MINUTES OF THE MEETING WITH PRICE WATERHOUSE

ON 14 JANUARY 1988

1. <u>GRP</u>

1.1 Confirmation required as to when the fee of US$11.0M was debited to the deposit account of the proceeds of the sale of NBGFC.

1.2 In reply to his enquiry, Mr Chapman was informed that GRP did not borrow US$29.0M from us to invest in Eurotunnel.

1.3 Audited balance sheets for 1986 of the following companies to be provided to P.W.:
(a) Pharaoh Holdings Ltd
(b) Interbulk Transport Co.
(c) Sobek International

1.4 Mr. Chapman insisted on the payment of interest and loan fees on all loans by the end of February 1988.

1.5 The total loans outstanding should either be brought within the approved limit, or in case EOL remains outstanding should be supported by additional securities.

1.6 EOL as at 31.12.1987 was US$39.0M compared to US$22.0M as at 31.12.1986.

2. <u>CCAH</u>

(a) PW have requested for a complete list of shareholders as at 31 December 1987.

(b) Are there any agreements amongst shareholders re: shares to be held as security for borrowing by third parties?

2. CCAH (contd)

(c) Valuation of the shares as at 30 September 1987 and 31 December 1987.

2.1 MASHRIQ HOLDING CO. /RULER OF FUJEIRA

2.1.1 EOL as at 31.12.87 was US$124.0M compared to US$101.0M as at 31.12.86.

2.1.2 It was noted by PW that total amount of US$8.0M received in the loan accounts in Cayman and Luxembourg, does not service the interest accrued during the year.

2.2 MESSRS CLIFFORD AND ALTMAN

2.2.1 Payments received during 1987 did not service the interest accrued. Are additional funds expected?

2.3 FSF

2.3.1 EOL to be reduced by end of February 1988.

2.4 ARK.

2.4.1 Shares under transfer to be transferred to secure the loan

2.4.2 Memorandum of Deposit of Stocks and Shares to be signed by the borrower.

5.5.2 The loan loss provision has increased during 1985 as follows

	1985 $ m	1984 $ m.
Balance at beginning of year	88.3	66.5
Charge for the year	35.0	27.0
	123.3	93.5
Write offs and exchange movements	(7.4)	(5.2)
Balance at end of year	$ 115.9	$ 88.3
Gross loan portfolio	$ 2,304.3	$ 1,757.6
Provision as a percentage of gross loans	4.03%	5.02%

5.5.3 The loan loss provision as a percentage of gross loans has been maintained at virtually the same level as the prior year despite an increase of more than 30% in the gross loan portfolio. In order to assess the adequacy of the provision management review the loan portfolio and, based upon their judgement, set aside specific and general provisions for loan losses. The specific element relates to identified risk facilities and the general element relates tot he risks which are present in any banking portfolio but which have not been specifically identified.

5.5.4 Although management perform a formal exercise to identify specific provision requirements (see appendix 3 schedules B2), we take a more conservative view and regard some of the general provision as being earmarked against specific risks. Our view is that the general provision has been maintained at approximately $ 10 million in both the current and prior years.

5.5.5 The loan loss provision should also be considered in the context of provision requirements against known risks which do not relate to the Bank's own loan portfolio. In particular, the Bank has issued risk sharing guarantees through its Head Office amounting to $ 22m (1984 $ 22m) in favour of its parent company in order to partially underwrite guarantees given by the parent company to other group companies in Hong Kong against specific risk facilities in their respective loan portfolios. Similarly the Bank has issued risk sharing guarantees from its Head Office amounting to $ 9 m (19984 nil) and from its branch in Panama amounting to $ 4.5m (1984 nil) to partially underwrite specific risk facilities in Egypt and the UAE respectively.

5.5.6 Based upon the advice of local management and auditors, specific provisions amounting to $ 31.5m (1984 $ 22.0m) have been made by the Bank to cover the estimated losses that may be incurred under these risk sharing guarantees. The effect is to reduce the provision available to cover risks in the Bank's own portfolio, as follows.

	1985 $ m	1984 $ m
Loan loss provision	115.9	88.3
Less provision against inter group guarantees	(31.5)	(22.0)
Revised provision	$84.4	$66.3
Gross loan portfolio	$2,304.3	$1,757.6
Revised provision as % of gross loan portfolio	3.66%	3.77%

5.5.7 Thus the level of provisioning to cover specific and general risks inherent in the Bank's own loan portfolio after deducting the provisions required against risk sharing guarantees has been marginally eroded during the year. However, the Board of directors of the Bank have confirmed to us that it is their intention to increase the general provision during 1986 and subsequent years commensurate wit the quality of the credit risk and the growth in the portfolio.

5.5.8 Our view of the adequacy of the loan loss provision has satisfied us that it is sufficient to meet losses which might be incurred in the existing portfolio.

5.6 Investments

5.6.1 Investments include a trading portfolio of securities and other dealing assets which are managed by the Central Treasury Division of Head Office together with an investment portfolio of securities, at Head Office and other branches, which the Bank intends to hold to maturity.

5.6.2 The Central Treasury Division provides a centralised and co-ordinated vehicle for the investment of surplus convertible currency funds generated throughout the BCC group. Treasury activities include an investment function, which utilised the liquidity of the group and places funds not required for investment purposes on the interbank market.

5.6.3 The Central Treasury Division is under the overall control of a Treasury Committee and an Investment Committee. The former comprises senior executives of the Bank and meets monthly to establish investment policy and strategy within guidelines approved by the Board. The latter meets daily and makes trading decisions within the overall strategy set by the Treasury Committee.

5.6.4 The investment profile of the Central Treasury Division is predominantly liquid and generally includes a high proportion of interbank placements and prime negotiable certificates of deposit (see paragraph 5.3.2). At the year end the Central Treasury Division managed total funds of about $ 2.7 billion (1984 $ 2.4 billion) of which more than $ 2 billion (1984 $ 1.2 billion) comprised interbank placements and certificates of deposit.

5.6.5 The investment position of the Bank at the year end may be summarised as follows:

		1985 $ m		1984 $ m
Trading portfolio at cost:				
US Treasury bonds and bills	386		564	
UK Government securities		32		34
UK loans stock and Eurobonds		17		141
Precious and base metals		68		208
Equities		32		2
Balances with brokers		381		280
		916		1,229
Provision to state physicals, futures And options at market value	(310)		(36)	
Trading portfolio at valuation		606		1,193
Investment portfolio at cost		267		205
		$ 873		$ 1,398

5.6.6 The significant reduction in the physical investments held for trading purposes reflects a strategic decision of the Bank to concentrate on option rather than physical trading. Since the year end the Bank has reduced significantly the level of option rather than on physical trading. Since the year end the Bank has reduced significantly the level of option trading following the substantial losses incurred during 1985 as reflected in the year end provision required to revalue the open positions to market.

5.6.7 The investment portfolio primarily represents government securities which the Bank intends to hold until maturity and is carried at cost. Such investments are often held to meet local reserve requirements. The distribution of the investments portfolio between the branches of the Bank is as follows.

		1985 $ m		1984 $ m
Bangladesh		16.5		20.4
France		15.7		10.2
Grand Cayman	41.4		44.0	
India		45.1		14.2
Kenya		9.8		10.4
Pakistan		115.5		80.4
Others		23.0		25.4
		$267.0		$205.0

5.9.3 Head Office

	1985 $ m	1984 $ m
Grand Cayman	$1,402.7	$1,357.0

The deposits in Grand Cayman have remained fairly static in overall percentage terms although there have been significant movements within the portfolio, particularly amongst Middle Eastern clients. The small increase in Grand Cayman portfolio is attributable to further deposits from corporate Middle Eastern clients.

5.9.4 Latin America Region

	1985 $ m	1984 $ m
Panama	182.6	127.9
Paraguay	2.6	-
	$ 185.2	$ 127.9

The overall increase of $ 57m is attributable to new depositors and increased deposits from existing clients in Panama and to the new branch in Paraguay.

5.9.5 Caribbean Region

	1985 $ m	1984 $ m
Bahamas	45.4	70.6
Barbados	11.3	23.5
Florida, USA	258.5	167.5
Jamaica	34.4	39.0
	$ 349.6	$ 300.6

The overall increase of $ 49m is due largely to a significant growth I deposits in Florida offset by decreases in the Bahamas and Barbados.

The branches in Florida have achieved a significant increase in the numbers of depositors and, in particular, have attracted large deposits from Caribbean Banks and from Islamic Banks of the Middle East.

In the Bahamas a number of clients have not renewed deposits on maturity and one large account was transferred tot he the Miami branch in order to provide improved client service. IN Barbados a $ 10m deposit from the Central Bank was repaid on maturity and a number of smaller accounts were not renewed.

1. <u>We recommend that consideration be given to limiting the maximum loan exposure to an individual client or group and to further protect the net assets of the Bank by substantially increasing the general loan loss provision commensurate with the quality of the credit risk and the growth in the portfolio.</u>

   The loan portfolio of the Bank contains a relatively high concentration of risk to a small number of prominent clients. The inherent risk associated with these major exposures is significant in the context of the capital base of the Bank particularly in cases where advances have been made on an unsecured basis.

2. <u>We recommend that management should review its liquidity strategy to ensure that efficient use is made of surplus funds with minimisation of risk.</u>

   Management should review its liquidity strategy and, in particular, develop procedures to ensure the timely availability of information on its worldwide funds profile to enable surplus funds to be invested in an efficient and effective manner having regard to interest rate, credit and gap risk.

3. <u>We recommend that management should examine its global tax strategy with a view to optimising its organisational and operational structure in a tax efficient manner.</u>

   The need for such a review has been highlighted recently in connection with the Central Treasury operations. Management should critically review its tax strategy to minimise its effective overall tax liability. This review should include consideration of the management and control of international loans, the activities of the Central Treasury Division and the effective use of management fees and operational expenses.

4. <u>We recommend that consideration be given to strengthening the quality of the Central Support Departments and to the automation of the management information systems.</u>

   In view of the current size and complexity of the Bank's operations, the adequacy of the present systems and staffing levels should be reviewed to ensure that they are compatible with the expectations of management and external agencies. For example, we consider that the Central Credit Division should be expanded and upgraded to further assist central management in the monitoring and control of worldwide credit facilities. In addition, we recommend that longstanding plans for the computerisation of the management information systems in the Central Credit Division be implemented as a matter of priority to facilitate the accurate and timely analysis of data and to enable facilities to be readily monitored for performance against sanctioned limits and conditions.

Certain of the matters raised in the attached report have been repeated from our reports of previous years because further action is required by management to implement satisfactory controls; these points have been highlighted with an asterisk (*).

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD. INTERNAL CONTROL REPORT – 28 APRIL 1986

A. GRAND CAYMAN HEAD OFFICE

1. Loans and Advances

* 1.1 We recommend that efforts be made to obtain current financial and other supporting information in respect of all borrowers.

Although there have been marked improvements in the quality of the credit files maintained at Head Office, we have again noted some instances where the files contain inadequate financial information such that the credit worthiness of the borrower cannot be readily established. Although we recognise that , particularly in the case of Middle Eastern clients, such information is often not available and that facilities are often approved on the basis of financial and business reputation of the borrower we recommend that efforts should be made to obtain current financial and other supporting information whenever possible.

* 1.2 We recommend that consideration be given to the implementation of the following improvements in respect of control over international credit facilities:

(a) procedures should be introduced to ensure that international loans at Head Office are regularly reviewed by the executive in the Central Support Office responsible for each group of facilities to verify that the Head Office records are being accurately maintained and that posting errors between accounts have not occurred;

(b) all related international loan facilities should be coded to enable them to be grouped together in the loan listing thereby facilitating easier review and control. At the present time there is no logical sequence to account numbers allocated to related international facilities and, accordingly, review of such accounts is both laborious and subject to omission or error;

(c) further consideration should be given to rationalising the collateral held as security against international facilities. Such facilities are, by nature, often highly active and clients frequently open and close individual accounts. Accordingly, there is presently an unnecessary administrative burden in ensuring that adequate security is continuously available to cover all facilities outstanding at any one time. This problem would be largely removed if collateral for international loans was obtained on a global basis;

(d) records should be maintained at Head Office showing the total worldwide exposure of the BCC group under each international facility and such records should be updated on a regular periodic basis.

1.3 We recommend that, except in the most exceptional circumstances, funds should not be disbursed prior to the perfection of any required security arrangements.

We noted instances where funds had been disbursed under approved facilities prior tot he perfection of the security arrangements required by the sanction advice. In those cases where exceptional circumstances do exist, rigorous efforts should be made to obtain documentation without delay to minimise the period of time during which the Bank is effectively exposed to clean lending.

1.4 <u>We recommend that independent valuations be obtained on a regular periodic basis to enable the adequacy of security to be properly monitored.</u>

Instances were noted in which items of security were not supported by independent valuations, or instances where the value of security was subject to frequent fluctuations in market value (e.g. property) but which were not supported by regular updates. Furthermore, documentation did not always exist on file to demonstrate that insurable assets were adequately insured with the interest of the Bank duly noted on the policy.

