

**IN THE GRAND COURT  
OF THE CAYMAN ISLANDS  
HOLDEN AT GEORGE TOWN  
GRAND CAYMAN**

**CAUSE NO: 72 (OF 1997)**

**IN THE MATTER OF FIRST CAYMAN BANK LTD.**

**AND IN THE MATTER OF THE COMPANIES LAW ( 1995 REVISION)**

**TO: The Grand Court of the Cayman Islands  
George Town, Grand Cayman**



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**WINDING UP PETITION**

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**THE PETITION OF THE GOVERNOR IN COUNCIL OF THE CAYMAN ISLANDS**

1. First Cayman Bank Ltd. (" the Company") was registered as a company on the 31st October 1978 under the provisions of the Companies Law ( 1995 Revision). The company was originally registered as First Cayman Bank and Trust Company Ltd. A category "A" Banking Licence was issued to the company on the 16th February , 1979 under the then Banks and Trust Companies Regulation Law ( Revised).
2. The registered office of the company is located off the West Bay Road , George Town, Grand Cayman.
3. The authorised share capital of the company is U.S.\$ 5,000,000. divided into 5,000,000 shares of U.S.\$1.00 each.
4. The issued share capital of the company is U.S.\$2,059,150.
5. The company is a wholly owned subsidiary of Gulf Union Bank Ltd.(" GUB") , a Cayman Islands incorporated company, which was itself issued a Category "B" Banking Licence in 1981. GUB also has another wholly owned subsidiary , Gulf Union Bank ( Bahamas) Ltd.( " GUB Bahamas") which has two bank branches in the Bahamas, one in Nassau and the other in Freeport.

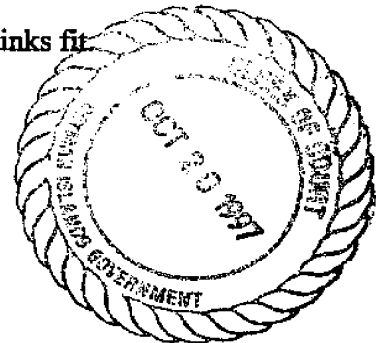
6. The objects for which the company was established are to carry on the business of banking and other objects stated in the Memorandum of Association.
7. Your Petitioner appointed Mr. Arthur Alexander ( Eric) Steele to be Controller of the company and of its parent GUB with effect from the 30th August 1997, under the provisions of section 14 (1) (v) of the Banks and Trust Companies Law ( 1995 Revision) (“ BTCL”). As Controller , he commissioned Ernst and Young , the auditors of both entities to perform a review of the financial position as at 31st August 1997.
8. On receipt of the Viability Review produced by Ernst and Young , the Controller on the 19th September 1997, prepared a report with his recommendations for your Petitioner , on the affairs of the company and its parent, as he was required to under the terms of his appointment and under section 14 (3) of the BTCL. A copy of that report is attached hereto as “ RHC 1”.
9. In the sixth paragraph of the second page of the Steele report he states that without external support the company is insolvent on the liquidity test and further that if full provision is made against certain large advances, the company is also insolvent on the balance sheet test.
10. Your Petitioner having considered the Controller’s report permitted the company to attempt to reorganize its affairs , by entering into negotiations with a view to the company’s acquisition by another Cayman licensed Bank . Your petitioner also on the 22nd September 1997, appointed Mr. Brian Cunha to be Controller of the company and GUB , replacing Mr. Steele.
11. Your Petitioner was notified that on the 2nd October 1997 the Central Bank of the Bahamas had suspended the banking license of GUB Bahamas. Attached hereto as “ RHC 2” is a copy of a letter dated the 2nd October 1997, from the Bank Supervision Department of the Bahamas, attaching a suspension order. On the 7th October 1997, your Petitioner appointed Mr. Dwight Carter as Controller of GUB, while Mr. Cunha remained Controller of the company.
12. On the 6th October 1997, the company made a demand for payment from GUB , for two placements in the aggregate sum of U.S.\$2,046,194.63. On that same date it also made demand of GUB Bahamas for the repayment of a placement in the sum of U.S.\$ 500,000. Copies of those demands are attached hereto as “ RHC 3” . To date neither of those sums have been repaid.
13. On the 15th October 1997, Mr. Cunha , as Controller of the company prepared a report for your Petitioner , a copy of which is attached hereto as “ RHC 4”. The Controller has uncovered evidence of serious fraudulent activity at the company allegedly perpetrated by Sheikh Qureshi and Assad Kazmi. He determines that he

is unable to quantify the contingent liability to the company because of the alleged frauds. He concludes that the company can no longer be viewed as a viable operation and as such is no longer saleable as a going concern.

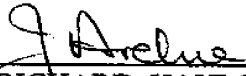
14. On the 16th October 1997, your Petitioner considered the above report and revoked the company's licence pursuant to section 14 (4) (d) of the BTCL. The Petitioner then authorised an application to this Honourable Court for an order that the company be forthwith wound up pursuant to section 93 of the Companies Law ( 1995 Revision ), as the company is unable to pay its debts, and is therefore insolvent.
15. The Petitioner now presents this Petition for an order that the company be forthwith wound up by this Court pursuant to section 14 (4) (d) of the BTCL because the company's licence has been revoked , and the company is unable to pay its debts.

The PETITIONER therefore PRAYS as follows:-

- (1) that First Cayman Bank Ltd. be wound up by the Court under the provisions of the Companies Law ( 1995 Revision)
- (2) that such further or other orders may be made as the Court thinks fit



DATED this 17th day of October 1997

  
for RICHARD HAYLOCK COLES  
ATTORNEY-GENERAL



TO: The Clerk of the Grand Court

AND TO: First Cayman Bank Ltd. off West Bay Road ,  
Grand Cayman, Cayman Islands

This Petition having been presented to the Court on the 17th October 1997, will be heard at the law Courts , George Town , Grand Cayman, at o' clock in the fore / afternoon on the day of 1997 or so soon thereafter as the Petition can be heard.

