

Case Number: 200102877

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ACTION WHA-00

INFO	LOG-00	AID-00	CEA 01	CIAE-00	CTME-00	INL-00	DODE-00
	ITCE-00	DOFE-00	SRPP-00	DS-00	EB-00	EXME-00	OIGO-00
	E-00	FAAE-00	UTED-00	VC-00	FRB-00	H-01	TEDE-00
	INR-00	ITC-01	LAB-01	L-00	VCE-00	AC-01	NSAE-00
	NSCE-00	OIG-03	OMB-01	OPIC-01	PC-05	ACE-00	SP-00
	SSO-00	SS-00	STR-00	TEST-00	USIE-00	ASDS-01	FMP-00
	DSCC-00	DRL-02	G-00	NFAT-00	SAS-00	/01BW	

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R 181559Z APR 01  
FM AMEMBASSY LIMA  
TO SECSTATE WASHDC 9819  
DEPT OF TREASURY WASHINGTON DC  
INFO USDOC WASHDC  
USDA FAS WASHDC 0548  
AMEMBASSY BOGOTA  
AMEMBASSY CARACAS  
AMEMBASSY LA PAZ  
AMEMBASSY QUITO  
AMEMBASSY SANTIAGO

UNCLAS SECTION 01 OF 03 LIMA 002159

SENSITIVE

STATE FOR WHA/AND, WHA/EPSC/ AND EB/OMA  
TREASURY FOR OASIA  
COMMERCE FOR 4331/IEP/WH/TWELCH  
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USDA FOR FAS/EC/CHAMBLISS AND MCELVAIN  
FAS PASS TO CCC/MACLAUGHLIN

E.O. 12958: N/A  
TAGS: ECON, EFIN, KCRM, PE  
SUBJECT: MONTESINOS SCANDALS COMPOUND BANK WOES

REF: (A) 00 LIMA 7235 (B) 00 LIMA 7282 (C) 00 LIMA 7555

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ACCORDINGLY.

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1. (SBU) SUMMARY: RECENT ALLEGATIONS OF LINKS BETWEEN VARIOUS PERUVIAN BANKERS AND FORMER DE FACTO INTELLIGENCE CHIEF VLADIMIRO MONTESINOS SUGGEST THAT MONTESINOS' INFLUENCE EXTENDED TO THE TOP OF PERU'S BUSINESS COMMUNITY. DESPITE THE SCANDALOUS -- IF NOT CRIMINAL -- BEHAVIOR OF CERTAIN BANKERS AND THE DISCOVERY OF A "SECRET" BANK OPERATING SINCE 1997 TO FACILITATE THE ALLEGED TRANSFER OF MILLIONS OF DOLLARS TO OVERSEAS ACCOUNTS BY MONTESINOS AND HIS CRONIES, WE AGREE WITH GOP BANK REGULATORS THAT PERU'S BANKING SYSTEM REMAINS SOUND AT THE PRESENT TIME. HOWEVER, SUSTAINED NEGATIVE ECONOMIC RESULTS OVER THE NEXT YEAR AND/OR THE POSSIBLE CRIMINAL CONVICTIONS OF TOP BANKING EXECUTIVES COULD EVENTUALLY PUT PERU'S FINANCIAL SECTOR BACK INTO A PRECARIOUS POSITION. THE INTERBANK-BANCO LATINO MERGER TOOK EFFECT ON APRIL 2. PROSPECTIVE BUYERS OF BANCO NUEVO MUNDO AND NBK BANK -- BOTH OF WHICH WERE CLOSED LAST DECEMBER BY GOP BANK REGULATORS -- HOPE TO OBTAIN GOP APPROVAL OF THEIR ACQUISITION DEALS DURING THE COMING WEEK.

END SUMMARY.