1.5 <u>We recommend that all charge or pledge documentation be approved by the legal department before funds are disbursed in accordance with Section D4 of the advance manual.</u>

We have noted some instances where the documentation received by the Bank to create a charge or pledge over security had bee accepted without any evidence of consideration having been given to its legal enforceability in the jurisdiction in which enforcement would be made.

1.6 <u>We recommend the introduction of procedures to enable the Bank to properly control the release of security required under the terms of a credit approval.</u>

We have noted that although individual credit officers maintain records of security held as collateral against credit facilities, there is no centralised registration procedure to ensure that the exact details and whereabouts of such securities are readily available. Furthermore, procedures should be strengthened to ensure that security held by the Bank as collateral is not released without proper authorisation.

1.7 <u>We recommend that loans should not be allowed to be drawn down in excess of approved limits prior to increased facilities being sanctioned in writing in accordance with the established procedures of the Bank.</u>

We noted instances where exposure exceeded authorised limits, occasionally by significant amounts, and also that in many cases such excesses were caused by that accrual of interest. Limits should be set at a level that is capable of covering the normal accrual of interest without being exceeded.

* 1.8 <u>We again recommend that, in accordance with the group policy, interest on loans against which there is a specific loan loss provision is always credited to reserve and not to income.</u>

Although we are generally satisfied that the group policy is being followed, we particularly draw your attention tot he few situations where specific provisions are maintained at Head Office in respect of delinquent advances held at branch level. In such cases it may be more appropriate for the loans to be transferred to Head Office where they can be properly monitored.

* 1.9 <u>We again recommend that the Central Credit Division take positive steps to ensure that branch managers throughout the Bank are fully aware that they are responsible locally for maintaining complete credit files for all loans other than those which form part of an international credit line and which are controlled centrally.</u>

During the course of our audit we had several requests from local auditors to review loans for which documentation was not available locally. Such instances reflect a weakness in the day to day control over the monitoring of facilities since they are often neither monitored locally nor centrally and could result in the Bank incurring losses which would be otherwise avoidable.

1.10 <u>We recommend that recoveries on “Payments Against Documents” accounts should be properly monitored to ensure that they cover the original advance.</u>

An instance was noted under an international loan facility where the recovery under a “Payments Against Documents” account fell short of the amount originally advanced and no remedial action had been taken for at least a year to recover the shortfall. Any shortfall on such accounts should be transferred immediately to a current account and subjected to standard credit control procedures.

1.11 <u>We recommend that procedures be introduced to enable management to readily identify non-performing loans.</u>

No regular reporting procedures exist at Head Office whereby senior management, the Central Credit Committee or the Board of Directors are notified of non-compliance with the terms and conditions of borrowing, particularly in relation to the non-payment of principal and interest. Such procedures should include a monthly report on the progress made in collecting past due amounts in respect of difficult accounts and, furthermore, should comply with Section F of the Advances manual in relation to identifying, monitoring and reporting delinquent advances.

1.12 <u>We recommend that all credit files contain written authorisation to support the interest rate being applied to an account.</u>

We noted instances where4by the interest rate being applied to an account differed from that quoted on the sanction advice. Although we were advised that oral approval had been given for the variation in rates, written authorisation should always be obtained for future reference.

1.13 <u>We recommend that the Head Office manager maintain a private register of borrowers using numbered accounts.</u>

We noted instances, where for general reasons of confidentiality, certain borrowers were designated with a numbered account reference rather than the account being entitled with the full name of the borrower. Whilst we have no particular objection to this practice, we found that in most instances none of the officers of the Grand Cayman office were able to correctly identify either the name of the borrower or the credit officer responsible for monitoring the account at other locations.

1.14 <u>We recommend that, where loan accounts are effectively controlled and monitored in other locations, the Head Office accounting records be closely and regularly reviewed by the credit officers concerned.</u>

We noted instances of errors occurring in the accounting records at Head Office because they were not adequately monitored to ensure their completeness and accuracy.

* 1.15 <u>We again recommend that procedures be introduced to monitor and control staff loans and advances.</u>

We have noted during the past few years that the level and number of staff loans booked at Head Office has steadily increased but that regular monitoring is not carried out to ensure that the terms and conditions of each loan are being followed. We also recommend that full loan documentation be maintained at Head Office including specific details of repayment terms in those instances where repayment is not by monthly deduction from salary.

(d) All holdmail accounts should be checked back tot he respective mandates and customer authorities to ensure that proper authorisation has been obtained, and that, in particular customers have signed “request for no correspondence” forms. In cases where no authority is found, the customer should be contacted to establish whether the account should continue to have holdmail status.

(e) The Bank should obtain indemnities from customers requiring confidentiality and holdmail status to safeguard itself from potential claims.

(f) A separate filing system for mandates relating to accounts with holdmail status should be introduced.

(g) Controls should be instituted to ensure that the current address of holdmail customers is readily available on file.

4. Deposit Accounts

4.1 We recommend that the Head Office manager maintains a private register containing full details of depositors with numbered accounts.

The identification of the customers relating to numbered accounts would be facilitated with the maintenance of a proper register. Furthermore, balances relating to several customers should not be grouped together and recorded as one numbered account.

4.2 We recommend that all documentation necessary to support the source and authenticity of a deposit be kept in the customer files maintained in Grand Cayman.

We noted instances whereby supporting documentation in respect of deposits parked in Grand Cayman form other locations (principally BCC Emirates) was not available locally.

5 Bank Accounts

5.1 We recommend that clarification be obtained without delay whenever posting instructions received in Grand Cayman relating to interbank placements fail to specifically identify the exact branch of the counterparty.

We noted several instances whereby placements with or from banks and affiliates were inadequately described in the general ledger in that the exact branch of the respective parties was not readily identifiable.

5.2 We recommend that whenever differences occur between affiliate balances in the records of Head Office and those of the affiliate, prompt action be taken to ensure that proper reconciliations are performed.

We noted an instance whereby the balance on a dormant demand account with an affiliate bank did not agree with the balance reported by that affiliate. During the course of the audit no reconciliation was performed to explain the nature of the difference and to make correcting entries, if required.

COMMENTARY ON THE INDEPENDENT EXAMINATION OF THE ACCOUNTS OF BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD. FOR THE YEAR ENDED 31 DECEMBER 1984

Price
Waterhouse
Chartered Accountants

7. GRAND CAYMAN HEAD OFFICE

7.1 Loans and advances

7.1.1 Although there have been marked improvements in the quality of the credit files maintained at Head Office we have again noted instances where the files contain inadequate financial information such that the credit worthiness of the borrower cannot be readily established. Although we recognise that, particularly in the case of Middle Eastern clients, such information is often not available and that facilities are often approved on the basis of financial and business reputation, we recommend that efforts should be made to obtain current financial and other supporting information whenever possible. Furthermore steps should be taken to ensure that the value of security held as collateral is reassessed regularly by independent valuers. We also recommend that procedures should be introduced to ensure that all documentation relating to Head Office credit facilities received or prepared by the central Credit Division should be copied to Grand Cayman.

7.1.2 In the case of international credit facilities we recommend:

(a) that procedures be introduced to ensure that international loans at Head Office are regularly reviewed by the executive in the Central Support Office responsible for each group of facilities to verify that the Head Office records are being accurately maintained and that errors have not occurred;

(b) that all related international loan facilities be coded to enable them to be grouped together in the loan listing thereby facilitating easier review and control. At the present time there is no logical sequence to account numbers allocated to related international facilities and, accordingly, review of such accounts is both laborious and subject to omission or error;

(c) that further consideration be given to rationalising the collateral held as security against international facilities. Such facilities are, by nature, often highly active and clients frequently open and close individual accounts. Accordingly, there is presently an unnecessary administrative burden in ensuring that adequate security is continuously available to cover all facilities outstanding at any one time. This problem would be largely removed if collateral for international loans was obtained on a global basis in the form, for example, of pledged quoted securities or third party bank guarantees to cover all borrowings of such customers.

BCCE (OVERSEAS) LTD SCHEDULE B1

Region – Head Office

31 December 1985

Facilities drawn in excess of US $5,000,000

(expressed in US $'000)

Name of borrower		Total $'000	Loans/ Advances $'000
GRAND CAYMAN			
1 Customer ref.	1	75,203	74,760
2 Customer ref.	2	5,000	5,000
3 Customer ref.	3	5,687	5,687
4 Customer ref.	4	172,722	162,807
5 Customer ref.	5	5,065	5,065
6 Customer ref.	6	149,868	149,868
7 Customer ref.	7	8,644	8,644
8 Customer ref.	8	5,536	5,536
9 Customer ref.	9	10,656	10,656
10 Customer ref.	10	12,606	6,356
11 Customer ref.	11	6,241	6,241
12 Customer ref.	12	38,701	38,701
13 Customer ref.	13	79,548	79,548
14 Customer ref.	14	14,425	14,425
15 Customer ref.	15	11,267	11,267
16 Customer ref.	16	8,243	8,243
17 Customer ref.	17	59,679	59,679
18 Customer ref.	18	10,887	10,887
19 Customer ref.	19	6,647	6,647
20 Customer ref.	20	6,137	6,137
21 Customer ref.	21	8,147	8,147
22 Customer ref.	22	20,718	20,718
23 Customer ref.	23	27,778	27,778
24 Customer ref.	24	9,920	9,920
25 Customer ref.	25	6,672	6,672
26 Customer ref.	26	273,691	38,729
27 Customer ref.	27	12,656	12,656
28 Customer ref.	28	9,307	7,307
29 Customer ref.	29	11,365	3,365
30 Customer ref.	30	7,899	7,899
31 Customer ref.	31	14,422	14,422
32 Customer ref.	32	51,538	51,538

SCHEDULE B3
(Summary)

BCCI (OVERSEAS) LTD

Region – Head Office

31 December 1985

Status reports on loans against which specific provisions in excess of US $100.000 have been made (expressed in US $'000)

	Name of borrower	Provision at 31 December 1985 $'000
1	Customer Reference No. 1	178
2	Customer Reference No. 2	1,650
3	Customer Reference No. 3	169
4	Customer Reference No. 4	6,000
5	Customer Reference No. 5	1,650
6	Customer Reference No. 6	500
7	Customer Reference No. 7	3,000
8	Customer Reference No. 8	150
9	Customer Reference No. 9	163
10	Customer Reference No. 10	300
11	Customer Reference No. 11	365
12	Customer Reference No. 12	173
13	Customer Reference No. 13	424
14	Customer Reference No. 14	317

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LIMITED

REPORT ON RESULTS AND OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 1987
VOLUME 1 OF 2

3 JUNE 1988

BCC

Price Waterhouse

4.7 The decrease in interest income from Affiliates reflects the decreased money market activity of Central Treasury and lower average market interest rates. Although the function of Central Treasury is to receive funds from affiliates, surplus funds are at times placed back with affiliates on short maturities whenever required by them for local utilisation.

4.8 The increase in interest income from securities is consistent with management's decision to expand the investment portfolio of Central Treasury.

4.9 Interest income from Certificates of Deposit has increased in a consistent manner with the underlying balance sheet footing.

Interest Expense

4.10 The principal recipients of interest paid were as follows:

	$ million	
	1987	1986
Clients	266.2	253.5
Banks	37.6	40.6
Affiliates	315.8	347.1
Non banking financial institutions	43.1	13.5
Discounts	16.7	20.4
	679.4	675.1

4.11 The interest paid to clients has increased due to the increase in the average balance of deposits, however this has been partially offset by lower average market interest rates.

4.12 Interest paid to affiliates continues to be the largest category of interest paid owing to the activity of Central Treasury.

4.13 Other operating income

		$ million	
	Paragraph	1987	1986
Other operating income Comprises the following:			
Commission and fees	4.14	118.6	100.0
Foreign exchange	4.15	16.9	14.9
(Loss)/profit on investments	4.16	(26.6)	78.0
Other income	4.21	38.0	23.3
Exceptional losses on 1985 Option Contracts	4.16	-	(55.0)
		146.9	161.2

Commission and fees

4.14 Commission income includes commissions and fees on loans, guarantees and trade finance transactions with customers. The business has been static in the year with all branches reporting only minor fluctuations in commission income from 1986. A major source of this income was the commission received from transactions relating to certain client's United States investments.

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BCC! HOLDINGS (LUXEMBOURG) SA
REPORT ON RESULTS AND OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 1988

20 JUNE 1989

5.25 Any plans for the reduction in these exposures should take account of the need to generate alternative sources of income in view of the significant contribution of these major borrowers to the results of the Group.

Advances in excess of 10% of the Group's capital fund

5.26 Brief reports on the borrowers with exposures in excess of 10% of the Group's capital fund are provided in the following paragraphs together with a report on lending secured on shares in CCAH (the holding company of First American Bankshares, Inc).

Customer A

5.27 Customer A is a group with diverse shipping and trading interests managed by a prominent Pakistani family. The facilities are largely drawn down to finance short-term receivables and the purchase of ships.