Filed by the Attorney- General for and on behalf of the Governor in Council whose address for service is P.O. Box 907. Government Legal department, 4th Floor , Tower Building, Grand Cayman, Cayman Islands

THIS IS THE DOCUMENT MARKED "RHC 1" REFERRED TO IN THE  
PETITION

19<sup>th</sup> September 1997

H.E. The Governor  
Cayman Islands Government  
Government Administration Building  
George Town  
Grand Cayman

Dear Sir,

**Subject : First Cayman Bank (FCB) / Gulf Union Bank (GUB)**

In accordance with paragraph 3 of my letter of appointment dated 29<sup>th</sup> August 1997, I report as follows. As appointed Controller for the subject Banks I have had Ernst & Young perform a review of the financial position as at August 31<sup>st</sup> 1997 (it should be noted that this is a draft review, subject to final approval by the Managing Partner of Ernst & Young). The summary of this review along with additional comments is as follows : -

Subject to the validity of the assumptions adopted in the presentation of the statement of affairs, as at August 31, 1997 on a going concern basis additional equity finance of US\$5.3 million was needed to make good the deficiency of total assets as against total liabilities. Subject to CIMA's discretion, further significant sums may have been needed as at that date to allow FCB to comply with the conditions on which its Class A licence was granted (see appendix A).

Subject to the validity of the assumptions adopted in the presentation of the statement of affairs, as at August 31, 1997 on a winding up basis FCB had a deficiency of US\$6.1 million before liquidation costs in the realisable value of its assets when compared with the level of depositors and other creditors.

Excluding the US\$2.36 million loan secured by the West Bay Road premises, FCB had approximately US\$6.14 million in potentially uncollectable net related party balances at August 31, 1997. Non performing loans after loss provisions amounted to US\$4.58 million at the same date.

There is considerable uncertainty as to the recoverability of GUB group related party loans and overdrafts of US\$2.56 million (see appendix B). No current financial information has been made available for FCB's fellow subsidiary, GUB (Bahamas), although there is evidence that at the end of August it experienced severe liquidity problems (see appendices C, D & E). Recovery is mainly dependent upon the financial standing of GUB (Bahamas).

It is apparent that severe confusion exists as to who has control over the GUB Bahamas subsidiaries (see appendices F & G). (I personally have received several late night anonymous

phone calls from alleged staff members of GUB Bahamas advising me that Mr. Kazmi continues to have control in that jurisdiction and that his expenses continue to be covered by the bank.)

The prospects of recovering other related party loans and overdrafts are also difficult to assess. The loan for US\$2.36 million to the shareholder group secured by a charge on the West Bay Road premises may be fully secured subject to the current value of the property and its continuing use. Other related party loans and overdrafts are not secured by collateral located in the Cayman Islands and we have seen no evidence to support representations that forms of security or guarantee are in place covering their value.

The improvement in FCB's short term operating results which arose following the realisation of a large non performing loan at the end of May 1997 was short lived. New non-performing loans have reduced FCB's interest earning assets and there are significant related party balances, which are potentially non-performing. Since September 2, 1997 deposit withdrawals of US\$3.5 million and payments of approximately US\$3 million to cover balances due to banks have further reduced interest-earning assets. However, after deducting non-recurring prior expenditure commitments, FCB is broadly in a break-even position. If that position continues, trading returns will not significantly improve or worsen FCB's net asset deficiency. A further injection of equity is necessary to enhance FCB's interest earning assets and trading returns.

If withdrawals continue at the rate experienced in the two working weeks to September 12, 1997, FCB could conceivably continue until the beginning of November 1997 to pay depositors demanding repayment in full. After that point, unless FCB can realise part of its non-performing assets or its business is refinanced, it will have no cash left and will be forced to cease operations.

The viability of FCB's ongoing business is at risk due to inadequate capital, large non-performing related party loans, an inappropriate capital structure and poor internal controls.

Without external support FCB is insolvent on the liquidity test, and if full provision is made against certain large advances FCB is also insolvent on the balance sheet test. If FCB is now insolvent, its depositors and other creditors are effectively its owner. If there is a realistic prospect that FCB can be refinanced or that its business and assets can be acquired by a party with sufficient capital to support continuing operations, it may be appropriate for FCB to be allowed to continue to operate in the short term whilst a buyer is found or existing shareholders inject new funds in the form of equity.

During the period FCB's management would have a fiduciary duty to act in general in the interest of all depositors and other creditors. In particular, that duty would include taking steps :-

- To reserve and where possible increase the value of FCB's assets,
- To minimise expenditure which will not be recoverable other than if FCB continues as a going concern, and
- To defer paying creditors or depositors or otherwise putting them in a better position than they would have been in the event of FCB's insolvent liquidation, except where creditor

pressure requires payment to be made to safeguard the position of FCB in the interest of all creditors.

As you are aware Mr. Grant, the Managing Director of CIMA, has had meetings with several banks, including British American Bank and Cayman National Bank. Some tentative interest has been expressed in general terms. However, it seems unlikely at this time that any bank will buy FCB unconditionally.

Mr. Grant has been able to contact the shareholder of record. It is not clear whether or not it will be possible to recover related party loans, however, to the extent that those loans are not recovered the price which any purchaser may be willing to pay for the bank will be lower.

