

FBME a headache for CBC

Unpredictable repercussions for Republic and Cypriot taxpayer

When the Central Bank of Cyprus took the unprecedented decision in July 2014 to first suspend, and then attempt to sell, the operations of FBME Bank, the Cyprus branch of the Tanzania-based bank, following as yet unproven allegations concerning money laundering, it could not have foreseen the potential risks associated.

At the end of last month, almost a year after the decision, and with the Bank under the oversight of the Resolution Authority, the International Chamber of Commerce's (ICC) Arbitral Tribunal - where the case of the closure of FBME Bank was brought by its main owners Ayoub-Farid Michel Saab and Fadi Michel Saab - invited the Republic of Cyprus to refrain from proceeding to its sale or resolution before the end of the arbitration.

The Resolution Authority has been asked to abstain from taking any measures that would irrevocably destroy the business of FBME Cyprus pending completion of the arbitration, and was ordered to notify - one month in advance - the Arbitral Tribunal, the Claimants, their Counsel and the Statutory Manager of the Bank appointed by the Bank of Tanzania, of any such measure.



THE Central Bank of Cyprus' handling of FBME raises many questions

The Arbitral Tribunal did dismiss several requests by the claimants, including for damages suffered, on the basis that granting them would prejudice the merits of the case. The Arbitral Tribunal is expected to assess the conduct of the Republic of Cyprus at a later stage, when it will decide on the merits of the dispute and the size of the compensation, a prospect that has raised 'alarm bells' at the Central Bank and the ministry of Finance, according to press reports.

Earlier this year a delegation of the FBME Bank representatives are reported

to have met in Washington DC with the US Department of the Treasury's FinCEN bureau and responded to the allegations of money laundering. FBME Bank submitted hundreds of pages of documentation, resulting from an exhaustive forensic investigation conducted by Ernst & Young) and law firm Hogan Lovells. FBME stressed that it remained committed to continuing to cooperate with the US, Cypriot and Tanzanian governments.

Sources close to the case say that just weeks before the FinCEN Notice, the Central Bank of Cyprus had conducted its own

regular inquiry. The same sources suggest that the fact that no report of this investigation was ever released helped fuel speculation about the motives behind the subsequent investigations into FBME. It also raised questions about the swift unquestioning manner in which the Central Bank responded to the allegations at a time of considerable instability within the Cypriot banking sector and with competitors in Cyprus seeking to re-establish themselves in the market.

More recently the Resolution Authority appointed Andrew Andronikou as Special Administrator, to replace Dinos Christofides who resigned under unclear circumstances. The appointment of Mr Andronikou, is described by sources close to the case as "odd" given that he has extensive experience in receivership and liquidation - a prospect that the ICC forbids - but very little relevant experience in running a Bank under resolution.

FBME Bank is one of the largest commercial banks in Tanzania, with a total asset base valued at approximately US\$2.72 bln, with shareholders' equity of approximately US\$179.63 million and maintains offices in Dar es Salaam, Nicosia, Limassol and Moscow.