CONFIRMATION FROM THE AUDITORS

The report commented on herein is based on the results of an audit conducted by the *Espiñeira, Sheldon y Asociados* firm, a subsidiary of the renowned US based company Price Waterhouse. The auditors submitted their conclusions to the General Assembly and the Board of Directors of the Banking and Deposit Guarantee Fund (FOGADE) on August 14, 1998. Corroborating the information provided by our confidential informant, the auditors say that, "In June of 1997, the Financial Emergency Board approved the sale of the principal assets and liabilities of *Banco Andino Venezolano*, C.A. FOGADE paid 192 million Bolivars for those assets and liabilities and added them to the capital of Banco Popular, S.A. The name *Banco Popular*, S.A. was later changed to *Banco Popular y de los Andes, C.A.*

On December 17, 1997, FOGADE sold at public auction all stocks of *Banco Popular y de los Andes*, C.A., to *Banco Provincial*, S.A., *Banco Universal,* for US$ 43,750,000 (equivalent at the time to 22,006 million Bolivars), 80% of which belonged to FOGADE and 20% to *Banco Industrial de Venezuela*, C.A. As a result of that operation, FOGADE registered as paid financial aid in the amount of 9,033 million and 646 million Bolivars pertaining to *Banco Popular*, S.A. and *Banco Andino Venezolano*, C.A., respectively reporting net earnings of 1,867 million Bolivars, reported on December 31, 1997 under the item net result, from the sale from the stock of banks taken over by the government. "According to the sales agreement, in January, 1998, the buyer paid FOGADE, by creating a security trust at Citibank for 10% of the sale price and paying the rest in cash."

sound financial footing as Cordero had left it (FOGADE invested a certain amount in order to avoid runs on the bank, but generally speaking, the bank was solvent). On the other hand, it had a liability with *Banco Industrial* in the amount of approximately six billion Bolivars, stemming from the acquisition and cleaning up of *Banco Andino* (Caldera's self-loan).

Furthermore, FOGADE obtained from *Banco Industrial* assets originally coming from *Banco Andino* in the amount of 190 million Bolivars. FOGADE incorporated those assets, though insignificant, into *BancoPopular*. Based on that small incorporation of assets, the fund "merged" the two banks and gave them a new name, *Banco Popular y de los Andes*. FOGADE immediately proceeded to auction off the new bank for US $43 million (Of course the new bank's value was supplied by *Banco Popular*, not *Andino*, whose residual assets were purchased at a bargain price.).

Following these operations, FOGADE, used the $43 million to take care of the following steps as described in the special report:

1.- It cancelled the liability it had on its books with *Banco Industrial* in the amount of 6 billion Bolivars, thus making the self-loan disappear from government accounting records.

2.- It cancelled the sums invested by the Fund under the management of Ms. Margulis in assistance to *Banco Popular*.

3.- Put the difference under "profits".

4.- Also, the records show that there was no entry for the total amount of aid transfers shown on the Cordero group report, even though *Banco Popular* –the main asset liquidated—was given by Cordero as a security for the amounts received by his group as financial aid.

"In conclusion," says the banker-informant, "FOGADE, using mainly assets contributed by Cordero and a sprinkling of *Andino* assets, cancelled over 6 billion Bolivars which Celis had loaned to himself and for which were he never accounted. Margulis presented Caldera with a masterpiece of financial engineering that allowed him to retain his post and keep Celis from being dumped".

The following comment, made by the author of the report, is worth pointing out as an additional note to this paper: "Bernando Celis is now happily going about proclaiming that he paid everything for the country when, in fact, it was the country that paid everything for him".

CELIS, CALDERA'S FAVORITE

When his banks were hit by the effects of the crisis, Cordero offered FOGADE all his assets, his stock brokerage firm, real estate and stock of the two banks, *Barinas and Popular* as security for financial assistance. His group received assistance in the form of sales agreements with a repurchase agreement, and he was required to post a personal bond in order to obtain funds from FOGADE. In contrast, Bernardo Celis, who had extended himself a loan amounting to 89% of his bank's [*Banco Andino*] deposits to buy [*Banco Andino*'s own] stock and to finance some family real estate projects, realized that he would need government funds if he was going to make it through the crisis. He was not required to sign a "financial assistance" agreement, much less a personal bond. There were no sales with repurchase agreement or "anything of the sort."