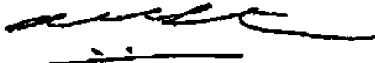
After diligent enquiry but with minimum delay, as soon as the CIMA recognises no reasonable prospect that FCB can be refinanced or acquired as a going concern, consideration should be given to the appointment of an independent liquidator to manage the orderly winding up of FCB's affairs.

If FCB is allowed to continue to operate after there is no reasonable prospect of avoiding insolvent liquidation, depositors allowed to make withdrawals before the commencement of winding up will have been preferred over depositors who do not redeem their deposits before that time.

We draw attention to s167 and s168 of the 1995 Companies Law (Revised) which deals with fraudulent preference and the Grand Court's power to assess damages against delinquent directors. Under s167 acts which amount to undue or fraudulent preference of creditors are invalid in the event of the insolvent liquidation of the company. Under s168, on the application of any liquidator or creditor of the company, acts of misfeasance or breach of trust by directors and other fiduciaries may be examined by the Grand Court, which has the power to compel payment to be made in compensation for such acts.

In view of the above and in the knowledge that the bank is technically insolvent, I must withdraw from my position as Controller and recommend that a professional accountant be appointed.

Yours very truly



A.A. (Eric) Steele

Enc.

3. STATEMENT OF AFFAIRS AS AT AUGUST 31, 1997

We set out below a statement of affairs of FCB compiled from balances extracted from the management accounts dated August 31, 1997.

		Book Value	Going Concern	Winding Up
		US\$	US\$	US\$
<b>ASSETS</b>				
Fixed Assets	3.6	340,303	2,614,834	2,255,762
BCCI deposit	3.2	191,263	191,263	191,263
Investments		240		
Related party balances	3.1	8,499,783	1,361,437	1,361,437 *
Loans and Overdrafts	3.3	14,530,634	15,363,034	13,015,854
Prepayments	3.7	343,332	173,117	35,100
Interest Receivable		23,109	23,109	23,109
Due from Banks	3.4	14,934,152	14,934,152	14,934,152
Cash	3.5	637,013	637,013	637,013
		<u>39,499,829</u>	<u>33,297,959</u>	<u>32,453,670</u>
<b>LIABILITIES</b>				
Customers' current accounts	3.8	1,854,200	1,854,200	1,854,200
Customers' other accounts	3.8	32,793,748	32,793,748	32,793,748
Due to Banks	3.9	1,705,242	1,705,242	1,705,242
Interest Payable	3.8	2,093,806	2,093,806	2,093,806
Other liabilities	3.10	143,274	143,274	143,274
		<u>38,590,270</u>	<u>38,590,270</u>	<u>38,590,270</u>
<b>TOTAL NET ASSETS</b>		<u>909,559</u>	<u>-5,292,311</u>	<u>-6,136,600</u>

The statement of affairs has been presented as follows:-

- Book value shows the balances presently carried in the management accounts of FCB
- Going concern shows the balances after adjustment to reflect the assumptions described in following subsections and Appendix E on the basis that additional capital can be made available to refinance FCB's business and assets and allow FCB to continue to trade
- Winding up shows the balances after adjustment to reflect the assumptions described in following subsections and Appendix E on the basis that additional capital cannot be made available to refinance FCB's business and assets and FCB is placed in liquidation. No provision is included to reflect possible costs of liquidation unless otherwise stated.

We set out below a detailed analysis of the main balance sheet items. The assumptions underlying the going concern and winding up values adopted in the statement of affairs are also set out in the following subsections and Appendix E.

**3.1 Related Party Balances**

A broad analysis of the book value of related party balances is as follows:-

	US\$	
GUB group balances	2,561,942	
Al Thani (non group) balances	3,315,749	← 2.5 M eqy in building
Quraeshi related balances	2,422,092	← no security.
	<u>8,499,783</u>	↑ referred !!

**GUB Group Balances**

The breakdown of GUB group balances is as follows:-

	Type	US\$	US\$
Gulf Union Bank (Bahamas) Ltd.	Placement	500,000	
Gulf Union Bank Ltd.	Placement	2,036,942	
	Overdraft	45,426	
	Due to Banks	-20,426	
<b>Total</b>			<u>2,561,942</u>


**GULF UNION BANK (BAHAMAS) LTD.**  
(A SUBSIDIARY OF GULF UNION BANK LTD)

REFERENCE: GULF/NHF-CMISSQ-C/97

 DATE: August 26<sup>th</sup>, 1997

Sheikh Sattar Quraashi  
 Chairman  
 Gulf Union Bank Limited

Dear Sir;

 Re: Bank's Liquidity Position.

We bring to your attention that Gulf Union Bank (Bahamas) Limited is facing severe liquidity problems due to the frequent accommodation of US Dollar transactions and transfers by instructed by General Manager, Gulf Union Bank Limited, Cayman Islands; as such our bank's position to Chase New York, Doha New York, and Barclays Bank Nassau, have deteriorated due to lack of sufficient credit balances to keep the day to day transactions and settlements of customer claims on accounts for cable transfers and foreign demand drafts to be honored by the above banks as per the agency arrangement with them.

We know that you can appreciate our concerns for matters hampering normal business as well as our reluctance to have the Governor of Central Bank of the Bahamas or any United States Monetary bureaucratic authority suggest or imply that Gulf Union Bank (Bahamas) Limited books or officers need to be examined.

Your kind attention and assistance in rectifying these types of transactions is requested urgently.

Yours faithfully,

Nasser H. Farooqui  
 COUNTRY MANAGER.

- cc. Asad Kazmi  
 General Manager  
 Gulf Union Bank Limited
- cc. Mr. Sohail S. Quraashi  
 Managing Director  
 Gulf Union Bank (Bah) Limited
- cc. Mr. Shahid S. Quraashi  
 Director

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P. 04

TELEX 2973005

RAY 904-352-7778

FAX 904-352-7348

September 11, 1997 ..