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VIDEO REVEALS TOP BANKER MEETING WITH SPY CHIEF &amp; GENERALS

2. (U) ON FEBRUARY 17, PERU'S CONGRESSIONAL INVESTIGATORS RELEASED VIDEOTAPES OF A JUNE 14, 1999 MEETING BETWEEN EX-PERUVIAN INTELLIGENCE CHIEF VLADIMIRO MONTESINOS, TOP MILITARY COMMANDERS, AND ONE OF PERU'S MOST POWERFUL BUSINESS TYCOONS, DIONISIO ROMERO. (ROMERO HEADS THE ROMERO GROUP OF COMPANIES AND IS CHAIRMAN OF PERU'S LARGEST BANK, BANCO DE CREDITO.) MONTESINOS TOLD ROMERO THAT, AS ONE OF THE COUNTRY'S OPINION LEADERS, ROMERO'S VOCAL SUPPORT OF THEN-PRESIDENT ALBERTO FUJIMORI WOULD HAVE SIGNIFICANT INFLUENCE ON PUBLIC OPINION. ROMERO, WHO STRESSED HOW "HONORED" HE WAS TO MEET WITH MONTESINOS AND THE ASSEMBLED MILITARY CHIEFS, PROPOSED AMENDING PERU'S CONSTITUTION TO ELIMINATE RUNOFF ELECTIONS. BY DOING SO, HE ARGUED, THEN-PRESIDENT ALBERTO FUJIMORI COULD MAXIMIZE HIS PROSPECTS FOR OUTRIGHT RE-ELECTION TO A THIRD CONSECUTIVE TERM BY PREVENTING FUJIMORI'S OPPOSITION FROM PRESENTING A UNITED FRONT IN A SECOND ROUND ELECTION. MONTESINOS REJECTED THE IDEA, SAYING THAT SUCH A CHANGE TO THE "RULES OF THE GAME" WOULD BE TOO "GROTESQUE" FOR PERUVIANS TO ACCEPT.

3. (U) MONTESINOS LATER TOLD ROMERO THAT HE (MONTESINOS)

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CALLED THE SHOTS IN THE GOP'S PENDING NEGOTIATIONS WITH THE INTERNATIONAL MONETARY FUND (IMF). ROMERO SAID THE GOP'S DRAFT LETTER OF INTENT (LOI) WAS "VERY ORTHODOX" AND THAT IT WOULD COMMIT THE GOP TO STRINGENT FISCAL POLICIES CONTRARY TO FUJIMORI'S RE-ELECTION HOPES. HE URGED MONTESINOS TO INSTRUCT THEN-MINISTER OF ECONOMY & FINANCE VICTOR JOY WAY

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TO BOOST GOP SPENDING AND NOT TO "WORRY SO MUCH" ABOUT TAX COLLECTIONS.

4. (U) ALTHOUGH CONGRESSIONAL INVESTIGATORS AND PERUVIAN PROSECUTORS SOUGHT TO CHARGE ROMERO WITH PROVIDING FALSE TESTIMONY, A LIMA COURT REFUSED TO HEAR THE CASE ON MARCH 1 DUE TO A "LACK OF EVIDENCE." ROMERO'S PUBLIC IMAGE AS ONE OF PERU'S LEADING BUSINESS FIGURES HAS NONETHELESS BEEN SEVERELY TARNISHED. VARIOUS PRIVATE SECTOR CONTACTS HAVE TOLD ECONOFFS IN RECENT WEEKS OF THEIR "DISAPPOINTMENT" OR "DISGUST" WITH ROMERO. SEVERAL REPORT THAT THEY CLOSED THEIR COMPANIES' ACCOUNTS WITH BANCO DE CREDITO SINCE ROMERO'S VIDEO APPEARANCE. (NOTE: IN THE MONTH AFTER THE ROMERO STORY BROKE, BANCO DE CREDITO'S TOTAL DEPOSITS DROPPED BY 5.35%, COMPARED TO THE SLIGHT GAIN OF 0.67% IN TOTAL SYSTEMWIDE DEPOSITS. DESPITE THIS MANIFESTATION OF HOW EX-DEPOSITORS FELT ABOUT ROMERO, BANCO DE CREDITO STILL HOLDS ABOUT 26% OF TOTAL DEPOSITS AND DOES NOT APPEAR TO BE IN DANGER OF LOSING ITS A SOLID POSITION ATOP PERU'S BANKING INDUSTRY. END NOTE.)