5.28 The account balances are summarised below:

				$ million
	Exposure		Limit	
	31.12.88	31.12.87	1988	1987
Funded facilities	349.0	293.9	255.0	247.0
Contingent facilities	15.0	24.2	25.0	25.0
	364.0	318.1	280.0	272.0

Security, at values attributed by management, comprises:

	1988
Cash deposits and US Government Bonds	29.0
Ships	26.0
Shares (valued at net book amount)	345.0
Documents of title to goods under letters of credit	30.5
	590.2

5.29 The pledged security of shares in the parent company of the borrower may be difficult to enforce in practice owing to the possible presence of prior charges on the assets of the underlying operating entities. Notwithstanding this, the Group has taken significant steps to strengthen its security position during 1988.

5.30 The past performance of this customer group had been a cause of concern and has been closely monitored by BCCI and ourselves. In 1987 there was an upturn in the underlying markets in which it operates resulting in increased activity and profit margins. Although the customer's results for the year ended 31 March 1989 are not yet available, the shipping industry remained buoyant in 1988 and management are confident that its profitability will continue to improve. The overall loan balance increased during the year, however, there have been some repayments into the account during the first quarter of 1989. This account will continue to require close monitoring in the future, and the Bank has stated its intention to better record its monitoring procedures and to improve the quality of credit files in 1989.

Customer B

5.31 Customer B is the ruler of a small Middle Eastern Emirate. His facilities comprise:

	$ million			
	Exposure		Limit	
	31.12.88	31.12.87	1988	1987
Loan	145.0	123.9	140.0	98.0
Guarantee	175.0	175.5	175.0	175.5
	320.0	299.4	315.0	273.5

5.32 The loan is fully secured by the pledge of shares in CCAH. The guarantee relates to a commitment by the Group to provide financing to Customer B in the event that he is required to repurchase a block of CCAH shares (see paragraph 5.40) which he sold under a buy-back agreement.

BCCI HOLDINGS (LUXEMBOURG) SA

REPORT TO THE AUDIT COMMITTEE

11 NOVEMBER 1989

BCC

Price Waterhouse

HOLDINGS (LUXEMBOURG) SA
ORT TO THE AUDIT COMMITTEE
NTRY RISK PROVISIONS AT 30 SEPTEMBER 1989
OR EXPOSURES AT RISK IN COUNTRIES THAT HAVE BEEN IDENTIFIED AS REQUIRING PROVISION

	Identified Exposure at risk 31 December 1988	Identified Exposure at risk 30 September 1989	Provision at 31 December 1988 and 30 September 1989	Effective % rate of provision 31 December 1989	in Comment	Possible additional provision of 1989	Resul effect % rate provis
	2.3	2.3	0.6	26	See note 1	1.1	75
al	11.8	11.8	2.4	18	See note 2	1.2	30
	1.9	0.6	-	-			
	-	0.8	-	19	See note 3	0.6	75
	8.5	7.3	1.6	19	See note 4	1.0	35
inancing and Government	230.7	216.8	64.6	28	See note 5	11-22.0	35-40
nmercial	30.3	29.9	5.8	19			
	-	0.6	-	-	See note 6	0.6	50
Central Bank	30.0	30.0*	5.0	17	See note 7	5.5	35
	1.5	3.3	0.4	27	See note 8	1.5	60
tral Bank	20.0	19.9	10.7	54	See note 9	1.7	75
r	4.9	-	3.3	65		(3.2)	
ntral Bank	27.8	24.6	5.0	18	See note 10	2.4-9.8	30-60
er	1.3	1.3	0.7	54		0.3	75
	$371.0	$349.3	$100.0			$23.4-$41.8	

ly: balance not expected to have changed significantly since 31 December 198

BCCI HOLDINGS (LUXEMBOURG) SA

COUNTRY RISK PROVISIONS AT 30 SEPTEMBER 1989

NOTES

1 Cuba

Interest, at rates of 12% - 14%, continue to be rolled up on the Bank of Cuba exposure. Total interest in the nine months is approximately $230,000. We believe interest should be suspended. Movement in exchange rates have maintained the balance at a similar dollar equivalent to 31 December 1988. Effective rate provision almost 30%. Evidence from some other banks indicates provisions of 75%.

2 Iraq

In accordance with the agreement reached between BCCI and Rafidian Bank early in 1989 interest up to 31 March 1989 of $2.1m was paid. Capital repayments were not due to commence until 1 October 1989, however, this payment has not been received yet. Management represent that there is no conclusive evidence that the agreement will not be honoured. At 30 September 1989, therefore, the provision raised in 1988 is considered low and should be raised to 30% although even this is at the lower end of the Bank of England range.

3 Ivory Coast

Sovereign exposure not identified last year. Scoring of the matrix and indications from other banks suggests provision of 75% is appropriate. However, more information required on this advance at the year end.

4 Mexico

The recent international discussions on Mexican debt under the Brady plan indicate that a discount of 35% on outstanding debt is perhaps more appropriate than that determined by the matrix at 31 December 1988. If provision is raised to 35%, the additional provision required in 1989 is $1.0m. Further information on BCCI's debt is required before the direct impact of the Brady plan can be identified.

5 Nigeria

Interest on this debt tot he CBN has been received since December 1987 when the refinancing agreement was signed. A new schedule for repayment of capital on the main CBN exposure was signed in March 1989. Capital repayments have followed that schedule with repayments of $7.8m being received by 30 September 1989. If repayments continue then at current exchange rates the year end balances will be $210.2m. A further reduction in the dollar equivalent exposure has resulted from exchange rate movements in the period.

The effective rate of provision has increased from 27% to 29.5%. This sum is satisfactory in relation to the current matrix, however, comments made at the College of Regulators meeting indicates that given the size of BCCI's exposure the Regulators would expect to see a higher provision.

Provision at say 35% for all Nigerian exposure at risk would require additional provision in 1989 of $11m, at 40%, an addition $22m.

BCC1 HOLDINGS (LUXEMBOURG) SA

REPORT TO THE AUDIT COMMITTEE

10 NOVEMBER 1988

BCC

Price Waterhouse

Southwark Towers
32 London Bridge Street
London SE1 9SY

Telephone 01-407 8989
Telex 884657 8
Telecopier 01-378 0647

Price Waterhouse

9 November 1988

Dr A Hartmann
Rothschild Bank AG
Zollikerstrasse 181
8034 Zurich

Dear Dr Hartmann,

REPORT TO THE AUDIT COMMITTEE OF
BCCI HOLDINGS (LUXEMBOURG) SA

Accompanying this letter I enclose a brief report on our interim audit work for discussion with you and Mr Van Oenan at our meeting on Thursday 10 November.

I summarise below the major topics which could form the basis of an agenda for our meeting listed in the order in which they appear in the accompanying report.

1 Scope of the work and audit arrangements

2 Results to 30 September and outlook for the year

3 Provisions, major exposures and approval procedures

4 Treasury

5 Taxation

6 Management information system

7 Compliance and regulatory issues

8 Internal control review

9 Any other business

It is a very full agenda and I imagine that we will probably need to spend much of the time considering the compliance and control issues.

9 November 1988
Dr A Hartmann
Page 2

As you know the next College of Regulators meeting is scheduled for Tuesday 29 November and many of the items for discussion at our meeting will be of interest to that group.

Our team will include Mr. Burnett, Mr Cowan, Mr Chapman and myself. I understand that Mr. Naqui and Mr. Rahman will also attend.

I look forward to seeing you on Thursday.

Yours sincerely,

EW Hoult

Cc JD Van Oenan
Mr S Naqvi
Mr M Rahman

COMMENTARY ON THE INDEPENDENT EXAMINATION OF THE ACCOUNTS OF BANK OF CREDIT & COMMERCE INTERNATIONAL (OVERSEAS) LTD. FOR THE YEAR ENDED 31 DECEMBER 1986

VOLUME 1 OF 2

Price Waterhouse

1. ORGANISATION AND STRUCTURE OF THE BANK

1.1 The Bank is a wholly-owned subsidiary of BCCI Holdings (Luxembourg) SA ("Holdings") and is incorporated in the Cayman Islands where it holds an unrestricted Category A banking licence issued by the Cayman Island Government. However, an undertaking has been given that retail banking will not be commenced in the Cayman Islands without the prior approval of Government.

1.2 Banking operations, which are mainly retail in nature, are carried out in various countries throughout the world, organised in the following regional structure:

	NUMBER OF BRANCHES
Head Office	
Grand Cayman	1
Latin American Region	
Panama	2
Paraguay	1
Caribbean Region	
Bahamas	1
Barbados	1
Florida, USA	3
Jamaica	3
Africa I Region	
Cote D'Ivoire	2
France	3
Gabon	3
Monaco	1
Senegal	1
Sudan	3
Togo	1
Turkey	3
Africa II Region	
Kenya	7
Liberia	1
Sierra Leone	2
Middle East Region	
Sultanate of Oman	12
Far East Region	
Bangladesh	3
China	1
Korea	1
Macau	1
Philippines	1
South Asia Region	
Maldives	1
Pakistan	3
Sri Lanka	2
India Region	
India	1
Total Number of branches at 31 December 1986	65

The relative size of the Bank's operations in each country can be determined from the summarised table of results set out in paragraph 4.11 and from the subsequent balance sheet analysis.

1.3 During 1986, additional branches were opened in Turkey and China, thereby increasing the total number of operating branches from 63 at the end of 1985 to 65 at the end of 1986.

1.4 Representative offices

During 1986 representative offices ofthe Bank were maintained in:

Sao Paulo, Brazil
Beijing, China
Bogota, Columbia
Cairo, Egypt
Lagos, Nigeria
Lisbon, Portugal

1.5 Board of Directors

As at 31 December 1986 the Board of Directors of the Bank comprised:

Mr. A.H. Abedi
Mr. G.F. Al-Mazrui
Mr. K.S. Bin Mahfouz
Dr. A. Hartmann
Mr. P. Kandiah
Mr. Y. C. Lamarche
Mr. P.C. Twitchin
Mr. J.D. van Oenen

The Board of Directors exercise control over the operations of the Bank at their regular meetings during which matters of policy and events of significance are reported, reviewed and decisions taken thereon. We were supplied with copies of the minutes of all such meetings, which were reviewed by us during the course of our audit.

1.6 Audit Committee

In order to enhance liaison between the Bank's external auditors and the Directors, an audit committee comprising tow non executive Directors has been established. We have had three meetings with the audit committee in respect of the 1986 audit during which our audit scope and matters of audit significance were reported.

1.7 Management

The day-to-day management of the Bank is exercised by the Regional General Managers who are provided with support by the Central Support Organisation. Branch managers report on a daily basis to the appropriate Regional Offices which are advised of all matters of significance.

1.8 Operating procedures

During the course of the audit the proper implementation of the established procedures was reviewed and tested as necessary. In particular, all branch auditors are required to confirm to us that hey have had access to the Bank's operating manuals and that he branches covered by their examination have been complying with the systems and procedures contained therein.

Head Office – Grand Cayman

3.6 The day-to-day operations of the Head Office have been subjected to a full scope compliance based audit. Balances with customers and other financial institutions have been confirmed directly on a sample basis.

3.7 The Bank has booked a number of largeloans ("International Loans") in Cayman which are detailed in Appendix 3. These loans have been reviewed and discussed in detail with the group's senior management in Cayman and London.

3.8 Treasury

In our report dated 28 April 1986, we referred tot he control weaknesses which existed in respect of the group's Central Treasury Division ("Treasury"). During 1986 management engaged the services of the Consultancy Division of Price Waterhouse, London, to assist them in implementing recommendations contained in our earlier report. We reviewed the progress made by the bank on the implementation of revised procedures during the year and in a report dated 5 August 1986 we were able to conclude that most of our significant recommendations had been implemented.

3.9 A further feature arising from the review of Treasury operations in 1985 was the potential liability tot he Corporation Tax arising from the Division's activities in the period 1982 to 1985. Following advice from ourselves and from the Tax Counsel during 1986 it was determined that this liability could be significantly reduced if the Bank ceased trading in the United Kingdom and claimed a terminal loss. As a consequence of this advice, the Treasury activities were moved from London to Abu Dhabi with effect from 31 October 1986. Price Waterhouse assisted with the transfer from London to Abu Dhabi and we are pleased to report that the transfer was conducted smoothly.

3.10 Our audit of the Treasury activities in 1986 has been sufficiently extensive to enable us to conclude that the results and assets of the division have been fairly stated for inclusion in the accounts of the Bank.

Branches

3.11 The audit of the rest of the Bank's operations involves the coordination of audits of branches located in 28 countries throughout the world. This work has been supervised and controlled by Price Waterhouse, London, on our behalf.

5.3.3 Due from affiliates comprises demand and term accounts with other group banks maintained in the normal course of business at prevailing market rates of interest.

5.3.4 Due from financial institutions comprises demand and term accounts with finance houses, investment companies and brokerage houses. The reduction over the prior year figures is largely attributable to the existence of significant margin account balances with two major brokerage houses at the end of 1985 which were not required at the end of 1986.