Mr. Julian Francis  
Governour  
Central Bank of The Bahamas  
P.O.Box N-4868  
Nassau, Bahamas

Dear Mr Francis:

On July 21, 1997 I was unjustly fired by Mr Naseer Farooqui, Country Manager. My termination was orchestrated by Mr Asad Kasmi, General Manager, Cayman, because of my relationship with Mr Quraeshi, our Managing Director.

I was hired in January 1997 as Manager of the Freeport Office with empahias of turning the branch around and building a strong branch in Freeport. After six months, the branch was heading in the right direction. Monthly losses were smaller with the branch reporting a profit in April. Deposits grew by over \$3 million. Staff morale was high with the staff working as a team to accomplish our goal.

In May 1997, we were informed that the Bank was being purchased by the Quraeshi's and while the transfer was taking place, Mr. Sohail Quraeshi had been appointed Managing Director of Gulf Union Bank (Bahamas) Limited. After meeting with Mr. Sohail Quraeshi, I was impressed with his ideas on how to turn the bank around. The big picture was to make Gulf Union Bank one of the strongest small banks in the Bahamas.

shortly after Mr Quraeshi came to the bank, he asked me to head a task force to work on the non performing loans which I agreed. During the short time I was working with the recovery committee, we were getting some good results and I feel if our committee would have achieved our goal of \$4 million within 120 days if we were allowed continue without the constant interruptions of Mr Farooqui. He continued to alienate the customers due to his lack of knowledge in recovery and how he talked down to the customers.

During the short time working with Mr Quraeshi, I found him to be a very understanding man with fond love for the Bahamas and its people. He allowed our input in the every day management of the bank and as a senior Bahamian manager it made me feel that I was part of his goal in turning the bank around because we were working together as a team.

It was my relationship with Mr Quraeshi that resulted in my departure. Both Mr Farooqui and Mr Kasmi did not like how our relationship was building, therefore they decided I had to go.

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Firstly, Mr Farooqui realized the Mr Quraashi was depending on me more and more to assist in the day to day operations and could see that a Bahamian would replace him soon. With me out of the picture there was no other senior Bahamian on staff that could replace him.

Secondly, because I had a good understanding of the bank's position I would not let Mr Kasmi raid the Bahamas funds. I opposed any movement of funds to Cayman. The Nassau branch did not have any US\$ available, the majority of our US\$ deposits were under my control in Freeport and I refused to allow Mr Kasmi access to them. It was because I followed the directives of Mr Quraashi, my superior, and not Mr Kasmi. He (Kasmi) ordered Mr Farooqui to terminate my services. I was the watch dog of our US\$ deposits and with me out of the way, Mr Farooqui allowed Mr Kasmi to drain our dollars putting the bank in the position it is in today.

Although Mr Quraashi could not stop Mr Kasmi from terminating my services, he did show me his frustration and disappointment for Mr Kasmi's decision in terminating me by insuring that I was compensated justly.

I feel given a chance to manage the Bahamas operations without outside interference of Mr Kasmi and inside interference of Mr Farooqui, and the guidance of The Central Bank, Mr Quraashi can and will turn Gulf Union Bank (Bahamas) Ltd around. Mr. Quraashi will have the respect and the support of the employees of the bank because he relates well with them and understands Bahamian needs.

Speaking as a Bahamian and a senior banker I highly recommend that Mr Scheil Quraashi be approved as the new Managing Director of the bank.

Yours sincerely,

  
Thomas Malone

Attachment (1)





Cayman Islands Monetary Authority

-2-

18th September, 1997

Although approaches were made by the intending purchasers to meet us, these were declined saying that Cayman Islands Monetary Authority is the appropriate authority as Home Supervisor to decide upon the issue of transfer of ownership. The request of Mr. Kazmi to meet us a few days back was also declined.

We learn that some infusion of fresh funds as capital by the intending purchasers has already been made. Kindly confirm if this is a fact. If so, the exact amount of capital injected and what is the resultant consolidated capital position of the parent company i.e. GUB. We shall also be glad if balance sheets as at 31st December, 1996 of GUB and First Cayman Bank together with latest unaudited financial statements as at 31st August, 1997 and profit and loss account up to that date of both the institutions are forwarded to us urgently. This will help us in getting some idea of the Group's solvency as a whole.

The Gulf Union Bank (Bahamas) Ltd. is currently facing liquidity problems apparently as a sequel to certain transactions entered into by the bank under instructions from the former General Manager, Mr. Kazmi. Mr. Francis has already indicated on telephonic discussions with you that The Central Bank of The Bahamas contemplates asking for return of funds held with the parent bank. Accordingly, we now make a liquidity call on the parent bank through you for the return of placements with the parent bank in the amount of some US\$2.1 million. This placement has unauthorizedly been made contrary to Central Bank instructions prohibiting up stream placements. We shall therefore be glad if you will kindly instruct Mr. Steele to arrange to remit these funds to Gulf Union Bank (Bahamas) Ltd. urgently to tide over liquidity problems that the bank is facing.

Needless to say that the question of ownership of the Group has been in a state of flux for quite a long time, a state which is not conducive to the smooth running of banks. An expeditious solution is called for in the situation.

It will be in fitness of things if Mr. Steele makes a visit to The Bahamas to look at the subsidiary operation on location and have discussion with us to enlighten us about the position of the Group as a whole.

Finally, we take it for granted that pursuant to the Concordat and Base's guidelines, Cayman Islands Monetary Authority as a Home Supervisor in terms of consolidated supervision will ensure capital adequacy and solvency of the Group as a whole and thereby of the underlying entities both in Cayman and The Bahamas while approving any ownership change/structure of the Group.

With kind regards.