CHARGES FILED AGAINST TOP BANCO WIESE SUDAMERIS EXECUTIVES

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INFO	LOG-00	AID-00	CEA-01	CIAE-00	CTME-00	INL-00	DODE-00
	ITCE-00	DOIE-00	SRPP-00	DS-00	EB-00	EXMF-00	OIGO-00
	E-00	FAAE-00	UTED-00	VC-00	FRE-00	H-01	TEDE-00
	INR-00	ITC-01	LAB-01	L-00	VCE-00	AC-01	NSAE-00
	NSCE-00	OIG-03	OMB-01	OPIC-01	PC-05	ACE-00	SP-00
	SSO-00	SS-00	STR-00	TEST-00	USIE-00	ASDS-01	FMP-00
	DSCC-00	DRL-02	G-00	NFAT-00	SAS-00	/018W	

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R 181559Z APR 01  
FM AMEMBASSY LIMA  
TO SECSTATE WASHDC 9820  
DEPT OF TREASURY WASHINGTON DC  
INFO USDOC WASHDC  
USDA FAS WASHDC 0549  
AMEMBASSY BOGOTA  
AMEMBASSY CARACAS  
AMEMBASSY LA PAZ  
AMEMBASSY QUITO  
AMEMBASSY SANTIAGO

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SENSITIVE

STATE FOR WHA/AND, WHA/EPSC/ AND EB/OMA  
TREASURY FOR OASIA  
COMMERCE FOR 4331/IEP/WH/TWELCH  
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USDA FOR FAS/EC/CHAMBLISS AND MCELVAIN  
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E.O. 12958: N/A  
TAGS: ECON, EFIN, KCRM, PE  
SUBJECT: MONTESINOS SCANDALS COMPOUND BANK WOES

5. (SBU) ON APRIL 16 PERUVIAN PROSECUTORS FILED CHARGES AGAINST SEVERAL EXECUTIVES FROM BANCO WIESE SUDAMERIS, INCLUDING CURRENT CEO EUGENIO BERTINI AND FORMER CEO MANUEL CUSTODIO, FOR ALLEGEDLY PROVIDING FALSE INFORMATION AND DESTROYING EVIDENCE INVOLVING MONTESINOS' SUSPECTED MONEY-LAUNDERING THROUGH THE BANK. IF CONVICTED, THE EXECUTIVES COULD FACE PRISON SENTENCES OF UP TO SIX YEARS. WE UNDERSTAND THE GOP HAS IMPOSED TRAVEL RESTRICTIONS ON THESE EXECUTIVES TO PREVENT THEIR DEPARTURE FROM PERU. THERE ALSO REMAINS THE POSSIBILITY THAT THE BANK ITSELF WOULD FACE CIVIL CHARGES ARISING FROM THE MALFEASANCE OF ITS TOP EXECUTIVES. PROSECUTORS ALSO CHARGED TWO ALLEGED MONTESINOS FRONTMEN, JUAN VALENCIA AND ALBERTO VENERO. IN NOVEMBER 2000 PERUVIAN AUTHORITIES DISCOVERED SOME 21 ACCOUNTS HELD AT THE BANK BY VALENCIA AUTHORITIES BELIEVE WERE USED TO LAUNDER MILLIONS OF DOLLARS. (BANCO WIESE SUDAMERIS IS PERU'S SECOND LARGEST BANK, WITH OVER \$2.4 BILLION IN

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DEPOSITS OR 22% OF TOTAL DEPOSITS.)

AUTHORITIES CLOSE CLANDESTINE BANK USED BY MONTESINOS

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6. (U) ON MARCH 14, ANTICORRUPTION JUDGE SAUL PENA FARFAN CLOSED THE CLANDESTINE OFFICE OF PACIFIC INDUSTRIAL BANK

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 (PIB), WHICH WAS ALLEGEDLY USED BY EX-PERUVIAN INTELLIGENCE CHIEF VLADIMIRO MONTESINOS AND HIS ASSOCIATES TO TRANSFER MILLIONS OF DOLLARS OVERSEAS. THE BANK, WHICH WAS FOUNDED IN 1986 IN THE CAYMAN ISLANDS, BEGAN OPERATING IN PERU THROUGH A REPRESENTATIVE OFFICE LICENSED TO FACILITATE CREDIT LINES FROM OVERSEAS. IN 1997, HOWEVER, PERU'S SUPERINTENDENCY OF BANKS AND INSURANCE (SBS) RESCINDED THE LICENSE IT HAD GRANTED TO PIB'S REPRESENTATIVE OFFICE AFTER DETERMINING THAT THE OFFICE WAS TAKING DEPOSITS IN VIOLATION OF PERUVIAN LAW. AN SBS OFFICIAL TOLD ECONOFF THAT, DESPITE SBS' 1997 ACTION, THE BANK BEGAN OPERATING CLANDESTINELY THROUGH ANOTHER LOCATION IN THE SAN ISIDRO DISTRICT OF LIMA. IT WAS ONLY THROUGH A TIP FROM FORMER MONTESINOS FRONTMAN, VICTOR ALBERTO VENERO (WHO WAS EXTRADITED FROM THE U.S. ON FEBRUARY 24), THAT PERUVIAN AUTHORITIES WERE ABLE TO FIND AND CLOSE THE BANK'S UNAUTHORIZED OFFICE.

