



## FBME Limited

22<sup>nd</sup> August 2014

### Fitch Ratings

#### London

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To the attention of:

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Sent via Fitch Ratings media relations, Elaine Bailey: [elaine.bailey@fitchratings.com](mailto:elaine.bailey@fitchratings.com).

I write on behalf of the Board of Directors of FBME Bank Limited with reference to your report dated 19 August 2014, titled 'Branch Resolution May Disrupt Credit Hierarchy'. As FBME Bank's Cyprus Branch is mentioned in this report we felt it appropriate that we reply.

The statement correctly questions the ability of Host Supervisors to resolve problems associated with branches of foreign banks and suggests, also correctly in our view, such independent action can easily hamper the orderly management of a difficult situation. Indeed, we are witnessing this at first hand.

Independent resolution by a Host Supervisor is contrary to the content of many Memoranda of Understanding (MoU) existing between Home and Host Supervisors. There is an MoU between the Bank of Tanzania and the Central Bank of Cyprus. Such independent resolution is also contrary to the guidelines issued by the Basel Committee on Banking Supervision (which operates under the auspices of the Bank for International Settlements – BIS) for identifying and dealing with weak banks (weak banks being defined by the BIS as "ones whose liquidity or insolvency is impaired").

FBME Bank has, in fact, a strong financial and liquidity position but those strengths are now being tested by the behaviour and actions of both the Central Bank of Cyprus and its Special Administrator.

As Fitch Ratings quite rightly implies – and as we are seeing happening with FBME's Branch in Cyprus – adoption of powers by a Host Supervisor, in this case the Central Bank of Cyprus, without the cooperation and agreement of the Home Supervisor (the Bank of Tanzania) will be potentially damaging. It was not until a month after the special resolution was invoked in the case of FBME's Cyprus Branch that contact between Host and Home Supervisor took place (and only then at the prompting of the Home Supervisor and after several failed efforts), to enable the Home Supervisor to properly take control of Cyprus Branch assets. Such absence of cooperation is an abuse of supervisory standards and merely increases the risk of a disorderly process. Which is exactly what is happening! We believe fuller details will emerge.

Internationally, branches have been for practical purposes considered as not separate legal entities and generally have been viewed as integral parts of Head Office, as Fitch Ratings points out. Moreover, although branch activities are also an integral part of the local banking sector, the overall responsibility for such activities is with the Home Supervisor, which is recognised as being responsible for the consolidated and global state of banks headquartered within its jurisdiction.

Because of the very healthy state of FBME Bank at the time of the independent resolution, both on a consolidated and Cyprus Branch basis, FBME and its owners have felt entirely justified in challenging the unnecessary and very damaging independent resolution imposed by Cyprus on FBME's Cyprus Branch. This challenge is being pursued through the courts and other channels.

Thank you for your report and its objective findings.

Yours sincerely

Fadi M Saab  
Co-Owner