

27 December 2015

Mr Nicos Anastasiades
President of the Republic of Cyprus
Republic of Cyprus
Nicosia

I write to you as a matter of urgency following the extraordinary and damaging decision of the Central Bank of Cyprus (CBC), notified to FBME Bank Limited on 21 December, to revoke the license of the Cyprus branch of FBME. This follows 17 months of the CBC's mismanagement of this same branch, during which it has forced the closure of the Bank's subsidiary FBME Card Services resulting in the redundancy of nearly 80 employees, and has denied access by ordinary depositors to their own accounts.

Now, the livelihood of a further 250 employees of FBME Bank in Cyprus is under grave threat while the CBC continues its efforts to send the Bank to its grave. This follows the incompetence the CBC has shown in actions with Cyprus's three systemic banks, all also under its supervision and regulation.

We are of course obliged to defend ourselves having tried various approaches to avert this calamity. Following the open letter to you from our counsel, Mr Alecos Markides, we understand you have decided not to involve yourself in this matter, though the reasons for this are unknown to us.

It is our contention that a small group of CBC officials, possibly colluding with outsiders, have made a sacrificial offering of FBME to a USA government agency completely without justification. Prior knowledge by the CBC of the accusations against FBME, indicating further collusion, is evidenced in the MOKAS statement of 28 July 2014. CBC kept this event secret as it did not inform FBME. The sacrifice of FBME, rejected by all ethical and moral standards, is believed to have been made to protect systemic banks in Cyprus and the misdemeanors of the CBC itself.

It is now clear that the CBC assumed guilt on the part of FBME and, inter alia, concocted evidence. But now that the CBC is facing our legal riposte in Washington and Paris, which is going the way of FBME's interests, senior CBC officials have grown concerned at the potential implications for themselves.

We appeal to you as the President of the Republic of Cyprus to intercede quickly and decisively with this matter to stop greater harm to the country, to the CBC and to FBME.

The Current Malaise

The action by the CBC in placing the FBME branch in Cyprus into Resolution is subject to a legal challenge by the Bank, as it lacks a basis in law. You are probably aware that the cumulative criteria required by Cyprus's Resolution Law simply did not exist at the time of the CBC's hasty and short-sighted decision to take possession of the branch. The CBC failed

to consider credible alternatives to a sale of the branch, and refused to consult with either FBME's home regulator in Tanzania or the Bank's shareholders, its board or management prior to taking its draconian decision (and the Bank was highly liquid and healthy as it continues to be to-date). Instead, CBC proceeded on a vindictive and destructive course against FBME.

What is equally astonishing is that the CBC now seeks not only to liquidate the branch in Cyprus but the legal entity itself in Tanzania, a piece of hubris that beggars belief. No doubt there are compelling reasons why individual CBC officials would be massively relieved to see the end of FBME, hoping in this way to cover their tracks, but there is absolutely no legal justification for the measure and it only points up the weak and desperate nature of their actions.

FBME in Cyprus

By way of background, it is important to consider the contribution that FBME has made to Cyprus, its government and its people since the Bank was formed here in 1982. We came to Cyprus from Lebanon and pioneered the creation of an international banking sector in the country that has subsequently attracted many international banks to set up presence. At one point almost 40 international banks and representative offices had presences on the Island.

In the succeeding 33 years, FBME has made a significant financial contribution through salaries and social insurance, the contribution of taxes, and the payment for local goods and services. Since the formation of FBME in 1982, it is estimated that the value of this has approached the equivalent of EUR 500 million and the Bank was one of the 20 largest taxpayers in the Republic. At one swipe of the CBC's pen this is now in danger of being lost.

We have played a role in the development of Cyprus in other ways. As the financial meltdown of Cyprus first hit in 2013, when no help came from other financial institutions, local or foreign, FBME stepped in and bought Cyprus's treasury bills to provide much-needed liquidity of EUR 240 million. As you know, there has been a disgraceful attempt in some circles to portray this investment in terms of partisan politics. However, the truth is that when your government came to power we continued this investment and only redeemed the bills in an orderly and responsible manner once alternative funding was in place. On the part of FBME this was a wholly commercial transaction, and elicited the gratitude in writing of the Finance Minister. In 2014, the Bank was considering then the provision of additional financial support to the Republic of Cyprus under your Presidency, as well as making available increased credit to the Cypriot private sector of EUR 100 million to support exports. All this fell to water in July 2014!

Following the Mari explosion, it was FBME again that came to help by investing EUR 30 million in the Electricity Authority to help it fund the desperately needed restoration of electricity supply. Furthermore, FBME became a market maker in Cyprus government financial paper and has helped attract other institutions to the Island. We believe that we are justified in speaking of our accomplishments in Cyprus in this way, because of what has been thrown back in our faces by a small cabal of CBC officials, who seek the death of a healthy bank, first in Cyprus and since last week in Tanzania.

In this context, I should also mention that over the years, the CBC has not identified any single transaction of money laundering at FBME, because there simply hasn't been any.