On this point, the confidential source states the following: "In the midst of the crisis and with his own bank 'on its last breath', Celis was appointed by Caldera (who also made sure he stayed there) to the post of President of the Senate Finance Commission, no less, passing laws forbidding the transfer, encumber and lien or encumberence of assets of any *Banco Latino* executives. Not only was this action a historically unprecedented move, Celis also was at the center of debate on the issue." *La Razón*'s source also notes that FOGADE acted quickly to salvage Caldera administration's difficulties as well as Celis': "When the situation became unsustainable, (and after three mock "offers" from international bankers who 'wanted to purchase the bank', with which he deceived Congress itself) FOGADE decided to loan (money) to *Banco Industrial de Venezuela* for the purpose of acquiring *Banco Andino*. Thus it was not Celis but *Banco Industrial* -translation: the Republic of Venezuela—that had an obligation to FOGADE."

The author of the special report also states also that "Caldera granted himself a loan (from FOGADE to *Banco Industrial*) in order to save his fellow party member, who, in the end, left the Congress declaring that Andeans do not leave the country." Of course, he did not even have obligations to FOGADE like other bankers, including Di Masse, who was even sentenced to prison by [the Court for the Protection of the Nation's Assets],(*Salvaguarda*)".

FINANCIAL ACROBATICS

According to the confidential report, FOGADE "still had a loan payment to *Banco Industrial* pending, since it was necessary to cover the tracks of Caldera's self-loan. Once again, as the FOGADE audit report shows and proves, the financial talent of Esther de Margulis entered the scene." The source specifies that FOGADE had "on the one hand, ownership of B*anco Popular*, [an asset] once again on

THE *BARINAS/POPULAR/ANDINO* CASES

Juan Domingo Cordero suffered the negative effects of the loss of public confidence in Venezuelan banks. Cordero was a successful stockbroker. He had been the president of the Caracas stock exchange, where he never had problems as it was his original occupation. Later he decided to go into banking, "a temptation he never should have given in to," according to the bank president.  Cordero requested a banking permit, which was granted by the Finance Minister after securing the approval of *the Banco Central*. The confidential source reveals that, "as any good broker would do", Cordero found a client (buyer) for the permit he had just received and sold it for a juicy profit."

This move on Cordero's part had serious consequences for him, however.  "This did not sit well with the administration, the *Banco Central* authorities or banks, who felt they had been taken in by the 'brokering' maneuver used by Cordero on his permit."

To ride out the storm, Cordero "shrewdly" made contact with the president of *Banco Central*, who at the time was the late Pedro Tinoco, Jr. They both agreed that Cordero would purchase *Banco Barinas*, a small institution with ties to the *Banco Latino* group and a good network of offices, but also with "a considerable series of problems due to the bad economic situation." Cordero developed successfully there during the first months, becoming entusiastic about the banking system, and eventually acquiring a majority ownership of a very well-positioned Zulia bank, the *Banco Popular*."

In the midst of the confidence crises generated by the "irresponsible handling of the *Banco Latino* case", Cordero was caught with two banks on his hands, struggling to make them successful."  During the run on the banks, Cordero became a beneficiary of the financial aid program proposed by the *Banco Central* to President Caldera, who was "hungover" from his legally inconsistent handling of the *Banco Latino* case while intoxicated with the hatreds that fueled it." At the time, spokespeople for the Caldera administration issued statements such as " 'We need to provide abundant and opportune funding to the banks in order to avoid a collapse of their ability to meet their financial obligations', 'There is unlimited support to the banks', 'The banks are solvent, and there is nothing to worry about', and 'Keep your money in any bank'."  Our banker-informant asks, "Why didn't they say that on January 13, 1994, so that history would have been different?".

every circulating Bolivar, directly or indirectly) closed for almost 80 days. The error dealt a strong blow to international confidence in the country, its currency and its banking system. It was like commiting a criminal act- even worse than that."

