

# Bahrain tightens noose around Iran-owned banks in billion dollar sanction busting scheme

TDT | Manama

Bahrain's public prosecutors have announced first charges in a money laundering case linked to a multibillion-dollar corruption scheme by an Iran-backed bank that secretly helped Iran evade sanctions for more than a decade.

Attorney General, Dr Ali bin Fadhel Al Buainain, said charges were levelled against corporations and individuals involved in the scheme, which follows a multi-year investigation.

Bahraini auditors earlier found that the now-closed Future Bank — a joint venture partly owned by two Iranian state-owned banks, Bank Saderat and Bank Melli, routinely altered financial documents to mask illicit trade between Iran and dozens of foreign partners.

According to reports, the Future bank concealed at least \$7 billion of transactions between 2004 and 2015 during while they were barred by international sanctions.

Court documents say, Bahrain officials uncovered hundreds of bank accounts tied to individuals convicted of crimes including money laundering and terrorist financing, as well as phantom loans provided to companies that operate as fronts for Iran's



The now-closed Future Bank — a joint venture partly owned by two Iranian state-owned banks, Bank Saderat and Bank Melli (Picture courtesy of Arab News)

Islamic Revolutionary Guard Corps.

Bank Melli and Bank Saderat, have also been accused by US officials of helping finance Iran's nuclear programme and what they say is its international terrorism network, reports say.

## Multiple offences

The defendants are charged with multiple offences under Bahrain's Law on Prevention and Combating Money Laundering, as well as violations of applicable Bahraini banking laws and regulations.

The Public Prosecution has

referred the cases to Bahrain's High Criminal Court, with further charges expected as investigations continue into thousands of remaining transactions.

In parallel, discussions are being held with other countries affected to investigate how the illicit transactions may have impacted the global banking system.

## Wide-Scale violations

Providing additional details on the investigations, the Attorney General stated that a 2018 assessment of Future Bank's operations by the Central Bank

of Bahrain (CBB) found Future Bank and its controlling shareholders to have engaged in systemic and widescale violations of Bahrain's banking laws.

Subsequent interviews with Future Bank employees and a review of tens of thousands of Future Bank documents were undertaken by the CBB, the Financial Investigation Unit of the Ministry of Interior, and independent international regulatory experts and forensic analysts.

## Wire stripping, covert messaging

The investigations found Future Bank, acting under the direction of Bank Saderat and Bank Melli, to have executed thousands of international financial transactions while concealing the involvement of Iranian entities.

One form of concealment involved the deliberate removal of mandatory information when transferring money via the SWIFT network — an illicit practice referred to as "wire stripping". The investigation identified thousands of wire-stripped transactions, totalling approximately USD 5 billion.

The second form of concealment involved the use of a covert messaging service as an alternative to SWIFT, which delib-

## Key takeaways

**Futurebank concealed at least \$7 billion of transactions between 2004 and 2015**

**Two Iranian state-owned banks, Bank Saderat and Bank Melli partly owns the Future Bank established in 2004**

**Bahraini auditors uncovered transactions linked to Iran's Islamic Revolutionary Guard Corps**

**Auditors discovered more than 4,500 instances of wire-stripping by bank officials**

**Identified thousands of transactions that directly violated international sanctions against Iran**

**US and European officials had blacklisted the bank and banned it from using SWIFT**



erately concealed transactions from Bahraini regulators. These actions allowed Future Bank to conceal an additional USD 2 billion of transactions.

## Fully committed: Al Maraj

Rasheed Al Maraj, the Governor of the Central Bank of Bahrain, which has been assisting the Public Prosecution with its investigations, said: "As part of the Financial Action Task Force and a founding member of the regional MENA-FATF, Bahrain is committed to full implementation of international standards

in combatting money laundering and the financing of terrorism. Investigating and prosecuting violations is an essential part of protecting the integrity of the international financial system."

The Governor went on to say that although the volume and value of transactions in the case are comparable to other international money laundering investigations, the complexity and magnitude of the investigations are compounded by the need to disentangle the subterfuge of Iranian-backed financing of terrorism.