Yours faithfully,

  
Iqbal Singh  
Manager  
Bank Supervision Department

/kj

APPENDIX #3



PO BOX 11141  
NASSAU  
BAHAMAS

**GULF UNION BANK (BAHAMAS) LTD.**  
(A SUBSIDIARY OF GULF UNION BANK LTD)

September 15, 1997

REFERENCE:

DATE:

Mr. N. Farooqui,  
Country Manager,  
Gulf Union Bank,  
Nassau, Bahamas.

**LETTER OF TERMINATION WITH IMMEDIATE EFFECT:**

Mr. Farooqui,

Let this letter serve as termination of your services as Country Manager for Gulf Union Bank Bahamas Ltd effective 9 am Monday morning. You are no longer authorized to act on or represent the bank in any capacity hence forth and are requested to leave the bank premises immediately.

The reason for this sudden and adverse action against you is being taken to protect the interest of the Al Thani family, my fiduciary responsibility as the bank's senior most officer, it's shareholders and it's clients and most of all in the interest and well being of the staff in both the Freeport and the Nassau offices.

The bank's legal representatives will be handling this matter in my absence from the island in order to protect the bank's interest. They have been instructed to use all legal & physical remedies available to them under the law to detain you, question you and investigate your action challenging direct orders from Mr. Eric Steele, GM GUB Cayman and those given to you by me.

Sincerely,

*Sohail S. Qureshi*  
Sohail S. Qureshi,  
Managing Director,  
Gulf Union Bank ( Bahamas ) LTD.

- cc: Mr. Julian Francis, Governor Central Bank
- Mr. Khalifa Al Thani - Shareholder/Director
- Mr. Floyd Watkin - Attorney Gulf Union Bank
- Mr. Eric Steele - GUB - Cayman
- All Staff members Freeport & Nassau.

Esq.,

COUNSEL OF ATTORNEY-AT-LAW, Chambers, East Street & Andros Avenue, Englerston, N.P., Bahamas

Notary Public

Date: 16<sup>th</sup> September 1997

Number of pages including cover sheet: 6

FAX

ATTENTION MR NEVILLE GRANT  
949 7532

To:

Mr. Alexander (Eric) Steele, Controller of  
First Cayman Bank

Grand Cayman  
Cayman Islands

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Phone:

Fax: 1-345-949-5398

From:

David C. Bethell, Esq., Counsel & Attorney-at-law,  
Notary Public

P.O. Box 99-9873,  
Nassau, N.P., Bahamas

E-Mail  
dcb@bathellaw.com

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Phone: 242-323-7205  
Fax phone: 242-358-7666

REMARKS:  Urgent  For your review  Reply ASAP  Please comment

If you have not received all pages advised above, please contact the sender at the address listed above. If this fax communication has been misdirected, we would be grateful if you would kindly telephone this office collect at the above number to inform us accordingly.

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**DAVID C. BETHELL**  
COUNSEL & ATTORNEY-AT-LAW  
NOTARY PUBLIC

Admitted to Practice  
Bahamas Bar 27<sup>th</sup> August, 1986  
Palm & Colton Bar 6<sup>th</sup> February, 1997

2nd Street & Arden Avenue  
P.O. BOX 211473  
NEW PROVIDENCE  
BAHAMAS

Tel: (242) 352-7000 (Ext)  
(242) 352-1030 (Ext)  
(242) 352-7000 (Fax)

15<sup>th</sup> September, 1997

Our Ref  
Your Ref

Mr: Sohail S. Qureshi,  
West Palm Beach,  
Palm Beach County,  
Florida,  
U.S.A.

Via fax #1-361-730-7321

Dear Sir:

**Re: Board of Directors' Decision on Management**

I enclose herewith a copy of a letter dated the 18<sup>th</sup> December, 1996, notifying the General Manager of Gulf Union Bank (Bahamas) Limited of my appointment by the Board of Directors of the company as the "Bank's attorney to handle legal affairs of the bank".

In accordance with that appointment, I have had the responsibility and general direction of the legal representation of the bank in all matters.

Upon the change in name of the office of General Manager by the Board of Directors approved by The Central Bank of The Bahamas, Mr. Nassar H. Farooqui was appointed to the new office of Country Manager, as set out in the enclosed copy of Resolutions of the bank passed on the 20<sup>th</sup> March, 1997. Mr. Farooqui's appointment, like that of the Board of Directors which appointed him, has been approved by The central Bank.

By letter of the 15<sup>th</sup> September, 1997, Sheikh Khalifa J. Alkhami has notified The central Bank of the sale of Gulf Union Bank Limited and its subsidiaries to Sheikh A. Qureshi, subject to the approval of The central Bank, and of the revocation of your appointment as Managing Director of Gulf Union Bank (Bahamas) Limited with immediate effect.

I have enclosed for your perusal a copy of this letter, by which Mr. Farooqui's appointment is reaffirmed by Sheikh Khalifa J. Alkhami. You will see that Mr. Farooqui has been invested with complete control of the day to day operations of the bank, reporting directly to Sheikh A. Qureshi.

In the circumstances, the instructions and representations made by your letter of the 15<sup>th</sup> September, 1997 is without authority and is contrary to the interests and directions of the Alkhami family as expressed in the last mentioned

15<sup>th</sup> September, 1997

Mr. Sohail S. Qureshi,

Via fax #1-661-730-7321

Page two

enclosure. I am obliged to advise that, as of the opening of business today, you no longer had a fiduciary responsibility as an officer of the bank or to its shareholders, clients or staff.

Mr. Farooqui's actions have been consistent with the directions and instructions of the approved Board of Directors of the company, the banking laws of The Bahamas and the policies of The Central Bank of The Bahamas. He is, therefore, obliged to reject your instructions and to disregard your communication to him of the 15<sup>th</sup> September, 1997.