Unfortunately, the *Banco Latino* problem could have been solved without jeopardizing entire country. Articles 225, 301 and 314 of the Venezuelan Banking Law had gone into effect precisely that month, January 1994, and Article 2 of the *Banco Central* Act and FOGADE's regulations provided abundant alternatives for handling the case. In addition, Gustavo Gomez Lopez had already resigned his post as president of *Banco Latino*, ensuring that, had the bank been granted assistance, incoming funds would not have been managed by the alleged coup sympathizer. The decision to close the *Banco Latino*'s doors," says *La Razón*'s confidential source, "had nothing to do with laws or financial policy." The decision was politically motivated and followed by a vicious witch-hunt."

FOGADE'S MANEUVERS

The banker further alleges that "This bad decision shook the entire system to its core, affecting its confidence, and all its banks, not just the ones that went belly up. Many banks that had been financially sound had to be assisted in unorthodox ways (such as the Margulis' programs used in 1994 and 1995 to benefit certain 'pet' banks of the Caldera administration)." In his report, *La Razón*'s source points out that damage was so extensive that after the government had closed down or intervened in 60% of the system, it then gave orders to discontinue these actions responding to public controversy over the nationalization of the banking system.

Another consequence was that very small banks like *Venezolano de Crédito*, which had a 2% share in the system, and *Caribe*, with less than 5%, were not greatly affected. This, according to the banker, was due to the fact that they "simply were not participating". "These banks," he points out, "which could not be called conservative but rather marginal, had the fortune of being in sync with the administration and having the clumsy or naïve complicity of some bankers. They became the important sponsors and beneficiaries (some of them fleetingly) of the senseless and unmediated destruction of the *Banco Latino*. Once the enemy was destroyed, even friends began to fall, including the *Banco Andino*. They were treated differently, before and after (the case)."

**THE BANKRUPCY OF *BANCO LATINO*: HISTORY OF A POLITICAL VENDETTA**

*Former president Rafael Caldera accused of loaning himself funds to protect Bernardo Celis*

By: Hugo Alberto Goitez

**La Razón** 10/17/99

*A confidential report from a banker involved in *Banco Latino*'s downfall reveals the ulterior political motives of revenge behind a decision that drove a prosperous country to bankruptcy.

In January of 1994, deposit holders in various types of Venezuelan bank accounts were in an intense panic- the Venezuelan interim administration of President Ramon J. Velazquez, with the consent of President-elect Rafael Caldera, had intervened and closed the doors of *Banco Latino*. The draconian measure generated a great deal of distrust not only in the Venezuelan currency, but also in the general banking system. Subsequently, Venezuelan reserves shrank by over $3,500 million.

According to a special report given to *La Razón*, official notes exchanged by involved agencies as well as numerous public statements on the issue reveal that high-ranking authorities knew of the general breakdown in the banking system months before its collapse. The report cited here was given to *La Razón* by the president of a prominent bank which was intervened by FOGADE(the Bank's Deposit Guarantee Fund). It charges that officials from the *Banco Central*, (the Bank's Deposit Guarantee Fund), the Bank Superintendence and the Finance Ministry were long-aware that the economic policy changes of administration of Carlos Andres Perez (who was removed from office [through legal channels]) caused the downfall of the Venezuelan banking system. The source reports, "The sudden change in the economy as a result of the CAP [President Carlos Andres Perez], Pedro Tinoco-[President of the Central Bank of Venezuela] [Miguel] Rodríguez [Minister of Planning] plan, implemented in 1989, in addition to two coup attempts, four presidents in less than a year, and two general elections (governors, mayors and presidents), created a peculiar and debilitating situation for the Venezuelan economy."

The author of the report recalls: "For over three months the *Banco Latino* withstood an avalanche of withdrawals by nervous accountholders. Faced with a campaign of rumors that were bringing about the draining of *Banco Latino*'s vaults, authorities, instead of dealing with the case as a known situation, decided to present it to the public and treat it as a isolated criminal corruption case associated with the Carlos Andres Perez administration. In their desire to carry out a vendetta, Venezuelan officials resorted to policy improvisation and arbitrariness to an unheard-of degree. The handling of the situation was a textbook case of 'what NOT to do'. Officials kept the *Banco Latino* ([which represented] 25 cents out of