BANCO DE COMERCIO DEPOSITS DROP AMID FRAUD ALLEGATIONS

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7. (U) BANCO DE COMERCIO, WHICH IS OWNED BY THE MILITARY-POLICE PENSION FUND, IS ONE OF PERU'S SMALLER BANKS, HOLDING ABOUT 1.9% OF TOTAL DEPOSITS. THE BANK HAS SUFFERED LIQUIDITY PROBLEMS IN RECENT MONTHS AFTER ITS DEPOSITS FELL BY 13% DURING THE FOURTH QUARTER OF 2000, DUE LARGELY TO THE WITHDRAWAL OF GOVERNMENT DEPOSITS. THE BANK'S TROUBLES WERE AGGRAVATED BY RUMORS THAT THE PENSION FUND WAS ON THE VERGE OF COLLAPSE DUE TO POOR REAL ESTATE INVESTMENTS AND ALLEGATIONS OF FRAUD AND MISMANAGEMENT OF BANK FUNDS INVOLVING TOP MILITARY OFFICIALS. BANK DIRECTORS HAVE SOUGHT TO INFUSE THE BANK WITH ADDITIONAL CAPITAL,

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 IMPLEMENTED INSTITUTIONAL CHANGES (SUCH AS FIRING KEY BANK MANAGERS), AND UNDERTAKEN VARIOUS OPERATIONAL MEASURES AIMED AT STRENGTHENING THE BANK, SUCH AS CUTTING CREDIT LINES

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EXTENDED TO CERTAIN CORPORATE CUSTOMERS AND SECURING ITS OWN CREDIT LINES FROM OTHER INSTITUTIONS. NONETHELESS, ITS FUTURE IS UNCERTAIN, AND IT IS OFTEN MENTIONED AS THE MOST VULNERABLE OF PERU'S REMAINING 15 BANKS.

INTERBANK-LATINO MERGE; NUEVO MUNDO & NBK BUYERS NEAR DEALS

8. (U) AS REPORTED REFTELS A AND B, THE SBS INTERVENED IN BANCO NUEVO MUNDO (BNM) AND NBK BANK LAST DECEMBER, FOLLOWED LATER THAT MONTH BY THE ANNOUNCED MERGER OF INTERBANK AND BANCO LATINO (REF C). FOLLOWING THE GOP'S SUBSEQUENT APPROVAL OF THE MERGER, INTERBANK ABSORBED LATINO'S 130,000 CUSTOMERS AS OF APRIL 2, MAKING IT PERU'S FOURTH LARGEST BANK WITH TOTAL DEPOSITS OF ABOUT \$929 MILLION (8.3% OF PERU'S TOTAL).

9. (U) AS FOR BNM AND NBK, THE SBS EXTENDED ITS PERIODS OF INTERVENTION TO APRIL 19 AND APRIL 26, RESPECTIVELY, TO BETTER ENABLE PROSPECTIVE BUYERS TO COMPLETE THEIR ACQUISITION PROPOSALS. ALTHOUGH DETAILS OF THE PROPOSAL

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	E-00	FAAE-00	UTED-00	VC-00	FRB-00	H-01	TEDE-00
	INR-00	ITC-01	LAB-01	L-00	VCE-00	AC-01	NSAE-00
	NSCE-00	OIG-03	OMB-01	OPIC-01	PC-05	ACE-00	SP-00
	SSO-00	SS-00	STR-00	TEST-00	USIE-00	ASDS-01	FMP-00
	DSCC-00	DRL-02	G-00	NFAT-00	SAS-00	/018W	