5.4 Loans and advances

5.4.1 Loans and advances are stated in the balance sheet after deduction of $ 110.2m (1985 $115.9m) as a provision for possible loan losses (see Para. 5.5) and consist primarily of short to medium term trade related financing together with investment financing for selected international clients. The loan portfolio may be summarised by region, after deduction of interest in suspense, as follows:

	1986 $m	1985 $m
Head Office	1,148.8	983.9
Latin American Region	174.9	187.7
Caribbean Region	135.4	124.6
Africa I Region	313.6	227.1
Africa II Region	80.4	79.1
Middle East Region	142.0	150.2
Far East Region	236.1	171.5
South Asia Region	329.8	273.9
India Region	152.5	106.3
	2,711.5	2,304.3
Loan loss provision	(110.2)	(115.9)
	$2,601.3	$2,188.4

5.4.2 There has been an 18% growth in the gross loan portfolio compared with the prior year. The principal features of the loan portfolio are described in the following paragraphs.

5.4.3 Concentration of Risk

We have discussed the issue of the concentration of risk and income in relation tot he bank's loan portfolio at length with senior management and the members of the audit committee. A summary of the major exposure "groups" and the related income generated is given below:-

	Loans $m	Contingent Facilities $m
Total customer exposure at 31 December 1986	2,711	1,695
Exposure to the ten largest customer groups	880	430
%	32%	25%
Income attributed to the ten largest customer groups	142.0	

5.4.4 We are continuing our discussions with management regarding their plans for the reduction of this concentration. Such plans should take account of the need to generate alternative sources of income in view of the significant contribution of these major borrowers tot he results of the Bank.

5.4.5 Limit Excesses and Unsecured Exposure

At 31 December three loan accounts were more than $30 million in excess of approved limits. Of these, one was substantially covered by a cash deposit and subsequent cash receipts have reduced the levels of excess on the other two accounts in 1987. We have also drawn management's attention to the relatively high levels of unsecured exposure on certain accounts of high net worth individuals.

5.4.6 Cross Border Exposure

The Bank has relatively little cross border exposure to Latin America and other countries which are having difficulty servicing their exposure to debt. It does however have a trade related current account exposure in Sudan totalling about $42 million against which no provision was deemed necessary at 31 December 1986. We have accepted the lack of provision in respect of exposure to Sudan as the bank negotiated a repayment agreement with the Bank of Sudan during 1986 which was finally signed on 22 February 1987. Through this agreement, management are confident that this exposure can be gradually reduced. If this agreement proves to be ineffective in 1987 management have agreed to suspend interest and create a provision at the rate of 10% per annum in respect of this exposure.

There is also a facility to the Republic of Zambia which is discussed further in paragraph 5.4.10.

5.4.7 Head Office

	1986 $m	1985 $m
Grand Cayman	1,146.8	983.9

The loan portfolio in Head Office has historically included facilities for many of the major clients of the Bank and these predominantly comprise the accounts referred to in paragraphs 5.4.3 and 5.4.5 above. The increase in loans during 1986 has almost entirely resulted from the granting of new facilities to established Middle Eastern clients, together with the opening of several new facilities with Middle East clients.

5.4.8 Latin America Region

	1986 $m	1985 $m
Panama	169.8	185.4
Paraguay	5.1	2.3
	174.9	187.7

The decrease in the Panamanian portfolio is due to certain loans to Middle Eastern clients maturing during the year and to others being transferred to other branches and affiliates. The Paraguay portfolio has continued to grow steadily.

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LIMITED

INTERNAL CONTROL REPORT

1. Concentration of risk

We recommend that action be taken to reduce the Bank's exposure to individual clients or groups of clients to less than 10% of its capital fund.

It is the Bank's intention that the size of credit facilities should be restricted to 10% of the Group's capital fund except in exceptional circumstances. However we note that there are a number of existing significant individual customers and customer groups to which the Group has outstanding exposure in excess of this amount. We believe that the level of exposure to these customers should be reduced as soon as is practically possible not only to safeguard the Group against a potential loss should one of these customers default, but also to reduce the Group's dependence upon three major customers for significant amounts of its earnings.

2. Credit

We recommend that procedural controls over the group's credit activities are strengthened.

Particular areas of concern which have arisen during the course of our audit relate to:

(a) the adequacy of credit files

We have noted that the credit files maintained by the bank in some cases do not contain sufficient information to support management's review and control of credit facilities. In particular we noted that in many instances credit files do not contain the following information:

(i) Audited accounts of the borrower and related entities
(ii) Reports on visits to and discussions with the borrower
(iii) Copies of important correspondence with the borrower
(iv) Details analyses of the profitability of the account.

We also recommend that the Bank exercises its rights under security documentation to obtain better information on the financial position of its major borrowers.

(b) Limit excesses

We recommend that all limit excesses are reported on a continuing basis to head office so that authorisation of excesses can be obtained on a timely basis. Steps taken to reduce the excesses should then be followed up and controlled by the central credit division.

HRIQ HOLDING CO.

OF RES	%	BOOK VALUE PER SHARE AT YEAR END	MULTIP- LIER	MARKET VALUE PER SHARE	MARKET VALUE OF SHARES	RATE OF MANAGEMENT FEES	AMOU MANA FEES
		US$		US$	US$		US$
60	6.56	1,836	1.00	1,836	14,063,760	½%	70,3
43	6.56	1,963	1.75	3,435	35,184,705	½%	175,9
43	6.56	2,068	2.25	4,655	47,681,165	½%	238,4
43	6.56	2,196	2.50	5,490	56,234,070	½%	281,1
60	9.68	2,354	2.75	6,475	140,248,500	½%	701,2
41	9.68	2,524	2.75	6,940	182,112,540	½%	910,5
							2,377,6

K HUMAID BIN RASHID AL NAOMI

HRIQ HOLDING CO.

OF RES	%	BOOK VALUE PER SHARE AT YEAR END	MULTIP-LIER	MARKET VALUE PER SHARE	MARKET VALUE OF SHARES	RATE OF MANAGEMENT FEES	AMOU MANA FEES
		US$		US$	US$		US$
'0	7.07	1,836	1.00	1,836	12,980,520	½%	64,9
32	5.82	1,963	1.75	3,435	31,196,670	½%	155,9
32	5.82	2,068	2.25	4,655	42,276,710	½%	211,3
32	5.82	2,196	2.50	5,490	49,860,180	½%	249,3
21	5.82	2,354	2.75	6,475	84,310,975	½%	421,5
'5	5.82	2,524	2.75	6,940	109,478,500	½%	547,3
							1,650,5

SAUD AL FULAIJ

OF RES	%	BOOK VALUE PER SHARE AT YEAR END	MULTIP- LIER	MARKET VALUE PER SHARE	MARKET VALUE OF SHARES	RATE OF MANAGEMENT FEES	AMOU MANA FEES
		US$		US$	US$		US$
.5	8.58	1,836	1.00	1,836	18,387,540	½%	91,9
03	8.58	1,963	1.75	3,435	46,004,955	½%	230,0
03	8.58	2,068	2.25	4,655	62,344,415	½%	311,7
03	8.58	2,196	2.50	5,490	73,527,570	½%	367,6
53	9.14	2,354	2.75	6,475	132,497,925	½%	662,4
01	9.14	2,524	2.75	6,940	172,049,540	½%	860,2
							2,524,0

HAMMAD SHORAFA

OF RES	%	BOOK VALUE PER SHARE AT YEAR END	MULTIP-LIER	MARKET VALUE PER SHARE	MARKET VALUE OF SHARES	RATE OF MANAGEMENT FEES	AMOU MANA FEES
		US$		US$	US$		US$
91	6.51	1,836	1.00	1,836	13,937,076	½%	69,6
54	6.51	1,963	1.75	3,435	34,878,990	½%	174,3
54	6.51	2,068	2.25	4,655	47,266,870	½%	236,3
54	6.51	2,196	2.50	5,490	55,745,460	½%	278,7
50	9.94	2,354	2.75	6,475	144,068,750	½%	720,3
56	9.94	2,524	2.75	6,940	187,074,640	½%	935,3
							2,414,8

KH KAMAL ADHAM

ÞF ²ES	%	BOOK VALUE PER SHARE AT YEAR END	MULTIP-LIER	MARKET VALUE PER SHARE	MARKET VALUE OF SHARES	RATE OF MANAGEMENT FEES	AMOU MANA FEES
		US$		US$	US$		US$
;0	19.05	1,836	1.00	1,836	34,975,800	½%	174
.9	16.86	1,963	1.75	3,435	90,405,765	½%	452
.9	16.86	2,068	2.25	4,655	122,514,945	½%	612
.9	16.86	2,196	2.50	5,490	144,491,310	½%	722
ł4	12.63	2,354	2.75	6,475	182,879,900	½%	914
.8	12.63	2,524	2.75	6,940	237,472,920	½%	1,187
							4,063

JAWARY

OF RES	%	BOOK VALUE PER SHARE AT YEAR END	MULTIP-LIER	MARKET VALUE PER SHARE	MARKET VALUE OF SHARES	RATE OF MANAGEMENT FEES	AMOU MANA FEES
		US$		US$	US$		US$
)	0.51	1,836	1.00	1,836	1,083,240	½%	5,4
.	0.51	1,963	1.75	3,435	2,717,085	½%	13,5
.	0.51	2,068	2.25	4,655	3,682,105	½%	18,4
.	0.51	2,196	2.50	5,490	4,342,590	½%	21,7
ŀ	0.51	2,354	2.75	6,475	7,342,650	½%	36,7
ŀ	0.51	2,524	2.75	6,940	9,535,560	½%	47,6
							143,5

BCCI HOLDINGS (LUXEMBOURG) SA

REPORT TO THE AUDIT COMMITTEE

10 NOVEMBER 1988

RAOLF KHALIL

)F RES	%	BOOK VALUE PER SHARE AT YEAR END	MULTIP- LIER	MARKET VALUE PER SHARE	MARKET VALUE OF SHARES	RATE OF MANAGEMENT FEES	AMOU MANA FEES
		US$		US$	US$		US$
)7	8.49	1,836	1.00	1,836	18,189,252	½%	90.
;0	8.49	1,963	1.75	3,435	45,513,750	½%	227
;0	8.49	2,068	2.25	4,655	61,678,750	½%	308
;0	8.49	2,196	2.50	5,490	72,741,500	½%	363
;0	8.49	2,354	2.75	6,475	85,793,750	½%	428
;0	8.49	2,524	2.75	6,940	91,955,000	½%	459
							1,879

(c)

HALIL

STATEMENT OF SECURITIES AS AT 31ST DECEMBER, 1987

	NATURE AND DETAILS OF SECURITY	VALUE OF SECURITY AS AT 30.09.1987 (US$)	REMARKS
.ondor	Shares of Credit and Commerce American Holdings N.V., totalling: 14.430	88,744,500	Shares valued at 90% of 2.75 times the book value as at 30th September, 1987, ie $ 6,150 per share approximately

AUDIT

COMMITTEE

MR ABDUL HAFEZ

15.05

BANK OF CREDIT AND COMMERCE
INTERNATIONAL

B C C I

Twenty-fourth Meeting of the Audit Committee
Zurich – November 13th, 1989

Present:	Dr. A. Hartmann	)	Audit Committee
	Mr. J.D. van Oenen	)	
	Mr. C. Cowan	)	
	Mr. E.W. Hoult	)	
	Mr. A. Burnett	)	Price Waterhouse
	Mr. T. Charge	)	
	Mr. S. Naqvi	)	B.C.C Group
	Mr. M. Rahman		

Dr. Hartmann welcomed the representatives of Price Waterhouse and of the Bank. He stressed, once again, the need to complete the accounts well in time before the final date of March 31st. Mr Hoult replied that there remain a number of major issues, particularly in respect of loan provisions, that are still to be resolved. Much depends on the management but he considered it desirable that these outstanding matters were finalised before the year end. He emphasized that most are basically old issues. Another factor of uncertainty, of course, is the outcome of the Tampa trial and the publicity and repercussions that could arise from this.

The Price Waterhouse report submitted is the basis of their report tot he College of Supervisors that will meet on December 1st. A draft of that report was handed to the Audit Committee members. The contents will be further reviewed by and discussed with Mr. Naqvi.

General

Mr. Rahman commented that the bank has special working groups tackling all issues, except for certain specific loan provision aspects, and he was confident that a resolution will be achieved before December 31st.

Mr Hoult observed that the main differences with management relate to Sections 1, 2 and 3 of their report (results, audit and accounting issues, and credit). There is no significant disagreement in respect of the other items. The country by country interim audit comments as listed in Appendix 2 were reviewed.

Management

Mr. Naqvi explained the new delegation of CEO's involvement. All outstanding issues are being discussed with Price Waterhouse by them, and they, in conjunction with the twelve support centres, have been given authority to arrive at a settlement with the auditors. This authority extends to sovereign risk and 'routine' LLR issues.

Section 1

8. Outlook/results

The figures for the first nine months were reviewed (see also Appendix 1 in P.W.'s report). Not all reports are in yet but already P.W. have arrived at a LLR $17 million in excess of our estimate. Management expects an operating profit of $220 million at the year end, but P.W. anticipate a lower figure after adjustments.

9, 34/36 Specific provisions (see also App. 8)

P.W. expressed the view that the Group may be in a loss position if provisions reach last year's level, but Mr. Naqvi pointed out that there are differences of opinion, as the determination of provision levels remains a matter of judgement.

Grand Cayman appears to be the major problem. Most of the troublesome advances have been garaged there. Mr. Naqvi is primarily involved in these, as well as in the credit concentration issues, all of which demand much of his time.

