

Status on FBME Bank's Submission to FinCEN

14 October 2014

On 22 September, FBME Bank Ltd. submitted a public comment to the U.S. Treasury's FinCEN department in which it respectfully responded to the concerns outlined by FinCEN in its Notice of Finding and a Notice of Proposed Rulemaking (the "NPRM") dated 15 July 2014 and published in the Federal Register on 22 July 2014.¹

FinCEN has confirmed that it is reviewing the Bank's comment giving it proper consideration in accordance with the organisation's rules and regulations. FBME Bank will continue to engage in further dialogue with FinCEN.

FBME has made its report available on the www.fbmeltd.com website having responded within the 60-day period allowed for a comment to be made.

The FBME Bank submission, prepared by international law firm Hogan Lovells with the support of forensic accountants Ernst & Young (EY), demonstrated the Bank's strong commitment to compliance, its opposition to the use of the Bank for illicit purposes, and its unequivocal resolve to work in cooperation with FinCEN and any other agency to prevent financial crime whenever and wherever possible.

On the basis of the review conducted by Hogan Lovells and EY, FBME Bank respectfully requested in its submission to FinCEN that the Notice and NPRM be withdrawn. This remains the position of the Bank.

FBME Bank stated its formal position in its response:

"FBME Bank is committed to continuing to cooperate with the U.S. Government as well as the governments of Cyprus and Tanzania, in the fight against money laundering and terrorist financing activities. FBME has devoted substantial resources to developing and enhancing its anti-money laundering ("AML") and sanctions compliance program ("Compliance Program" or "Program") to adhere to applicable European, Cypriot and Tanzanian standards."

EY carried out a thorough and independent investigation of FBME Bank's policies and operational procedures particularly with regard to anti-money laundering procedures. As EY found in its assessments:

"FBME's AML (anti-money laundering) policies are in line with the applicable requirements of the (EU and Central Bank of Cyprus) Directives".

¹ The FinCEN website states that: "FinCEN's mission is to safeguard the financial system from illicit use and combat money laundering and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities." See: <http://www.fincen.gov/>

The comment describes the measures that FBME Bank has taken to strengthen its Compliance Program over recent years, and that it has implemented a programme that is in line with applicable regulatory requirements.

The Bank is committed to continue to enhance its Compliance Program to the satisfaction of FinCEN.

As a next step, FBME Bank welcomes the opportunity to cooperate further with FinCEN, in particular with regard to an assessment of FBME's Compliance Program and enhancement plans so that FBME and its customers can resume their legitimate business activities as soon as possible.

Background: About FBME Bank

FBME is a leading commercial bank with a strong record of serving its global client-base. The Bank's success is built on a financially-conservative banking model that focuses on providing first-class service and solid returns.

The Bank's origins go back to 1952, when the Federal Bank of Lebanon SAL (FBL) was founded by Mr Michel Saab. Following the outbreak of war in Lebanon, the Federal Bank of the Middle East was formed in Cyprus in 1982. The Bank changed its name to FBME Limited in 2005. FBME Bank Limited and Federal Bank of Lebanon SAL are today separate entities though belonging to the same owners.

In 1982 FBME Bank Limited's Cyprus branch was granted a full banking business licence to operate from within the country under the supervision of the Central Bank of Cyprus. FBME Bank Limited has now been operating in Cyprus over 30 years.

Originally formed with ownership held between the founder, Mr Michel Saab and his sons, since the passing away of Mr Michael Saab in 1991, FBME Limited has been owned equally by Mr Ayoub-Farid M Saab and Mr Fadi M Saab.

Through the holding company and its units, until mid-July 2014, FBME Bank employed 438 people in Cyprus, Tanzania and Russia, of who 200 were citizens of the Republic of Cyprus. Its client base is geographically diverse, coming from 50 different countries.

Dispute with the Central Bank of Cyprus (CBC)

Following the FinCEN notice of 15 July, the shareholders of FBME invited the Central Bank to monitor its operations. When notified of the FinCEN Report, FBME took all appropriate and requested actions within the first 24 hours.

Despite these steps by FBME, the CBC quickly announced that it was assuming management control of the Bank's Cyprus branch under local Resolution laws aimed at taking over distressed banking assets.

The CBC's central argument for taking over the Bank is flawed – FBME Bank was and remains a highly solvent and liquid bank. In mid-July, the Bank's short term liquidity ratio was 104 per cent. Yet, the CBC restricted access by depositors to their funds even though the Bank could have met all claims.

On 21 July, after just 24 hours of Central Bank control, the CBC issued a Decree for the sale of FBME Bank's branch in the Republic of Cyprus and at that time communicated the information to FBME's Shareholders.

FBME Bank regards this as a hostile takeover and the case is currently being contested in the Cypriot Courts.

FBME is filing a request for arbitration with the Arbitral Tribunal of the International Chamber of Commerce (ICC) in Paris. The arbitration invokes the Lebanese-Cyprus Convention on the reciprocal promotion and protection of investment (law 399).

FBME Bank's Shareholders filed an Interim Application on 14 August 2014 with the District Court of Nicosia to support the arbitration proceedings. The District Court of Nicosia will hear the case on 21 October.

The CBC and the Resolution Authority have undertaken not to make a binding agreement regarding the sale of the branch until judgement is given on the interim application, though not renouncing their commitment to sell the bank.

FBME strongly believes that the CBC's actions are damaging to Cyprus and its reputation as an international banking destination. The CBC's actions have put the livelihoods of FBME's employees at risk. FBME Bank has already been forced to lay off 70 of the 105 employees in its card services team.

FBME Bank continues to contest what it believes is an illegal expropriation of the Bank by the Central Bank of Cyprus.