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R 181559Z APR 01  
FM AMEMBASSY LIMA  
TO SECSTATE WASHDC 9821  
DEPT OF TREASURY WASHINGTON DC  
INFO USDOC WASHDC  
USDA FAS WASHDC 0550  
AMEMBASSY BOGOTA  
AMEMBASSY CARACAS  
AMEMBASSY LA PAZ  
AMEMBASSY QUITO

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AMEMBASSY SANTIAGO

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SENSITIVE

STATE FOR WHA/AND, WHA/EPSC/ AND EB/OMA  
 TREASURY FOR OASIA  
 COMMERCE FOR 4331/IEP/WH/TWELCH

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 USDA FOR FAS/EC/CHAMBLISS AND MCELVAIN  
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E.O. 12958: N/A  
 TAGS: ECON, EFIN, KCRM, PE  
 SUBJECT: MONTESINOS SCANDALS COMPOUND BANK WOES

DEVELOPED BY BANCO INTERAMERICANO DE FINANZAS (BIF) REMAIN UNKNOWN, IT APPEARS THAT BIF HAS EDGED OUT BANCO SUDAMERICANO IN THE BIDDING FOR BNM. MEANWHILE, INDUSTRY SOURCES REPORT THAT BANCO FINANCIERO -- A SUBSIDIARY OF ECUADOR'S BANCO DEL PICHINCHA -- PROPOSES TO BRING AN \$8 MILLION CASH INFUSION TO NBK, ALONG WITH A SCHEME TO PAY OFF SOME \$15 MILLION IN OUTSTANDING NBK DEBTS. BANCO FINANCIERO HOPES TO OBTAIN SBS APPROVAL OF IT PROPOSAL BY APRIL 26 AND TO CONCLUDE THE ACQUISITION WITHIN 90 DAYS OF THE APPROVAL.

NO SYSTEMIC RISK FOR NOW, BUT SCANDALS CLOUD FUTURE OUTLOOK

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10. (SBU) EMBASSY COMMENT. WHILE THE SCANDALOUS BEHAVIOR OF CERTAIN BANKERS AND THE DISCOVERY OF A "SECRET" BANK MAKES FOR SENSATIONAL HEADLINES, THESE EVENTS HAVE NOT SPARKED WIDESPREAD PANIC AMONG DEPOSITORS. NONETHELESS, THE FINANCIAL SECTOR BEARS CLOSE WATCHING IN THE COMING WEEKS FOLLOWING ALAN GARCIA'S SURPRISE SECOND PLACE FINISH IN APRIL 8 PRESIDENTIAL ELECTIONS, PUTTING HIM INTO A RUNOFF AGAINST CURRENT FRONTRUNNER ALEJANDRO TOLEDO. INVESTOR NERVOUSNESS ABOUT GARCIA, WHOSE 1985-90 PRESIDENCY WAS MARRED BY DOMESTIC TERRORISM AND ECONOMIC CHAOS, INCLUDING A FAILED ATTEMPT TO NATIONALIZE PRIVATE BANKS IN 1987, LED TO

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 AN APRIL 9 PLUNGE IN SHARE PRICES FOR CREDICORP LTD. (BANCO

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DE CREDITO'S PARENT COMPANY), WHICH DROPPED 9%, AND BANCO WIESE SUDAMERIS, WHICH PLUMMETED BY 17%. SBS OFFICIALS MAINTAIN -- AND WE AGREE -- THAT PERU'S BANKING SYSTEM REMAINS SOUND AT PRESENT DESPITE THE CURRENT LEGAL TROUBLES ENCOUNTERED BY VARIOUS BANK EXECUTIVES. HOWEVER, THE BANKING SECTOR COULD SUFFER A SERIOUS BLOW IF TOP BANCO WIESE SUDAMERIS EXECUTIVES ARE ULTIMATELY CONVICTED ON CRIMINAL CHARGES AND THE BANK IS EXPOSED TO SERIOUS CIVIL LIABILITIES. MOREOVER, THE STALLED ECONOMY HAS PREVENTED A FULL RECOVERY IN THE SECTOR, WHICH STILL SUFFERS FROM HIGH PERCENTAGES OF NON-PERFORMING LOANS. SUSTAINED NEGATIVE ECONOMIC RESULTS OVER THE NEXT YEAR COULD PUT PERU'S FINANCIAL SECTOR BACK INTO A PRECARIOUS POSITION. END COMMENT.

HAMILTON

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