loans		126
BCC Emirates	: deposits	80
	CD's	78
		158
Fork loans		94
Other loans	: AR Khalil	80
	Others	110
		190
State Bank of India		50
BCP Luxembourg deposits		35
Other		15
		1,318

Funds applied

Losses/fictitious profits	349
Loans adjusted	348
SDCC	62
Properties	38
Other	21
	1,318

Unrecorded deposits

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

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

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

	\$ m
Tumbleweed	246
Government of Cameroon	61
██████████	45
██████████	24
SAFCO	18
██████████	6
	400

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