Actions against international law

The actions taken by the CBC against the FBME branch are not in line with EU initiatives,

directives and law, or with the laws of Cyprus. They also run contrary to the Lebanese-Cyprus Treaty of 2002 on the mutual protection of investors, the very agreement of which the CBC has now fallen foul. The Republic will be liable for this at the ICC's arbitration court in Paris, opening the door to potential compensation payments of hundreds of millions of euros. It goes without saying that other investors will have taken note, as have international governments as I am sure you know.

The tide of international legal processes is against the CBC. In France, the ICC tribunal has rejected the Republic's arguments over jurisdiction and has passed on to the final phase: namely, the examination of FBME's beneficial owners' claims. In the USA, American courts have sent FinCEN back to re-examine its allegations and evidence. As you will know from former Attorney General Mr Alecos Markides, the FinCEN Final Rule is now the subject of a remand by which the agency has reopened its rulemaking process. A new Final Rule or Court Decision is expected to be issued in the first half of 2016.

In other words, Mr President, the CBC action in revoking the license of FBME's branch is exceedingly ill-timed, arousing suspicions as to the ulterior motives of CBC officials. We understand that this is the way it is being seen both in Cyprus and abroad. This same action raises more questions about the CBC than it answers. The timing and nature of the CBC revocation look designed to try to snap off the rule of law and the implementation of justice, and it will fail.

There are other major issues concerning the conduct of the CBC that we bring to your notice:

- The CBC's motives in taking possession of FBME's Cyprus branch in July 2014 is seen as an avaricious expropriation made to further CBC's own interests at the cost of those of depositors and shareholders and in breach of Cyprus's obligations under international law;
- The treatment of FBME's home regulator, the Bank of Tanzania, has shocked international commentators and, once more, international agreements and MOUs have been trashed by the CBC in actions such as the attempt to initiate a wholesale liquidation of the Bank;
- The failure by the CBC to properly administer the Republic's Deposit Protection Scheme (DPS) and its illegal attempt to use the funds of FBME's depositors to pay for their own DPS, are compounded by the CBC embarrassing itself by proposing this course of action to the home regulator;
- The treatment of the Bank and its shareholders before the judiciary of Cyprus, which has led to a failure by both judicial and governmental authorities to ensure that the Bank is fairly treated in the face of short-term objectives that benefit only minority interests;
- The commission of both civil and criminal offences by the CBC, such as the misuse of Bank funds for illegitimate purposes, for which there is ample evidence.

The CBC's decision to revoke the FBME branch license in Cyprus will be self-defeating for the Republic because it will only exacerbate the damages to the country and Cypriot taxpayers when a decision is rendered by the Arbitral Tribunal of the ICC in Paris. This could have been avoided if the CBC would have agreed to discuss ways of mitigating the losses so far created, such as assisting in the movement of Cyprus branch assets and liabilities to Tanzania, for which FBME client appetite was positive.

Calls for investigating CBC officials

These are serious matters and need to be properly investigated. Such an investigation was started earlier this year in the House of Representatives, the members of which august body sought to question these same CBC officials on their motivations regarding the assault on FBME. It is barely credible in a modern democracy that these investigations floundered on

the refusal of public officials to cooperate with their elected masters, an anti-democratic act in which the Attorney General himself took a role. Mr President, as I am sure you will agree this has huge implications for the Republic, the people's representatives and the organs of government.

Who are the responsible parties? While reference is made above to the CBC, it is the smaller grouping of the Resolution Authority, an independent legal entity though steered by the CBC management and board, which ultimately bears the opprobrium for these actions. On the implications of the lack of separation between the CBC and the Resolution Authority I refer to the recent open letter to you from our counsel, Mr Alecos Markides.

I write to you in the knowledge, Mr President, that you yourself have made public pronouncements on the capability and integrity of appointed officials at the CBC. As the guardian of the reputation of the Republic, its standing in international circles and the wider interests of the people of Cyprus, you must be concerned at the behaviour of those who claim to act in the country's behalf.

I wonder also if the arguments from FBME have been properly presented to you. Mr President, are you aware that we have made repeated offers to the CBC to mitigate the harmful situation in which we all find ourselves? We have offered to meet directly to discuss a way out of this impasse and I repeat this offer even at this late stage, and thereby find a workable solution which will be in the interests of all concerned. Such solution could include:

1. Enabling the movement of the Cyprus Branch assets and liabilities to Tanzania.
2. Delaying any further draconian action by the CBC until the outcome of judicial proceedings in USA and arbitration proceedings in France has been concluded.

Serious damage has been done. We should seek urgently and effectively to ensure that no more follows.

Ayoub-Farid M Saab
Chairman

CC:

- President of House of Representatives – Yiannakis Omirou
- Parliamentary Ethics Committee members
- European Central Bank – Mario Draghi
- European Commission – Jean-Claude Juncker
- Averof Neophytou – Head of the DISY
- Andros Kyprianou – Head of AKEL
- Nicolas Papadopoulos – Head of DIKO
- Marinos Sizopoulos – Head of EDEK
- Dimitris Sylouris – Head of European Party
- George Perdikis – Head Green Party