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (AUDITED)



### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 (In thousands of U.S. Dollars)

	2019	2018
<b>ASSETS</b>		
Cash and bank balances	81,261	115,935
Investments	545,214	495,678
Accrued income	71,358	86,585
Insurance receivables	117,872	127,373
Insurance deposits	22,505	27,603
Deferred policy acquisition costs	17,915	25,433
Reinsurers' share of technical provisions	130,675	110,629
Other assets	30,329	44,078
Property and equipment	18,712	19,245
<b>TOTAL ASSETS</b>	<b>1,035,841</b>	<b>1,052,559</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Technical provisions	633,769	684,569
Insurance payables	90,726	69,305
Borrowings	7,000	7,000
Other liabilities	58,021	66,811
<b>TOTAL LIABILITIES</b>	<b>789,516</b>	<b>827,685</b>
<b>EQUITY</b>		
Attributable to shareholders of parent company		
Share capital	220,000	220,000
Treasury stock	(14,793)	(14,793)
Reserves	51,705	35,670
Accumulated losses	(28,539)	(44,507)
	228,373	196,370
Non-controlling interests	17,952	28,504
<b>TOTAL EQUITY</b>	<b>246,325</b>	<b>224,874</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,035,841</b>	<b>1,052,559</b>

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019 (In thousands of U.S. Dollars)

	2019	2018
Gross premiums written	194,614	262,791
Outward reinsurance premiums	(52,136)	(64,398)
Change in unearned premiums	31,091	15,559
<b>Net earned premiums</b>	<b>173,569</b>	<b>213,952</b>
Claims and related expenses	(107,794)	(175,226)
Policy acquisition costs	(49,849)	(58,089)
Investment income attributable to insurance funds	17,683	5,963
Operating expenses	(11,070)	(13,263)
<b>Underwriting result</b>	<b>22,539</b>	<b>(26,663)</b>
Investment income attributable to shareholders' funds	8,612	4,086
Operating expenses - non underwriting activities	(5,404)	(9,281)
Borrowing cost	(253)	(808)
Other income	1,318	5,165
Other expenses and provisions	(8,384)	(24,701)
<b>Profit (loss) for the year</b>	<b>18,428</b>	<b>(52,202)</b>
<b>Attributable to:</b>		
Non-controlling interests	902	3,049
Shareholders of parent company	17,526	(55,251)
	<b>18,428</b>	<b>(52,202)</b>
<b>Earnings (losses) per share attributable to shareholders (basic and diluted):</b>	<b>27 (US Cents)</b>	<b>8.9</b>

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019 (In thousands of U.S. Dollars)

	2019	2018
Profit (loss) for the year	18,428	(52,202)
<b>Other comprehensive income</b>		
Items that will be reclassified to profit or loss:		
Changes on remeasurement of available for sale investments	16,630	(4,994)
Transfers for recognition of gains on disposal of available for sale investments	(3,421)	(518)
Transfers for impairment loss recognised on available for sale investments	1,314	206
<b>Other comprehensive income for the year</b>	<b>14,523</b>	<b>(5,306)</b>
<b>Total comprehensive income for the year</b>	<b>32,951</b>	<b>(57,508)</b>
<b>Attributable to:</b>		
Non-controlling interests	948	3,056
Shareholders of parent company	32,003	(60,564)
	<b>32,951</b>	<b>(57,508)</b>

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019 (In thousands of U.S. Dollars)

