Unrecorded deposits and loans were designed to thwart regulators

Secret bank in BCCI disguised large losses

By David Lascelles, Richard Donkin and David Waller

Bank of Credit and Commerce International (BCCI) were based on a secret “bank within a bank” which was used to disguise huge losses that had been run up by the group.

According to investigators of the $8bn (£5.2bn) bank, which was shut down in a worldwide swoop by regulators last Friday, a group of top BCCI officials resorted to a paper chase of unrecorded deposits and loans to prevent its auditors and regulators from discovering the holes in its balance sheet.

A scheme was also created to assist BCCI clients in tax evasion on “black money” according to one former executive at one of the bank’s big London branches.

The executive said the scheme in the UK was designed to enable some traders to avoid paying value added tax in their businesses and on deposits or tax on their deposits.

This was done by accepting deposits, but in the name of relatives living abroad.

Thousands of BCCI’s clients were Asian or Arab but it is not clear how extensive the tax evasion scheme was.

Officials in London also said a number of accounts were labelled as “No correspondence”, meaning the depositor did not wish BCCI to send letters or account statements to his home address for fear of alerting the local tax authorities.

The means used by BCCI to conceal its losses appear similar to so-called Ponzi schemes in which fraudsters use new investors’ money to pay off the old.

BCCI took in deposits worth millions of dollars which were not entered in the books.

Instead, they were used to plug up holes created by bad loans and losses on treasury and foreign exchange trading.

In order to repay these deposits, BCCI would have had to send and continue trading.

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