As mentioned earlier P.W.'s estimate place provisions $17 million higher than suggested by management. Also several units have yet to report. The NBO situation came as a surprise tot he Auditors, but Mr. Naqvi assured the Audit Committee that it is not quite so bad and that the main problem is confined to 3 or 4 large accounts. M. Hoult, however, pointed out that the overall amount of $149 million is very high. As Mr. Cowan commented, this high level is partly because the economy had deteriorated in 1989. Mr. Naqvi is having discussions with the Central Bank, and felt that the suggested provision of $4.8 million would be sufficient. On Hongkong, Mr. Cowan mentioned that the previous year's plan had not been fulfilled.

<u>Section 2</u>

10. <u>Inter-branch/affiliate balances</u>

Mr. Rahman explained that the noted $39 million DF bank reconciliation difference was not unreasonable in view of our very high turnover and the fact that some units have different closing dates. There are no items of concern and the accounts will be fully reconciled by December 31st.

Mr. Naqvi mentioned instructions so all units to clear their suspense accounts to avoid the need for last minute adjustment.

11/14. <u>Accounting for interest, fees and commission</u>

Mr. Naqvi commented on our method of suspending interest. He felt that the 90 day requirement was too rigid and that in special cases we should be allowed to exceed this period. There is not always a linkage with provisions. P.W. prepared a watch list for management information. Mr. Cowan stated that there are nevertheless non-performing loans where interest has not been suspended.

Gulf Group

It was pointed out that there could be an element of double counting in respect of the pledged shares and other assets. Mr. Naqvi promised to look into this. Mr. Cowan observed that he would like to see a floating charge over the company's assets and also that more cash-flow information is needed. Mr. Naqvi said that the bank is restructuring the account to achieve a reduction in principal. He wants to give them a long period of time. Mr. Cowan commented that Price Waterhouse basically has the same reservations as in the previous three years.

Government of Sharjah

Two instalments remain unreceived. Mr. Naqvi hoped that payment will be made. The Ruler is presently travelling, but he expects to meet him before December 31st. Mr. Cowan explained that the post-dated cheques in our possession were stopped by the Government.

Other Risk facilities and International loans

Some of the major ones, not mentioned above are listed in Appendix 7. They are, according to P.W. all of a 'problem' nature. Most were already reported in 1988. Some may need further provisioning. They are closely monitored by P.W.

Mr. Naqvi explained the Cayman items, most of which are more of a 'routine' nature, and explained that several of the International loans are partly secured. The individual account managers are following up and will discuss each item with P.W.

29. Limit excesses

Mr. Naqvi explained that the noted excesses refer to major accounts which require Board approval before the year end. Mr. Hoult expressed his concern about the size of the excesses.

30. New loans with inadequate documentation

The total amount identified is £73.5 million. It includes $35 million CCAH new draw down lacking Board approval. Mr. Naqvi promised to look into the problem and expects to be able to sort it out.

32/33. Transfers of loans

Mr. Naqvi explained that the transfer of loans (mostly CCAH) from Cayman to Emirates was primarily for liquidity and regulatory reasons. There will be an interest-sharing arrangement. In view of our minority interest in the Emirates, there will be a net loss of interest but not a great deal. Country risk exposure would not be affected, said Mr. Naqvi.

37/38. Sovereign risk situation (see also Appendix 5)

The bank will continue to follow the Bank of England guidelines, however, after taking specific situations into account. According to P.W. the Bank of England matrix could require a provision of $20/40 million, but management feels that $11 million would be sufficient in view of a number of bilateral arrangements that are operating satisfactorily. The main issue remains Nigeria where according to management a reserve of $7 million would be sufficient.

Mr. Van Oenen pointed out the increases in the provision level made by the British banks that now provide 60% or over against their exposures, and felt this would be a good time to take a conservative attitude.

39/40 General provisions

Mr. Hoult expressed his concern about the general provision level which stood at only 0.6% in 1988 and is bound to drop still further.

Section 4

58/60 Treasury Operations

Except for a swap contract with Hammersmith Borough Council and a trading loss in BCC Emirates, no particular problems were noted although the results are unimpressive. Discussions continue with Bank of England on the subject of a Central trading operation located in London.

Section 5

61/72 Taxation

It is expected that the operating profit/tax ratio will be better than in 1988, although much depends on the level (and location) of provisions to be made. Price Waterhouse have addressed a letter dated November 8th to management with suggestions on how to improve our taxation policies. It could involve the need to restructure the organisation. Mr. Rahman explained the plan to charge the overseas units with a portion of the CSO expense. Mr. Naqvi commented on the reduction in the deposit subsidy to funding units from 1 to ½% p.a.

There remain a number of unresolved back issues, especially in the U.K., but also in Luxembourg and Egypt.

Section 6

73/80 Regulatory and compliance

The outstanding issues were discussed in some detail. On the whole, compliance issues are being resolved.

Sections 7

81/88 Internal controls

Price Waterhouse's observations were noted.

Appendix 3 & 4

Reviewed.

Capital adequacy

This issue was discussed in a separate session with Mr. Hoult and Mr. Naqvi. Price Waterhouse noted some potential problems, arising from a recent capital restructure. Mr. Naqvi mentioned that we had followed a more complex formula than was strictly necessary and the regulators will be fully advised in a separate context. P.W. confirmed that our capital remains adequate under the existing regulations.

The general meeting was closed by Dr. Hartmann who thanked all participants. A new meeting with Price Waterhouse has been scheduled for January 10, 1989.

Signed

Dr. A. Hartmann Mr. J.D. van Oenen

B C C I

Fourteenth Meeting of the Audit Committee
10th March, 1988

Meeting with the External Auditors Price Waterhouse

Present:	Dr. A. Hartmann	)	Audit Committee
	Mr. J.D. van Oenen	)	
	Mr. E.W. Hoult	)	
	Mr. A. Burnett	)	Price Waterhouse
	Mr. C.I. Cowan	)	
	Mr. S. Naqvi	)	BCC Group Management

Review of Price Waterhouse's report

Mr. Hoult opened the discussion by pointing out the changing role of external auditors as a result of the developments that are taking place in the financial and the regulatory field. He made it clear that nay critical observations in their report are meant to be of a constructive nature.

A wide-ranging review of the bank's results and operations then took place. Where needed Mr. Naqvi, representing management, provided further clarification.

Following the attached agenda, matters of specific importance were discussed.

(1) (2)

Mr. Hoult reiterated his concern about the bank's large exposures and risk concentration. Loans in excess of $25 million represent one third of the portfolio and the bank is too dependent on the income. The regulators are aware of this and some comments may be expected, particularly where there are excesses over the limit. Mr Cowan added that PW requires a better understanding of some loans and the need for more complete credit files. PW would like to see reduction in certain loans such as the Gokal group.

Mr. Naqvi commented that arrangements are being made to record in detail discussions with such customers for PW information. Most of the excesses have meanwhile been reduced.

CCAH security has been valued by PW at $6150 per share, i.e. 90% of 2.7 times book value.

(3) (4)

The extent of specific, general and country provisions were discussed at length and Mr. Hoult indicated that PW, after reviewing most large loans around the world, felt comfortable with the specific figure of $429 million. This includes $20 million provisions in Hongkong and Egypt that should have been made in 1986. Mr. Naqvi indicated that a system is being developed to forewarn management of potential loan problems in good time in the future.

General Provisions now stand at 1% of risk assets, not counting G.M.'s and loans secured by deposits. Mr. Hould would like to see a further increase, later, up to $150 million (equalling 50% against Gokal). Mr. Naqvi indicated an initial target of 1.25%.

Country risk provisions which to some extent are based on Bank of England guidelines, were discussed in detail. The figure of $75 million arrived at, nevertheless, is not being allocated to any specific countries. Some reduction is taking place in the Sudan exposures which explains the exclusion of certain debt. Mr. Hoult was not quite sure whether our Nigeria calculation is in accordance with Bank of England thinking.

(5)

The disappointing Treasury results and the losses incurred outside the Central Treasury were reviewed. A senior officer to take charge of the Treasury has been recruited from outside. There is an obvious need for much closer central supervision and the establishment of peripheral limits.

The tax aspect is of great importance, especially when 1% is being paid over cost of funds to units in high tax countries.

There is a market value shortfall of $100 million in the Investment Portfolio, but prices have since somewhat improved. G.M.'s are included in the loan portfolio at cost.

Dr. Hartmann stressed the need to spell out our investment objectives more clearly to those institutions that have been entrusted with fund management.

Concern was expressed about some non-bank and other unauthorized trading activities which invariably seem to have led to losses. The major difficulties originated in Luxembourg, Italy and Hongkong. Mr. Naqvi stated that the problems there are being further investigated. Dr Hartmann suggested that the Internal Audit Dept. should keep a close watch over such activities and report non-compliance.

(6)

Local audit delays were experienced in some locations outside PW control. Matters of group significance were listed by PW and reviewed in some detail.

(7)

Financial control difficulties reported by PW were reviewed. The main problems seem to be related to the Treasury, already reviewed under (5) above. Other areas where improvements in controls was necessary were pointed out by PW.

(8)

BCC SA tax provision appears to have been conservatively estimated, but PW felt that this is off-set by various unresolved issues with Inland Revenue. No decision can be expected in the immediate future as all foreign banks are involved. According to Mr. Hoult we may perhaps be in a somewhat better position than the American banks in London.

Outstanding issues

1. Capital adequacy may be affected by the ICIC situation as the Regulators could treat BCC and ICIC as one entity.

   Mr. Naqvi again explained the historical relationship and the two main aspects in this operation. Arrangements will be made to solve these. Mr. Hoult mentioned that the matter will have to be addressed in PW's report to IML. He understands the problem, but legal justification is needed.

2. The related party situation which had been reviewed at length at our previous meeting was further discussed, as well as the Note tot he accounts dealing with this subject.

3.

4. Other items discussed included the situation in Kenya and in Egypt, as well as the regulations in respect of investment activities conducted in the U.K. A co-ordinator has been appointed in London.

Review of draft Financial Statements

Discussed the changes that have taken place since the review of 222nd January, 1988. Mr. Naqvi commented on the few items, most of a technical nature, which were listed by PW as still outstanding. They should be resolved very shortly (the accounts of BCCI Financial Services will eventually be transferred outside the Group).

Our accounts have been presented in the format required under the new I.A.S. which needed re-statement of the 1986 figures. PW submitted a list of the many adjustments that had been necessary to the first provisional operational profit figures which resulted in a final reduction form $191.3 million to $185.4 million.

The various Notes to the accounts were reviewed, in particular those relating to provisions, their treatment in the accounts, taxation, property revaluation, investment portfolio presentation and segment information. Mr. Naqvi commented on the group profits, for the year, which were affected by the disappointing Treasury results and foreign exchange fluctuations which a.o. adversely influenced salaries and related costs to the tune of $16.7 million. The individual bank unit contributions to the overall profit were reviewed in detail.

Some discussion ensued relating to the various ratios as calculated by PW which would show a 5% reduction in liquidity (because of the omission of CD's) and a drop to 7.48% in the capital/asset ratio. Mr. Naqvi confirmed that the bulk of our liquidity is maintained in convertible currencies.

Management Issues

Mr. Hoult emphasised the need for close controls and monitoring, and again pointed out the need for stronger internal management support to Mr. Naqvi. The latter mentioned that the strengthening of Central Management is receiving full attention and proposals will be presented to the Board as part of a ten-year plan. These will include internationalisation of the management which will require major support, and on strengthening computerisation and systems and administration. Future strategy will focus on four geographic areas: U.K./Europe; Far East; Canada and U.S.A.

Mr Hoult commented on the report to be presented by PW on the appropriate internal audit structure, which will require senior management input and time. It will be ready in June. It is hoped that the Internal Audit Department will submit more frequent reports in a form that would enable PW to rely on them more fully. This would reduce cost. Mr. Hoult also suggested that the Audit Committee's role should be expanded to cover all aspects of compliance and internal control.

200

Other matters

Mr. Hoult was pleased with the formation of and the co-operation received from the Audit Committee. He saw it as an important bridge between PW and the Board.

Dr. Hartmann thank Mr. Hoult and his colleagues for their co-operation and, accepting that this was PW's first full group audit, expressed the hope that there will be scope to streamline the audit procedures increasingly in the future.

A meeting between PW and the Audit Committee will be arranged in May to review the IML report.

Signed

Dr. A. Hartman Mr. J.D. van Oenen

Provisions

End of 1985 BCCI had provisions of a total of US$ 376 mio.

In these provisions a general provision of US$ 55 mio. was included which makes the specific provisions of US$ 321 mio.

To these existing provisions have to be added	US$ 321 mio.
- specific provisions agreed with management	US$ 36 mio.
- specific provisions not yet agreed with management	US$ 63 mio.

Total specific provisions	US$ 420 mio.
General provision	US$ 50 mio.

Total provisions	US$ 470 mio.