Yours faithfully,  
*[Signature]*  
David C. Bethall

- CC: Mr. Julian Francis, Governor, Central Bank
- Mr. Nasser H. Farooqui, Country Mgr.
- Mr. Floyd Watkins,
- Mr. Eric Steele
- Mr. Woodside, Mgr. Freeport Branch

PHONE NO: 225-245123  
TELE NO: 225-245123  
FAX NO: 225-245123



REG. NO. 100  
BANK OF THE  
BHAMAS

**GULF UNION BANK LIMITED**

(INCORPORATED IN THE CAYMAN ISLANDS)



A meeting of the Board of Directors of  
Gulf Union Bank (Bahamas) Limited  
was held in the Office of Sheikh Jabor Bin Mohamed Althani,  
Doha on 20th March 1997

The following business were discussed and resolution passed unanimously,

- 1) **RESOLVED** that Mr. Naseer Haider Farooqui appointed as Country Manager of Bahamas Operations of the Bank terminating Mr. Syed Mohamed Badruddin with immediate effect.
- 2) **RESOLVED** that Power of Attorney vested in Mr. Syed. Mohamed Badruddin be and hereby withdrawn as at 20th March 1997 and authorized Mr. Naseer Haider Farooqui, Country Manager to notify all concerned.
- 3) **RESOLVED** that abolishing the Post of General Manager in Bahamas with immediate effect.

Jabor Bin Mohd Althani  
Chairman

Dr. Khalid Bin Jabor Althani  
Director

Khalid Bin Jabor Althani  
Director

Gulf Commercial Industries  
Sharjah - represented by  
Mohamed Bin Jabor Althani

Syed Sarwer Hussain  
Director



FOR BEST COPY  
PLEASE CONTACT  
FAX/MAIL OR  
WRITE WITH INQUIRY

# GULF UNION BANK LIMITED

INCORPORATED IN THE CAYMAN ISLANDS

Ref: GUB/KJA/9612181  
Date: December 18, 1996

Mr. Syed M. B. druddin  
General Manager  
Gulf Union Bank Limited  
Nassau (Bahamas)

Fax #: 01-809-322-7187

Dear Mr. Badru Idin,

Re: Bank's Attorney - Mr. David C. Bethel

This is to inform you that we have appointed Mr. David Bethel as our Bank's attorney to handle legal affairs of the bank. Therefore, you are requested to extend your cooperation, assistance, and information to him whenever he is required for successful handling of the bank's matters.

We trust, you will extend your cooperation to Mr. David Bethel in the best interest of the bank.

Best Regards,

  
Khalifa J. Alkhalil  
Managing Director

- cc: 1) H.E. Sh. Ikh Jabor Bin Moid Alkhalil - Chairman
- 2) Mr. Nasir Farouqui, Manager, GUB, Bahamas  
(Fax: 01-809-322-8323)

THIS IS THE DOCUMENT MARKED "RHC 2" REFERRED TO IN THE  
PETITION





**COMMONWEALTH OF THE BAHAMAS**

No. \_\_\_\_\_  
IN RECORDS PLEASE  
QUOTE THIS NUMBER

OFFICE OF THE MINISTER OF FINANCE AND PLANNING

**SUSPENSION ORDER**

**GULF UNION BANK (BAHAMAS) LIMITED**

It is hereby notified that the Minister of Finance, pursuant to Section 11 of The Banks and Trust Companies Regulation Act, Chapter 287, hereby suspends the banking licence granted on 27th December, 1985 to Gulf Union Bank (Bahamas) Limited.

The Suspension Order results from recent liquidity problems of Gulf Union Bank (Bahamas) Limited and the inability of the said bank, at this time, to satisfy the statutory requirements and The Central Bank of The Bahamas as to its affairs.

The purpose of the suspension of the licence of the Gulf Union Bank (Bahamas) Limited is to protect the public interest.

Ordered this <sup>2nd</sup> day of October, 1997.

  
MINISTER OF FINANCE

Third Floor, Canal V, Walkers-Whitfield Centre, P.O. Box N-3017, Nassau, Bahamas. Telephone: (809) 327-1530. Telefax: (809) 327-1618

) THIS IS THE DOCUMENT MARKED "RHC 3" REFERRED TO IN THE  
PETITION



P.O. BOX 1113, GRAND CAYMAN, B.W.I. TELEPHONE: (345-94) 95266, FAX: (345-94) 95398, TELEX CP 4347

October 6th 1997

The Manager  
Gulf Union Bank (Bahamas) Ltd.,  
P.O.Box N3748  
Nassau,  
Bahamas


Dear Sir,

RE: DEMAND FOR PAYMENT OF PLACEMENT OF U.S.\$500,000.00

On or about the 12th day of August 1997, First Cayman Bank Ltd., placed the sum of U.S.\$500,000.00 by way of Call Deposit with Gulf Union Bank (Bahamas) Ltd.

On behalf of First Cayman Bank Ltd. I hereby make formal demand for payment of the said sum of U.S.\$500,000.00 forthwith.

Yours faithfully,

  
Brian L. Cunha  
Controller  
First Cayman Bank Ltd.



P.O. BOX 1113, GRAND CAYMAN, B.W.I. TELEPHONE: (345-94) 95266, FAX: (345-94) 95398, TELEX CP 4347

October 6, 1997

The General Manager  
Gulf Union Bank Ltd.,  
P.O.Box 995GT  
Grand Cayman  
Cayman Islands


Dear Sir,

RE: DEMAND FOR PAYMENT OF PLACEMENT OF U.S.\$2,046,194.63

On or about the 15th September 1997 and 25th September 1997 First Cayman Bank Ltd., renewed its placements in the sums of U.S.\$300,738.47 and U.S.\$1,745,456.16 by way of fixed deposits maturing on October 15th 1997 and October 27th 1997 respectively, with Gulf Union Bank Ltd.

