

## **Holding Banks Accountable in Large-scale Corruption Cases Lebanon: Bank Al-Madina case and beyond**

*Good morning everyone,*

It is an honor for me to be here at the Global Expert Group Meeting and to speak in front of such an exceptional expert group. I would like to thank the UNODC for the invitation to speak and their very well-organized meetings. Also, a warm thank you for Norway, a lovely and warm hearted country, as her Excellency the Norwegian Minister of Foreign affairs mentioned.

Ladies and gentlemen, my short intervention, (5 minutes as Samuel instructed!) will highlight a large-scale case of corruption through a Lebanese incorporated bank – Bank al-Medina - that involved bribery, embezzlement of large amounts of funds and money laundering schemes for the benefit of political figures, which, but for the Central Bank of Lebanon's intervention and exceptional measures, could have had huge negative impact on depositors and possible financial stability and reputational risks on the sector. I will also briefly tackle, post-Madina case, controls that were put in place in terms of legislation and regulation.

*Starting with some background,*

- Bank Al-Madina was a duly licensed bank under the supervision of the Central Bank of Lebanon. It was only a year following the detection of the case that the Lebanese AML law was issued and the Madina bank had to comply with its requirements and undergo supervision by the FIU.
- It is important to note that the bank was owned in its majority by 2 brothers who interchangeably acted as CEO of the bank (the Ayash brothers). It was later discovered that several senior managers were related politically, and were channeling the funds, to numerous foreign corrupt officials.
- In the beginning of 2000, (so a year before Lebanon issued its AML law), the Central Bank, detected several unusual F/X transactions made by the bank. Accordingly, the prudential supervisor was requested to further investigate such activities and which revealed major infringements by the bank and the performance of non-banking operations. Even though the bank's CEO committed in writing to rectify the matter; however, no positive actions were taken by the bank; on the contrary, additional suspicious activities and speculative operations continued.

- Bank Al Madina even tried to mislead the banking supervisor by using forged balance sheets and reportings, thus reflecting a fraudulent image of the bank.
- Additionally, the Central Bank detected fake credit accounts held with correspondent banks outside Lebanon, used to cover up fraudulent transactions, demonstrating the large scale theft that was being done at the bank, i.e. defrauding depositors and stealing the funds for their own benefit and for the benefit of other influential politicians, local and foreign.

*Some of the key actions taken by the Central Bank and other relevant authorities included:*

- The Board of the FIU lifting the banking secrecy (a law that exists since 1963 and covers all bank accounts in Lebanon) and the freezing of assets, including all the accounts of all senior managers, as well as other related individuals, in all the Lebanese banks, in favor of the judiciary, in order to guarantee the repayment of deposits. This came following an FIU report that confirmed suspicious activities by the bank that fall under the AML/CFT law (at the time corruption was still not a predicate offense), namely embezzlement of funds in millions of US dollars and in local currency, using false documentation to cover up for the theft and taking on lots of unregistered liabilities.
- The Higher Banking Quasi-judicial Committee convened numerous (at least 38 times) to discuss the bank's situation following up closely on the bank's activities. It took various decisions including the removal of its Board and the appointment of temporary administrator who works under the direction of this Banking Committee and who was also granted the powers of the shareholders.
- The bank itself, through its appointed temporary manager, filed criminal charges, some of which are still pending, against the senior management of the bank, several of its employees and the auditor at the time who conspired in the money laundering schemes, which resulted in some cases in imprisonment and the confiscation of assets that were ultimately used to pay the bank's good faith creditors including depositors.

*In terms of reforms post Bank Al-Madina and due to the latest international developments,*

such as the amendments of the EU AML Directive, the changes to FinCen's CDD Rule, the OECD standards for the exchange of information for tax purposes, the implementation of the UN Convention against Corruption, and the introduction of corruption and governance as part of the IMF article IV missions, legislative and regulatory changes had to be introduced to ensure that the banking sector remains in compliance with these developments. Most importantly because the country is highly exposed to foreign currencies (it is 70% dollarized), it would be suicidal for the country not to comply with these requirements and risk that our correspondent

banking relationships come to an end. All these new requirements are being requested by correspondent banks, namely in relation to ABC policy implementation by banks. This is obvious in the new Wolsberg questionnaire whereby an extensive separate section on anti-bribery and anti-corruption was introduced.

*Have said that, some of the regulatory amendments that were introduced in Lebanon, which we believe helps decrease the risk of corruption through the banking and financial sector, included:*

- A special law in 2008 extending the FIU's mandate to cover corruption enabling it to freeze the assets of corrupt persons. In addition to including corruption as predicate offense in the AML Law.
- The Central Bank amendment of its AML regulation to include (i) the assessment of a country in terms of risk of corruption when adopting a risk-based approach to classify the bank's transactions and clients, (ii) the definition and identification method for beneficial ownership, and (iii) the definition of the notion of PEP. Also, a Central Bank directive was issued regulating the compliance governance structure within bank, which should *inter alia* focus on ABC compliance pursuant to ABC guidelines issued by the Association of banks to guide banks in drafting their policies and implementing them.
- The Lebanese Commercial Code was also recently amended to create a beneficial ownership registrar.

*Finally,*

It goes without say that empowering banking supervisors and providing them with legal protection, necessary resources, training them, and strengthening cooperation with the national and international relevant agencies would assist in effectively combatting corruption through the use of banks.

**Thank you**