This means a provisional increase for 1986 of US$ 100 mio. not taking into consideration the interests which should be paid by Sharjah

OTHER REMARKS OF THE EXTERNAL AUDITORS

1. KIFCO (Kuwait) had on 30th September, 1986 outstanding loans of US$ 150 mio. (in August 1986 US$ 270 mio.). Though their position is not consolidated, the auditors regard KIFCI as part of the group. They expressed some concern about the loan book and would like to know more about the company.

2. The External Auditors need more information about Banke de Commerce et de Placements S.A., Geneva. Mr. A. Hartmann informed them about the legal steps to be taken to get the desired information.

3. The BCCI Staff Benefit Fund has no legal personality. A trust should be formed and rules set up.

4. Tax position: Ernst & Whinney expressed some reservations about the feasibility of the proposed US$ 40 mio. reversal.

   The External Auditors mentioned the absence of any management reply in respect of their 1985 observations. They received a letter from IML two weeks ago referring to the long form report about BCC S.A.

5. Ernst & Whinney mentioned the need to coordinate the audit of the treasury operation in Abu Dhabi belongs to SA, Ernst & Whinney think that this audit falls in their responsibility.

6. The auditors discussed future regulatory requirements in respect of internal controls and the maintenance of appropriate accounting records.

7. Regarding regulatory requirements Ernst &Whinney mentioned

   - the restructuring of BCC, Great Britain

   - the letter of the Canadian regulatory authorities dated 10th October, 1986

   - the necessary special licence for the treasury activities in Abu Dhabi.

8. The auditors mentioned the fraud in the National Bank of Oman of US$ 800’000 and of Kenia of US$ 300’000. In India the traveller checks seem to present some difficulties.

9. The auditors had the same observations on ICIC and BCCI Staff Benefit Funds as Price Waterhouse.

10. They expressed the need for a formal plan to enhance management quality through restructuring, training and outside recruitment.

11. Reverting to their letter of May 1986 Ernst and Whinney mentioned the following points:

    1. Coverage is still unsatisfactory and unchanged.

    2. The internal control is good in U.K., unsufficient outside.

    3. The auditors think that the bank needs more executive directors. Although there has been some improvement, it is felt that there remain weeknesses in the reporting and monitoring systems.

Signed by Dr. A. Hartmann

BCC GROUP
CONFIDENTIAL

RISK FACILITIES – PROVISIONAL ASSESSMENT

AT 30 SEPTEMBER 1986

1. Introduction

1.1 This provisional assessment of the group's risk facilities is based on reports made to Ernst & Whinney by auditors, in accordance with the Audit Administration Manual, and on reports received from Central Credit Division.

1.2 Central Credit Division has supplied us with reports as at 30 September 1986 covering country risk, sovereign risk and credit risk concentration.

1.3 The Audit Administration Manual requests auditors, inter alia, to:

- Conduct a review of credit facilities recorded as at 30 September 1986.

- Form a view on specific provision requirements.

- Endeavour to agree these requirements with management.

- Report to us the conclusions of their work, together with supporting details.

Reports have not been received at this time from all auditors. We are continuing to seek responses from the auditors concerned.

2. Scope and objectives of this report

2.1 The information supplied by Central Credit Division has been reviewed, but not audited, by ourselves. The review of credit facilities conducted by auditors does not constitute an audit in accordance with generally accepted auditing standards and was conducted as part of their procedures designed to express an opinion on the accounts of each group company as at 31 December 1986. Accordingly, this report does not constitute an opinion as to the accuracy or completeness of the group's credit risks and should not be relied upon for this or any similar purpose.

2.2 It should also be appreciated the information in this report is of a provisional nature and may be influenced by the contents of reports not yet received, by information requested of management and by developments subsequent tot he date of this report.

2.3 Accordingly, the objective of this report is to give management a preliminary indication of the extent of facilities at risk and of the related specific provision replacements.

3. <u>Geographic risk</u>

3.1 Schedule 1 sets out a summary of   geographic risk as at 30 September 1986 to those countries where, in our view, political or economic considerations increase the risk profile. We draw your attention to Note 1 to this schedule which explains that certain risks are not included. Accordingly, the level of risk is understated to that extent.

3.2 In comparison to the position at 31 December 1985, it appears that there has been reduction in the exposure to Nigeria and Egypt which accords with our general understanding. There also appears to be a reduction in the Saudi and Kuwait exposure which we cannot readily reconcile and enquires are in progress. The new exposure to Peru and increased exposure to Zambia is notable.

3.3 In our view, the incidence of risk to these countries is an important environmental factor in considering the general quality of assets. Moreover, the degree of risk is more volatile for these countries and may therefore change more rapidly. In our view this risk volatility is particularly notable in Bangladesh, Egypt, Nigeria, Philippines, Sudan and Zambia.

3.4 We believe these circumstances should be reflected in the group's approach to provisioning as follows:

(a) Facilities to commercial counterparties should be assessed with additional caution. In particular, the absence of scheduled repayments or reasonable account activity should be grounds for establishing specific provisions unless adequate tangible security is available to the group.

(b) Subject to our comments in Section 4, facilities to bank or sovereign counterparties should be assessed separately in formulating the level of general provisions. In particular, we consider amounts of general provision should be specifically set aside to recognise the higher profile of these facilities.

4. Sovereign risk

4.1 Schedule 2 sets out separately the sovereign risk exposure within the geographic risks reported in Schedule 1.

4.2 In comparison to the position at 31 December 19895, it can be seen that most exposures are static but it is noteworthy that the exposure to Nigeria has reduced considerably and that to Zambia increased substantially.

4.3 Whilst we generally consider it appropriate to recognise the risks in these exposures by allocated general provision [see Section 3.4(b)], we consider currently that a specific provision is appropriate for the group's sovereign exposure to Sudan. In 19895, the main part of this exposure was subject to an allocated general provision of $4 million; being 20% of the exposure of $20 million. As described in Section 6, our provisional view is that a specific provision of 75% is now appropriate.

5. Risk concentration

5.1 Schedule 3 sets out an analysis of major credit exposures at 30 September 1986.

5.2 We have previously reported our concerns as to the level of risk concentration in the Group. In comparison to the position at 31 December 1985,it can be seen that this is still a major feature of the credit risk profile and shareholders still figure prominently amongst such customers. Audit procedures to confirm appropriate authorisation of these facilities are not yet complete.

5.3 In our view, this circumstance presents a significant latent risk to the group. We take this view because experience demonstrates that circumstances can arise in which loan losses are experienced even though credit monitoring is generally of a high quality, the security is substantial. These circumstances commonly arise through circumstances outside the control of the lender or the borrower. Practical examples include the occurrence of uninsured catastrophes; changes in the economic or political climate or amendments to law affecting the exercise of security.

5.4 For these reasons, we consider that this latent risk should be recognised in assessing the general provision requirement by setting aside sums at a higher level for the latent risk in those facilities which exceed, say, $100 million.

6. Specific provisions

6.1 Schedule 4 sets out a provisional summary of those reports received from secondary auditors of facilities at risk and related provision requirements.

6.2 The key information reported on the schedule is as follows:

- Facilities under discussion – being facilities where the complexity of the position has prevented an assessment at this time or where auditors wish unpaid interest to be reserved.

- Potential shortfall – being aggregate facilities at risk stated net of reserved interest and the estimated realisable value of security.

- Specific provisions – being each auditors provisional assessment at 30 September 1986 of the specific provisions required; distinguishing between those agreed with the local management and those not agreed.

- Specific provisions at 31 December 1985 – being those provisions regarded by auditors as specific as at 31 December 1985, adjusted for exchange movements in 1986.

6.3 A provisional indication of the impact of specific provisions in 1986, and of key outstanding matters, is set out below:

		Provisional requirement in 1986
		$M
-	Guarantees	9.5
	Assumes no new guarantees issued in 1986 and no further provision required against guarantee issued to UK region on facility of $12.6M.	
-	SA	35.3
	Assumes concerns on three facilities totalling $80 million are resolved, interest is paid or reserved on two Middle East facilities and further discussions confirm E&W's view that a 75% specific provision ($14 million) on Sudan is appropriate.	
-	Overseas	10.4
	Assumes 'other locations' (which do not report until January) require no further specific provisions in 1986. Assumes a series of significant repayments due before year end are received and certain additional security is also received.	
-	Other subsidiaries	` 42.3
	Assumes those that have not reported require no further specific provisions in 1986. Assumes no further guarantees received from other group companies.	
		93.0

6.4 We stress again that this assessment is provisional both by virtue of the assumptions referred to in paragraph 2.2.

7. General provisions

7.1 Schedule 4 sets out the general provisions maintained by the group at 31 December 1985, based on auditors assessments at that time. These provisions aggregate to approximately $50 million.

7.2 As you are aware, the auditors of Overseas were concerned about the level of general provisions at 31 December 1985 in that bank and we understand specific assurances were given by management in this regard. Moreover, we expressed reservations at that time as to the degree of latent risk in Overseas, Emirates and MISR and recommend larger provisions be established.

7.3 In reviewing the position this year, our concerns remain. In particular Section 3.4 and Section 5.4 of this report make proposals as to the assessment of latent risk in certain country risks and in large exposures.

7.4 Clearly, it is too early in the audit process to formulate any recommendation. Nevertheless, it is relevant to note that, on a simplified approach a general provision of 1% of the aggregate group advances at 30 September 1986 would require a general provision of approximately $70 million compared tot he existing provision of $50 million. Such a calculation is over simplistic and does take into account the need to deal separately with country and large exposure risks as mentioned previously.

Signed
Ernst & Whinney
5 December 1986

BCCI GROUP SCHEDULE 1

GEOGRAPHIC RISK

Local Loans	Total Sept 1986 $M	%	Total Dec 1985 $M	%	Analysis of 1986 Risk: Local Loans $M	Analysis of 1986 Risk: Cross Boarder $M
Bahrain	500	3	590	3	267	233
Kuwait	146	1	275	2	146	-
UAE	1,612	9	1,530	9	271	1,341
Saudi Arabia	342	2	603	4	342	-
Oman	653	4	815	5	34	619
Total Middle East	3,253	18	3,813	23	1,060	2,193
Bangladesh	108	1	169	1	27	81
Egypt	380	2	447	3	141	239
Nigeria	529	3	850	5	195	334
Peru	23	0	-		23	-
Phillipines	66	0	69	-	66	-
Sudan	95	1	105	-	72	23
Zambia	101	1	55	-	71	30

GROUP

	Sept 1986	Dec 1985
Aggregate advances	7,224	6,842
Aggregate inter bank placements	6,593	6,398
Aggregate contingent risk	4,010	3,793
Total risk	17,827	17,033

NOTES

1. The risk do not include local contingent risk or local inter bank placements since this data is not readily available. There are significant amounts of such risk in the Middle East.

2. The percentages given are in relation to total risk.

3. Source : Unaudited data supplied by Central Credit Division
   : Consolidated financial information supplied by the Group Accounts Division.

BCCI SCHEDULE 2

SOVERIGN RISK

	$000	
	December	September
Loan domiciled at:	1985	1986
Argentina	500	566
Bangladesh	6,429	5,893
Brazil	4,741	4,345
Costa Rica	1,160	1,201
Cuba	1,440	1,440
Mexico	5,789	5,799
Nigeria	156,537	72,460
Peru	-	22,567
Poland	610	648
Philippines	55,704	60,611
Romania	7	3
Somalia	3,797	2,828
Sudan	75,478	67,020
Turkey	23,975	26,152

Venezuela	2,175	2,273
Zambia	-	46,319
	388,342	320,125

Source: Unaudited data supplied by Central Credit Division.

FACILITIES AT RISK – AS AT 30 SEPTEMBER 1986

	Facilities under discussion	Potential Shortfall December 1985	Potential Shortfall September 1986	Specific Provisions Agreed	Specific Provisions Not Agreed	Specific Provisions 31.12.85
	$M	$M	$M	$M	$M	$M
Guarantees:						
By Holdings	12.6*	65.5	64.0	54.5	5.5	54.5
By Overseas		35.5	35.5	31.5	4.0	31.5
				86.0	9.5	86.0
SA:						
- Luxembourg	15.1	N/A	27.0	10.6	2.7	11.1
- Middle East	318.0	N/A		30.6	15.0	28.2
- UK	12.6*		27.0	20.5	16.1	21.5
- Other	Nil	N/A	8.2	7.3	0.3	7.2
				69.0	34.1	68.0
General provision						25.0
Total Provision						93.0
Overseas:						
- Cayman		42.0	60.4	17.3	Nil	15.7
- Major locations		24.0	33.6	16.0	4.7	11.9
- Other locations		67.7		45.0		45.0
(No report)				78.3	4.7	72.6
General provision						11.8
Total provision						84.4
CFC	No report			4.9		4.9
Lebanon	No report			1.8		1.8
Swaziland	No report	0.9		0.1		0.1

Nigeria			20.9	19.6	19.6	Nil	15.4
Oman			36.5	42.1	14.5	Nil	11.8
Ghana	No report				Nil		Nil
Canada			2.9	8.3	2.4	5.8	2.4
Finance (Hong Kong)			29.2	23.3	8.4	Nil	4.9
Hong Kong			125.7	123.8	21.0	Nil	12.5
Zimbabwe			0.2	0.3	0.3	Nil	0.2
Zambia	No report						
Kenya			1.2	1.0	0.2	0.7	0.1
Egypt	(Provisional)				11.9	8.0	11.9
Italy	No report		1.7		0.3		0.3
Cameroon				N/A	3.5	Nil	1.9
Emirates			N/A	73.1	23.2	Nil	17.7
Spain		4.4	1.7	9.8	3.1	Nil	1.5
Colombia	No report				8.2	Nil	8.2
Botswana			Nil	0.1	0.1	Nil	0.1
Uruguay			Nil	Nil	Nil	Nil	Nil
Niger	No report						
Gibraltar	No report						Nil
Indonesia			Nil	Nil	Nil	Nil	Nil
Australia			Nil	Nil	Nil	Nil	Nil
					123.5	14.5	95.7
General provision							12.4
Total provision							108.1

Discussion of remarks made by the External Auditors

1. The External Auditors do not consider the quality of the presentation of credit proposals to be always sufficient. Mr. I. Ahmed mentioned that improvement has to be primarily looked for in the field. The credit division now consists of 60 officers.