On behalf of First Cayman Bank Ltd., I hereby make formal demand for payment of the aggregate sum of U.S.\$2,046,194.63 forthwith.

Yours faithfully,

  
Brian L. Cunha  
Controller  
First Cayman Bank Ltd.

OCT- 6-97 MON 10:57

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P. 01

THIS IS THE DOCUMENT MARKED "RHC 4" REFERRED TO IN THE  
PETITION

DATE                   OCTOBER 15, 1997

TO                     HIS EXCELLENCY THE GOVERNOR IN COUNCIL

FROM                   BRIAN CUNHA -CONTROLLER FIRST CAYMAN BANK LTD

SUBJECT                FIRST CAYMAN BANK LTD.

FOLLOWING MY APPOINTMENT AS CONTROLLER OF FIRST CAYMAN BANK LTD AND, UPON TAKING UP THAT POSITION AT THE BANK, I WAS IMMEDIATELY STRUCK BY THE FACT THAT HOTEL AND TRAVEL EXPENSES ON BEHALF OF MR. ASAD KAZMI AND MR. SHEIKH GURESHI HAD BEEN INCURRED AT AN ALARMING RATE, CLOSE TO US\$200,000.00 OVER THE 3 MONTH PERIOD JUNE TO AUGUST 1997. THESE EXPENSES ALL BEING BILLED TO FIRST CAYMAN BANK LTD.

IN VIEW OF THIS I IMMEDIATELY, AS TIME PERMITTED, UNDERTOOK A CLOSE EXAMINATION OF THE BANK'S LOAN PORTFOLIO AND THE ACTION THEN BEING TAKEN TO EFFECT RECOVERY OF DELINQUENT AND NON-PERFORMING LOANS.

MY EXAMINATION OF THE BANK'S LOAN PORTFOLIO REVEALED EVIDENCE OF VERY LIBERAL LENDING PRACTICES WHICH INCLUDED LENDING WITHOUT SUFFICIENT COLLATERAL OR NO COLLATERAL, COLLATERAL DOCUMENTATION NOT PROPERLY REGISTERED WITH THE LAND REGISTRY, LOANS SUPPORTED BY THE GUARANTEE OF AN ALREADY HEAVILY INDEBTED GUARANTOR AND, UNSECURED LOANS AND OVERDRAFTS TO RELATED PARTIES.

IT IS THIS LATTER CATEGORY OF LOANS THAT I FOCUSED MUCH OF MY ATTENTION AS FOLLOWS.

1. LOAN TO MR. ASAD KAZMI
2. OVERDRAFT IN NAME OF ESCUE MANAGEMENT INC.
3. OVERDRAFT IN NAME OF AL JABOR GROUP.

CLOSE EXAMINATION OF THE LOAN TO ASAD KAZMI REVEALED THAT THE COMMITMENT LETTER GRANTING THE UNSECURED LOAN OF US\$600,000.00 TO KAZMI WAS SIGNED BY MR. SHEIKH GURESHI ON BEHALF OF FIRST CAYMAN BANK LTD. AT NO TIME WAS MR. GURESHI AUTHORIZED TO SIGN ANYTHING ON BEHALF OF THE BANK, THE LOAN PROCEEDS WERE USED TO PURCHASE A RESIDENCE PROPERTY IN FLORIDA AT A TOTAL COST OF US\$800,000.00. I ALSO FOUND EVIDENCE THAT THE DOWNPAYMENT OF US\$200,000.00 PLUS CLOSING COSTS ETC. OF US\$30,000.00 ASSOCIATED WITH THE PURCHASE OF THE PROPERTY COMPRISED FUNDS WHICH WERE DELIBERATELY MISAPPROPRIATED FROM THE BANK. THIS LATTER TRANSACTION OF US\$230,000.00 BEING CHARGED TO THE BANK'S SUSPENSE ACCOUNT AS "MOVING" COSTS. UPON MY DISCOVERY OF THIS I CONTACTED MR. BRIAN GIBBS AND ARRANGED A MEETING WITH HIM ON OCTOBER 9, 1997.

ON OCTOBER 9, 1997 I DISCUSSED MY FINDINGS ON THE KAZMI LOAN WITH MR. GIBBS IN THE PRESENCE OF MESSRS. FRASER AND STEWART WHO WERE THEN AT THE BANK TO COMMENCE THE DUE DILIGENCE EXERCISE ON THE BANK'S LOANS. AT THIS MEETING THE ESCUE MANAGEMENT INC. OVERDRAFT WAS ALSO DISCUSSED AND IT WAS DECIDED

THAT MR. GIBBS WOULD RETURN ON OCTOBER 10, 1997 WITH AN ASSISTANT TO HELP WITH THE EXAMINATION OF THE DETAILS OF EVERY TRANSACTION ON THE ESCUE MANAGEMENT INC. ACCOUNT AND THE DISPOSITION OF THE FUNDS WITHDRAWN FROM BOTH THE ESCUE MANAGEMENT INC. AND THE AL JABOR GROUP ACCOUNTS. ON OCTOBER 10, 1997 DURING THE EXAMINATION OF THESE TRANSACTIONS IT WAS DISCOVERED THAT THE OVERDRAFT IN THE AL JABOR GROUP ACCOUNT HAD BEEN CREATED WHEN FUNDS WERE WITHDRAWN AND REMITTED TO THE OWNER OF GULF UNION BANK LTD., JABOR AL THANI, FROM HIS OWN ACCOUNT TO MEET THE DOWNPAYMENT ON THE PURCHASE OF GULF UNION BANK LTD AND ITS SUBSIDIARIES CALLED FOR IN THE PURCHASE AGREEMENT MADE BETWEEN AL THANI AND MR. SHEIKH QURESHI.