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Premiums received	192,493	233,874
Reinsurance premiums paid	(35,484)	(54,829)
Claims and acquisition costs paid	(238,096)	(193,960)
Reinsurance receipts in respect of claims	63,440	26,685
Investment income	9,478	37
Interest received	3,271	2,820
Dividends received	1,044	1,300
Operating expenses paid	(21,505)	(21,162)
Other income (expenses), net	4,091	(3,055)
Insurance deposits received (paid), net	4,354	(1,928)
Purchase of trading investments	(5,363)	(14,355)
Sale of trading investments	15,698	19,127
<b>Net cash used in operating activities</b>	<b>(6,579)</b>	<b>(5,446)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturity/sale of investments	102,163	178,798
Purchase of investments	(143,022)	(110,110)
Term deposits with bank	(8,339)	13,708
Interest received	9,062	10,223
Investment income	1,662	135
Collateralised cash deposits	13,986	(11,201)
Purchase of property and equipment	(2)	(103)
Purchase of intangible assets	(82)	(211)
Investment in associate	-	(100)
<b>Net cash (used in) provided by investing activities</b>	<b>(24,572)</b>	<b>81,139</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings	-	(27,000)
Borrowing cost	(279)	(1,338)
Dividends paid	(51)	(374)
Subsidiary's capital reduction - minority interests	(11,500)	-
<b>Net cash used in financing activities</b>	<b>(11,830)</b>	<b>(28,712)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(42,981)</b>	<b>46,981</b>
Effect of exchange rates on cash and cash equivalents	(32)	(11)
Cash and cash equivalents, beginning of year	109,908	62,938
<b>Cash and cash equivalents, end of year</b>	<b>66,895</b>	<b>109,908</b>
Term deposits with bank	14,366	6,027
<b>Cash and bank balances, end of year</b>	<b>81,261</b>	<b>115,935</b>

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019 (In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves	(Accumulated losses) retained earnings	Non-controlling interests	Total equity
<b>Balances at 31 December 2018</b>	<b>220,000</b>	<b>(14,793)</b>	<b>35,670</b>	<b>(44,507)</b>	<b>28,504</b>	<b>224,874</b>
Net profit for the year	-	-	-	17,526	902	18,428
Changes on remeasurement of available for sale investments	-	-	16,525	-	105	16,630
Transfers for recognition of gains on disposal of available for sale investments	-	-	(3,269)	-	(152)	(3,421)
Transfers for impairment loss recognised on available for sale investments	-	-	1,221	-	93	1,314
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>14,477</b>	<b>17,526</b>	<b>948</b>	<b>32,951</b>
Transfer of net depreciation on revalued property	-	-	(195)	195	-	-
Transfer to (from) non-distributable reserves	-	-	1,753	(1,753)	-	-
Subsidiary's capital reduction	-	-	-	-	(11,500)	(11,500)
<b>Balances at 31 December 2019</b>	<b>220,000</b>	<b>(14,793)</b>	<b>51,705</b>	<b>(28,539)</b>	<b>17,952</b>	<b>246,325</b>
<b>Parent company balances at 31 December 2019</b>	<b>220,000</b>	<b>(14,793)</b>	<b>51,575</b>	<b>(28,409)</b>	<b>-</b>	<b>228,373</b>
Balances at 31 December 2017	220,000	(14,793)	41,178	10,549	25,448	282,382
Net (loss) profit for the year	-	-	-	(55,251)	3,049	(52,202)
Changes on remeasurement of available for sale investments	-	-	(4,850)	-	(144)	(4,994)
Transfers for recognition of (gains) losses on disposal of available for sale investments	-	-	(669)	-	151	(518)
Transfers for impairment loss recognised on available for sale investments	-	-	206	-	-	206
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(5,313)</b>	<b>(55,251)</b>	<b>3,056</b>	<b>(57,508)</b>
Transfer of net depreciation on revalued property	-	-	(195)	195	-	-
Balances at 31 December 2018	220,000	(14,793)	35,670	(44,507)	28,504	224,874
Parent company balances at 31 December 2018	220,000	(14,793)	35,594	(44,431)	-	196,370

These consolidated financial statements were approved by the Board of Directors on 13 February 2020 and signed on its behalf by:

Saeed Mohammed AlBahhar  
Chairman

Ahmed Saeed AlMahri  
Director

Samuel Verghese  
Acting Chief Executive Officer

The above consolidated financial statements have been extracted from the consolidated financial statements audited by KPMG Fakhro, who have expressed an unqualified opinion. The audited consolidated financial statements are available on Arig's website www.arig.net