2. The External Auditors consider that no new credit commitments should be made by local management before approval by central management or the Board. Such an approval should be made before disbursement of the credit. If necessary the agreement of central management of the Board can be requested by telex or fax.

3. According to the opinion of the External Auditors credits made by branches should be more actively monitored. The establishment of a separate department for reviewing credits would be of great help. Mr. I. Ahmed mentioned the creation of regional credit offices beside the central auditors.

4. Central Credit Committee

   According to the External Auditors the Central Credit Committee is of good quality and screens credits very well. Mr. I. Ahmed informed the Audit committee that a smaller sub-committee has been established.

   The activity on the credit officers' and committees' competence is laid down in a number of manuals.

Signed
Dr. A Hartmann

	NAME OF THE INVESTOR	MANAGEMENT FEE IN US$
1.	Mashriq Holding Co	2,377,623.71
2.	H.H. Sheikh Humaid Bin Rashid Al Naomi	1,650,517.78
3.	H.E. Mr. Faisal Saud Al Fulaij	2,524,059.74
4.	H.E. Mr. Ali Mohammed Shorafa	2,414,858.93
5.	H.E. Sheikh Kamal Adham	4,063,703.21
6.	Mr. Sayed Jawhary	143,516.16
7.	Mr. Abdul Raoul Xxxlil	1,879,365.01
		15,053,644.54

COMMENTARY ON THE INDEPENDENT EXAMINATION OF THE ACCOUNTS OF BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD. FOR THE YEAR ENDED 31 DECEMBER 1985

VOLUME 1 OF 2

Price Waterhouse

Price Waterhouse

28 April 1986

The Board of Directors,
Bank of Credit and Commerce
International (Overseas) Ltd.,
P.O. Box 1359,
Grand Cayman,
B.W.I.

Dear Sirs,

We have pleasure in submitting our commentary on the independent examination which we have made of the accounts of Bank of Credit and Commerce International (Overseas) Ltd. ("the Bank") for the year ended 31 December 1985. This commentary has been prepared at the express wish of yourselves and of the Insitut Monetair Lumembourgeois ("IML") and should be read in conjunction with our Report on Treasury Activities dated 18 March 1986. In addition, we have reported on certain major loan exposures in connection with the report of the Group Auditors to the IML. We remain at your disposal to provide any additional information or explanations which either the regulatory authorities, yourselves or management of the Bank may require.

We would like to emphasise that our examination of the accounts of the Bank was carried out with the objective of expressing an opinion on those accounts taken as a whole and not on the accounts of any of the branches standing alone. Our examination was based on our evaluation of the systems of internal accounting and other controls in order to establish a basis of reliance thereon in determining the nature, timing and extent of other auditing procedures required for expressing an opinion on the accounts.

The extensive data included in the commentary has been extracted from the accounting and related records of the Bank which we reviewed and tested in completing our examination of the Bank's accounts. In this connection we have placed reliance upon the results of our audit as t the basic reliability of the Bank's accounting and related records and, in addition, we have tested the financial and other data included in this report against the Bank's records.

As you are aware, The Confidential Relationships (Preservation) Law of the Cayman Islands embodies in statute the duty of non-divulgence of information imparted under conditions of professional confidence. Accordingly, to ensure that both the Bank and ourselves comply with the intent of the law, we have omitted reference to the names of customers in Schedules B and C who have accounts at Head Office, and have identified individual accounts by means of a reference number.

In closing, we wish to express our appreciation of the courtesy and co-operation extended to us throughout the course of the audit and the preparation of this commentary.

Yours faithfully.

PRICE WATERHOUSE

5.3.3 Due from affiliates comprises demand and term accounts with other group banks maintained in the normal course of business at prevailing market rates of interest.

5.3.4 Due from financial institutions comprises demand and term accounts with finance houses, investment companies and brokerage houses. The increase over the prior year figures is largely attributable to the existence of significant balances with two major brokerage houses.

5.4 Loans and advances

5.4.1 Loans and advances are stated in the balance sheet after deduction of $ 115.9m (1984 $ 88.3m) as a provision for possible loan losses (see Para. 5.5) and consist primarily of short to medium term trade related financing together with investment financing for selected international clients. The loan portfolio may be summarised by region, after deduction of interest in suspense, as follows:

	1985 $m	1984 $m
Head Office	983.9	685.5
Latin America Region	187.7	174.2
Caribbean Region	124.6	112.1
Africa I Region	227.1	196.7
Africa II Region	79.1	76.7
Middle East Region	150.2	122.4
Far East Region	171.5	156.7
South Asia Region	273.9	192.0
India Region	106.3	41.3
	2,304.3	1,757.6
Loan loss provision	(115.9)	(88.3)
	$2,188.4	$1,669.3

5.4.2 There has been a 31% growth in the gross loan portfolio compared with the prior year. The principal features of the changes in the regional composition are described in the following paragraphs.

5.4.3 Head Office

	1982 $m	1984 $m
Grand Cayman	983.9	
685.5		

The loan portfolio in Grand Cayman has historically included facilities for many of the major clients of the Bank. The increase in loans during 1985 has almost entirely resulted from the granting of new facilities to established Middle Eastern clients together with a major trade related facility to a Government Agency of an African country.

The overall increase of about $ 15m in the region is largely due to the significant increase of $ 19m in Macau offset by a decrease of $ 6m in Korea. The operation in Macau is now in its third year and, in addition to a base portfolio of loans originating from BCC Hong Kong, has developed a portfolio of offshore and trade related accounts. A significant proportion of the new facilities are backed by term deposits which have been pledged to the Bank as security. The decrease in loans in Korea is largely due to the withdrawal of facilities from a number of local clients.

5.4.10 South Asia Region

	1985 $m	1984 $m
Maldives	3.4	3.1
Pakistan	234.0	154.4
Sri Lanka	36.5	34.5
	$ 237.9	$ 192.0

The overall increase of about $ 82m is almost entirely due to the expansion in the loan portfolio in Pakistan. During 1985 the Sate Bank of Pakistan allowed increases in the credit ceiling provided such increases were backed by foreign currency deposits or Special National Fund Bonds. The Bank has taken full advantage of this relaxation of the regulations and significant new facilities have been granted to local clients. The necessary foreign currency deposits have been obtained from individual clients and from Grand Cayman Head Office.

5.4.11 India Region

	1985 $m	1984 $m
India	106.3	41.3

The branch in Bombay has now completed its second year of operations and has achieved a very significant growth in both assets and profitability. A large number of new clients have been granted facilities including major local corporations.

5.5 Loan loss provision

During the course of our audit we place great emphasis on our examination of the loan portfolio in order to assess the quality of the loans and the adequacy of the provision for possible loan losses. Our work includes reviewing the creditworthiness of a large number of the Bank's clients throughout the world and as a part of this work we look not only at the operational aspects of each individual account but also at the underlying resources of each client and the value attached to any collateral held by the bank as security. We pay particular attention to major exposures and identified risk facilities and discuss these extensively with management. Our examination also includes a thorough review of the authorisation and monitoring procedures adopted by the Bank and the adherence of local management to these procedures.

MINUTES OF THE MEETING WITH PRICE WATERHOUSE

ON 14 JANUARY 1988

1. GRP

1.1 Confirmation required as to when the fee of US$11.0M was debited to the deposit account of the proceeds of the sale of NBGFC.

1.2 In reply to his enquiry, Mr. Chapman was informed that GRP did not borrow US$29.0M from us to invest in Eurotunnel.

1.3 Audited balance sheets for 1986 of the following companies to be provided to P.W.:
(a) Pharaoh Holdings Ltd
(b) Interbulk Transport Co.
(c) Sobeck International

1.4 Mr. Chapman insisted on the payment of interest and loan fees on all loans by the end of February 1988.

1.5 The total loans outstanding should either be brought within the approved limit, or in case EOL remains outstanding should be supported by additional securities.

1.6 EOL as at 31.12.1987 was US $39.0M as at 31.12.1986.

2. CCAH

(a) PW have requested for a complete list of shareholders as at 31 December 1987.

(b) Are there any agreements amongst the shareholders re: shares to be held as security for borrowing by third parties?

2. CCAH (contd)

(c) Valuation of the shares as at 30 September 1987 and 31 December 1987.

2.1 MASHRIQ HOLDING CO./RULER OF FUJEIRA

2.1.1 EOL as at 31.12.87 was US$124.0m compared to US$101.0M as at 31.12.86

2.1.2 It was noted by PW that total amount of US$8.0M received in the loan accounts in Cayman and Luxembourg, does not service the interest accrued during the year.

2.2 MESSRS CLIFFORD AND ALTMAN

2.2.1 Payments received during 1987 did not service the interest accrued. Are additional funds expected?

2.3 FSF

2.3.1 EOL to be reduced by end of February 1988.

2.1 ARK

2.4.1 Shares under transfer to be transferred to secure the loan.

2.4.2 Memorandum of Deposit of Stocks and Shares to be signed by the borrower.

MR ALTMAN'S TELEPHONE MESSAGE:

(1) SKA has requested for employment of the Deputy Chief of Executive of Allied Arab Bank in FAB.

(2) H.E. has requested for meetings between FAB, BCCI and SKA to be held twice a year. The first meeting was scheduled for April 1988, and postponed to June 1988. SKA requests for this meeting (in June 1988) to be held in London if necessary. Could you spare a couple of hours for this meeting?

(3) Rights offer was planned for 1989. The Fed. However, has asked for an increase in capital between US$ 15 Million and US$ 20 Million to improve the ratio of tangible capital to total assets of FAC. (Fed defines tangible capital as equal to total capital less goodwill).

Mr Altman suggests that CCAH borrows the above amount either from its shareholder(s) or from BCCI or any other company and contributes the funds as capital to FAC via CCAI. As goodwill needs to be ammortised against net income, the annual income in retained earning would not be sufficient to improve the ratio.

(4) The loan form BAII needs to be refinanced as it is proving expensive. Does this needs to be discussed with Mr Lamarche?

BANK OF CREDIT AND COMMERCE

INTERNATIONA (OVERSEAS) LTD.

AUDIT INSTRUCTIONS

YEAR ENDING DECEMBER 31, 1983

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD.

AUDIT INSTRUCTIONS – YEAR ENDIGN DECEMBER 31, 1983

CONTENTS

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD.

AUDIT INSTRUCTIONS – YEAR ENDING DECEMBER 31, 1983

CONTENTS

(Continued)

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD.

AUDIT INSTRUCTIONS – YEAR ENDING DECEMBER 31, 1983

1. Scope of examination:

We request that your examination be made in accordance with auditing standards generally accepted in the United Kingdom and be planned to be sufficiently extensive to enable you to report without restriction as to scope on the client prepared Accounting Statements of the company's branches in the country/region being examined by yourselves at December 31, 1983 and for the year then ended, subject to the following materiality levels for reporting possible adjustments tot he company's audited financial statement captions, including note disclosures thereon:

a)	Asset and liability reclassification	US$500,000
b)	Income and expenses reclassification	US$250,000
c)	Adjustment to profit after taxation	US$100,000

N.B. The above materiality levels apply to the classifications used in the published accounts and not to individual general ledger headings.

The suggested form and content of the audit opinion that we should like to receive is set out in Appendix 1.

2. General audit approach:

In order to facilitate completion of the audit clearance of the financial statements in accordance with the client's requirements, and highlight potential problem areas at an early date, we request that you perform your detailed examination as at September 31, 1983 and for the nine months then ended, followed by an update at December 31, 1983 and for the three months then ended.

The September 31, 1983 examination should be planned to provide you with the necessary assurances on the client's systems, procedures and accounting records to enable you to rely upon these as a basis for performing the three month update examination to December 31, 1983.

The scope of your examination covering the period from October 1, 1983 to December 31, 1983 should be planned to ensure that significant transactions and balances not previously examined are subjected to standard auditing procedures.

3. Group information:

a) Affiliated companies

Bank of Credit and Commerce International (Overseas) Ltd. Is a wholly-owned subsidiary of BCCI Holdings (Luxembourg). S.A. Details of affiliated companies by virtue of common ownership and their auditors are given in Appendix 2.

b) Branches

Appendix 3 sets out details of the company's branches and their auditors in various countries throughout the world.