FURTHER EXAMINATION OF THE TRANSACTIONS THROUGH THE ESCUE MANAGEMENT INC. ACCOUNT REVEALED THAT ESCUE MANAGEMENT INC., A COMPANY CONTROLLED BY MR. S. QURESHI, WAS UTILIZING THE PROCEEDS OF THE OVERDRAFT TO PERPETUATE A FRAUDULENT INVESTMENT SCHEME ALREADY IN EXISTENCE AND BEING USED TO DEFAUD SEVERAL SWEDISH NATIONALS THROUGH ESCUE MANAGEMENT INC OFFICES IN SWEDEN. INVESTORS WERE BEING LED TO BELIEVE THAT INTEREST EARNED ON THEIR LOANS TO ESCUE MANAGEMENT INC WAS BEING DEPOSITED INTO ACCOUNTS IN THEIR NAMES THAT HAD BEEN OPENED AT FIRST CAYMAN BANK LTD. ACCOUNTS HAD INDEED BEEN OPENED AT THE BANK IN THE NAMES OF VARIOUS SWEDISH PERSONS. HOWEVER, THE BALANCES, IF ANY, IN THESE ACCOUNTS BORE NO RELATIONSHIP TO THE SUMS THAT THEY HAD BEEN ADVISED AS BEING DEPOSITED TO THEIR RESPECTIVE ACCOUNTS. INDEED SOME ACCOUNTS HAD NEVER BEEN FUNDED. THE ESCUE MANAGEMENT INC. ACCOUNT

WAS BEING OPERATED ON THE INSTRUCTIONS OF MR. KAZMI AND MR. QURESHI AND IT WAS EVIDENT FROM THE ACTIVITY IN THE ACCOUNT THAT A SIMILAR FRAUDULENT ACTIVITY WAS BEING CARRIED OUT IN THE U.S.A.

THE FOREGOING INFORMATION WAS IMMEDIATELY CONVEYED TO THE MONETARY AUTHORITY AND A MEETING HELD AT THE OFFICES OF THE MONETARY AUTHORITY LATER THAT AFTERNOON AT WHICH YOUR EXCELLENCY WAS IN ATTENDANCE AND APPRISED OF THE SITUATION.

I HAVE BEEN UNABLE TO DETERMINE THE EXACT DOLLAR VALUE OR FULL EXTENT OF THE FRAUDULENT OPERATION AS MANY FILES HAVE BEEN PICKED CLEAN. HOWEVER, I HAVE EVIDENCE OF FRAUDULENT LETTERS OF REFERENCE BEING ISSUED ON BEHALF OF KAZMI, QURESHI AND OTHERS ON GULF UNION BANK LTD. AND FIRST CAYMAN BANK LTD. LETTERHEADS TO VARIOUS FINANCIAL INSTITUTIONS, EMBASSIES AND BUSINESSES. BASED ON WHAT I HAVE SEEN AND HAVE BEEN ABLE TO GLEAN FROM RECORDS HELD AT THE BANK I AM OF THE OPINION THAT THE MINIMUM AMOUNT INVOLVED IN THIS FRAUD IS IN THE AREA OF US\$5 MILLION. I AM UNABLE TO QUANTIFY THE CONTINGENT LIABILITY THAT COULD POSSIBLY ACCRUE TO FIRST CAYMAN BANK LTD AND GULF UNION BANK LTD AS A RESULT OF THE ISSUANCE OF THE FRAUDULENT LETTERS OF REFERENCE AND/OR GUARANTEES THAT HAVE COME TO LIGHT.

AS A RESULT OF THE FOREGOING, ON OCTOBER 13, 1997, I INSTRUCTED, ON BEHALF OF FIRST CAYMAN BANK LTD, THE FIRM OF HUNTER & HUNTER TO PURSUE THESE INDIVIDUALS AND COMPANY AFTER ESTABLISHING WHAT ASSETS THEY MAY HAVE AVAILABLE.

I HAVE ALSO GIVEN INSTRUCTIONS TODAY, OCTOBER 15, 1997, TO THE BANK'S

OVERSEAS CORRESPONDENTS TO TRANSFER ALL AVAILABLE BALANCES TO FIRST CAYMAN BANK LTD'S ACCOUNTS WITH THE ROYAL BANK OF CANADA, GRAND CAYMAN IN ORDER TO PRECLUDE THE POSSIBILITY OF THESE ASSETS OF THE BANK BEING ATTACKED BY DEPOSITORS RESIDENT IN THESE FOREIGN JURISDICTIONS. THE REPATRIATION OF THESE FUNDS SHOULD BE COMPLETED BY CLOSE OF BUSINESS OCTOBER 16, 1997.

IN VIEW OF WHAT HAS BEEN SAID BEFORE, THE EFFECT ON FIRST CAYMAN BANK LTD. OF THE CLOSURE IN THE BAHAMAS OF THE PARENT BANK'S OTHER SUBSIDIARY, AND INDEED THE CLOSURE OF FIRST CAYMAN BANK ITSELF LOCALLY, THE BANK CAN NO LONGER REALISTICALLY BE VIEWED AS A VIABLE OPERATION AND AS SUCH IS NO LONGER SALEABLE AS A GOING CONCERN. THEREFORE IT IS MY RECOMMENDATION THAT THE BANK'S LICENCE BE REVOKED AND ITS AFFAIRS WOUND UP.

*Brian Cunha*

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Brian Cunha  
Controller  
First Cayman Bank Ltd.