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD.

AUDIT INSTRUCTIONS – YEAR ENDING DECEMBER 31, 1983

(Continued)

c) Accounting policies

In order to standardise Group company financial statements adopt accounting principles and reporting practices recommended by the International Accounting Standards Code, the majority of which are in line with United Kingdom Statements .Accounting Practice.

The company's financial statements for the year ended December 31 1982 are reproduced at Appendix 4. Note 2 to these financial statements gives details of the significant accounting polices adopted by the company.

We also enclose at Appendix 7, pages 5 to 7, various notes which further explain the interpretation and practical application of the Accounting Policies and Practices.

d) Accounting systems and procedures

The company's branches operate in accordance with standardised Group banking and accounting procedures which are documented in the following publications:

i) Accounting Manual, Volumes I and II
ii) Instructions Circulars, issued numerically from #001
iii) Systems Circulars, issued numerically from #001
iv) Advances Manual
v) Manual of Credit Approval Requirements
vi) Credit Policy of BCC Group
vii) Foreign Exchange Manual
viii) Travellers Cheques Operating Procedure Manual
Branch Refund Procedures Manual
ix) BCC Money Order Procedures Manual
x) Expenditure Approval Procedures and Guideline for BCC Group

e) Management organisation

i) Central management:

The office of Chief Executive vests in a Central Management Committee which consists of the Regional General Managers and the Executives-in-charge of the Central Support Organisation Divisions who are based primarily in London.

The Central Support Organisation consists of the following Divisions:

Credit; Group Accounts/Taxation; Audit and Inspection; Treasury; International; Personnel; Central Marketing; Planning; Systems and Operations; Management Services; International Business; Merchant Banking Services; Staff and Establishment.

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD.

AUDIT INSTRUCTIONS – YEAR ENDING DECEMBER 31, 1983

(Continued)

ii) Regional management

Management of each Region is vested in a Regional Management Committee which consists of the Heads of the Regional Support Organisation Departments and selected Senior Managers in the Region, with the Regional General Manager as chairman of the Committee.

The Regional Support Organisation consists of the following Departments:

Credit; Accounts; Inspection; Administration; Operations; Personnel; Marketing.

h) Internal audit and inspection

i) Central Audit and Inspection Division (CAID):

The CAID, a division of the Central Support Organisation, has staff in London, Abu Dhabi and Karachi. The CAID staff are rotated and interchanged as necessary to enable worldwide coverage of branches, although the staff based in Abu Dhabi and Karachi are primarily responsible for their respective regions. Based upon the current level of staff, each branch is scheduled for a visit every 12 to 18 months but to date not all branches have been covered. The internal audit work is designed to cover all areas of operation for overall compliance with systems and procedures.

The CAID audit reports will be reviewed by Price Waterhouse in London and you will be advised if anything arising therefrom should be brought to your attention.

ii) Regional Inspection Department (RID):

RID Staff are based in Abu Dhabi, Cairo, Hong Kong and Karachi and inspect branches within their respective regions on a surprise basis several times each year. Their work is designed to cover selected areas of operation on each visit for detailed compliance with the accounting and procedures manuals, instruction circulars and systems circulars.

g) EDP systems

At the present time the installation of EDP facilities throughout the branches is continuing rapidly and it is management's intention to provide the necessary equipment to all locations as soon as possible.

The most sophisticated facility is the NCR "Falcon System" which is utilised primarily in the United Arab Emirates and the United Kingdom.

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD.

AUDIT INSTRUCTIONS – YEAR ENDING DECEMBER 31, 1983

(Continued)

A “Mini-Falcon System” has also been developed utilizing NCR 6250/9020 and 8140/9010 equipment and is currently running live at numerous branches with plans to introduce it to more branches in the future.

NCR 299/399 equipment is still used in certain locations and the few branches which do not have any of the aforementioned facilities continue to use a conventional posting machine or a manual system.

4. Audit considerations:

The following matters should be borne in mind when planning, executing and reporting upon the current year’s examination.

a) Provisions for doubtful accounts and taxation are made on a company wide basis as a year end branch consolidation adjustment. Such provisions are allocated to each region or branch as deemed appropriate but are not “transferred” from the head office tot he branch until the following year. The BCC Group policy of retaining the loan loss provision at individual locations rather than collectively at head office is substantially dependent upon the local tax reliefs which may be availed thereon, and also any relative Central Bank regulations. The provision in the branch books may therefore fall short of that deemed necessary, but such shortfall may well be provided for in the year end consolidation or held at head office. You should therefore request local management to ascertain the additional year end provision being made in respect of your region or branch, where such is considered necessary. We will confirm, if required, any provisions relating to your location which are held at head office.

b) Certain selected branches (mainly Grand Cayman, Panama and Paris) grant loans to established international customers of the company and in such circumstances loan files will not be available locally as they are maintained by the Credit Division of the Central Support Organisation. We are to be supplied with details of such loans and the locations involved as at September 30 so that we can notify branch auditors and undertake a company wide credit review, including confirmation if possible. If you do not receive such a communication form us before becoming aware of such loans yourselves, we should be notified immediately.

c) Customer deposits and loans at certain selected branches (mainly Grand Cayman, Panama, and Paris) require the following categorisation for the purposes of balance confirmation:-

i) Confidential:

Accounts where confirmation of balance is strictly prohibited by virtue of the customer's identity or domicile. The company has instituted special systems and procedures for handling such accounts and this should enable the auditor to conclude on these accounts by the application of satisfactory alternative audit procedures.

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD.

AUDIT INSTRUCTIONS – YEAR ENDING DECEMBER 31, 1983

(Continued)

ii) Sensitive:

Accounts where, for various reasons, independent mailing of balance confirmations is resisted by management but where they can obtain audit confirmation letters by personal contact with the customer. Before accepting such letters as audit confirmations the auditor should satisfy himself that valid reasons exist for this procedure in relation to the particular customer involved and that the customer's signature can be verified.

iii) Open:

Accounts where no restrictions are placed upon independent balance confirmation.

The Central Management Committee have requested that, in respect of locations where confidential or sensitive accounts do exist, a senior member of the audit staff discusses such accounts with the Regional General Manager and/or Branch Manager before undertaking any audit work relating thereto. We also request that you notify us immediately of any such accounts and advise us of the number of customers and amounts involved.

d) There is an established procedure, which is approved by Central Management, whereby branch and affiliate balances should be confirmed by the auditors of such entity wherever possible rather than by the entity itself.

e) The Group auditors and ourselves wish to obtain information on significant balances and you are therefore requested to supply us with the name of any borrower (including related groups of borrowers) who have been granted facilities in excess of US$2 million or local equivalent, together with the amount utilised at December 31, 1983.

In order to summarise this information and report to the Group auditors in accordance with their timetable we request that it reach us in Grand Cayman on or before January 1984.

f) Every effort should be made to issue a comprehensive management letter following completion of your audit. A management letter is the report to a client setting out matters which have come to the attention of the auditor during the course of his work and which are sufficiently important in nature to warrant being formally drawn to the attention of management. The preparation of such a letter is a common practice for auditors and it is a natural by-product of the normal audit work.

The letter will commonly refer to factors affecting the strength of the system of internal control as well as other matters of which management should be aware in safeguarding each entities' assets and securing as far as possible the accuracy and reliability of the Group's records.

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD.

AUDIT INSTRUCTIONS – YEAR ENDING DECEMBER 31, 1983

(Continued)

Such letters should be discussed in draft with responsible local officials to obtain their agreement to all matters of fact stated therein and to enable the final version to incorporate, where appropriate, management's comments.

We would stress the importance of submission of such letters since they provide an important medium of communication with the client and are regarded by Central Management as an aid to their supervision of the accounting and control systems. In this connection you are asked to send two copies of such letters to Mr. M. Rahman, General Manager, Central Accounts Division in London.

5. Reporting requirements of PW, Grand Cayman:

We request that you report to us as set out below.

A. At September 30, 1983 (interim examination):

We do not require a formal opinion on the September 30, 1983 Accounting Statements. However, in order to highlight any immediate or potential problem areas, we shall be grateful if you will send us a report to include and cover the following:

i) A completed audit information report as attached in appendix 5. You will note that we are enclosing two copies of appendix 5 and related appendices for ease of completion following your interim and year end audits.

ii) Details of any facts or events which lead you to believe that you will not be able to give us an opinion in the form requested.

iii) A copy of the management letter on internal accounting controls or other matters which you have issued to management (see paragraph 4(f) of these instructions).

iv) Confirmation that you will be able to provide the information requested in paragraph 5(B) below in accordance with the year end time table.

B. At December 31, 1983 (year end examination):

To enable us to meet our commitments to management and to the Group auditors it is essential that the procedure for year end clearance to be followed in accordance with the audit time table set out in appendix 6. We request that you provide us with the following:

i) A copy of the Accounting Statements initialled by yourselves for identification purposes. Please note that this should be forwarded to PW London by <u>Courier</u> as soon as possible.

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD.

AUDIT INSTRUCTIONS – YEAR ENDING DECEMBER 31, 1983

(Continued)

ii) Provisional and final telex clearances together with details of any audit adjustments in accordance with the time table. Please note that audit adjustments are reported only when their cumulative effect exceeds the materiality levels referred to in paragraph 1 of these instructions.

iii) Completed audit information report as set out in appendix 5 using the enclosed copy.

iv) Details of significant balances in accordance with paragraph 4(e) of these instructions.

v) A copy of the management letter on internal accounting controls , or other matters which you have issued to management (see paragraph 4(f) of these instructions).

If you encounter any problem or known delay in communicating with Grand Cayman by whatever means, please send your communication directly to Mr. R.W. White in London marked “For onward transmission to Grand Cayman”. Mr. White will then forward your communication to Grand Cayman or hold it for collection, as deemed appropriate. Alternatively, you can ask the local branch manager to contact us either directly or via Head Office in Grand Cayman.

6. Administration:

a) Timetable

We are required to give clearance to the Group auditors on the company’s accounts for the purposes of consolidation and have our files available for review in London on February 4, 1984. Management also require that we five final clearance and our opinion on the company’s financial statements by February 15, 1984. In order for us to meet these deadlines, and allow us to liase with the Group auditors, we must request you to strictly adhere to the timetable set out in appendix 6. The timing is not materially different from last year.

The Central Accounts Division of the Central Support Organisation issues instructions by circular to all branches and regional offices regarding the annual closing procedures to be followed. We suggest that you familiarise yourselves with these instructions at the start of your audit work. Copies should be available to you at each location.

b) Audit fees

Audit fees are to be agreed and billed locally but are subject to final approval by the Executive-in-Charge of the Group Accounts Division in London who is anxious to ensure that all reasonable economics are made in the conduct of the audit in order to contain the overall level of fees charged.

BANK OF CREDIT AND COMMERCE INTERNATIONAL (OVERSEAS) LTD.

AUDIT INSTRUCTIONS – YEAR ENDING DECEMBER 31, 1983

(Continued)

c) Price Waterhouse personnel:

The Price Waterhouse personnel involved in the audit in Grand Cayman are Richard W. Harris (partner) and Richard D. Fear (manager).

In order to facilitate closer communication with certain members of the Central Support Organisation in London, Mr Ron White of Price Waterhouse, London acts as a liaison partner. In order for him to fulfil his role, and monitor the progress of the audit, it is imperative that a copy of all correspondence, reports and telexes etc. it sent to him in London at the time the original is sent to Grand Cayman.

Addresses and telex numbers of the Grand Cayman and London offices are:

Price Waterhouse,
P.O. Box 258,
Grand Cayman,
B.W.I.
Telex CP4329 (PWCO CI)

Price Waterhouse,
Southwark Towers,
32 London Bridge Street,
London SE1 9SY
England.
Telex 884657 (PRIWAT G)

Please feel free to contact any of the above personnel if you have any queries regarding these instructions or encounter any problems during the course of your audit.

Extract from newspaper.

EX-????
of CIA ????
to BCCI

Helms had role
in take over bid

By Peter Mantlus
Staff writer

A former head of the CIA aided in an abortive attempt to take over Washington's largest bank on behalf of the notorious Bank of Credit and Commerce International, according to court records obtained by The Atlanta Journal-Constitution.

The 1978 attempt was derailed, in part, by the Iranian Revolution.

But, over the next four years, BCCI executives used a slightly different cast of characters to take secret control of what is now the First American Bank in Washington – eventually triggering an international banking scandal that rocked the financial foundations of a dozen countries.

The first attempt was guided by Richard Helms, former director of the CIA, court records filed in Gwinnett County show.

With Mr Helms help, Iranian millionaire Rahim Irvani served as chairman of an offshore company created in 1978 to conceal BCCI's role in the takeover of the Washington Bank. Mr. Irvani has extensive interests in Georgia.

U.S. Senate investigators are examining the dealings between the two men and said they raise further questions about the CIA's knowledge of BCCI's evolution into a criminal organization.

Last year, BCCI was exposed as a criminal enterprise, its chief executives were indicated and many of its branches were shut around the world.

The bank has courted deposits from Columbia’s Medellin drug cartel and handled accounts of the former Panamanian dictator Manuel Noriega and international terrorist Abu Nidal.