

May 28, 2012

Governor Riad T. Salamé
Banque du Liban
Masraf Lubnan Street
P.O. Box 11-5544
Beirut, Lebanon

Re: Lebanon Operates as a Sovereign Money Laundering Enterprise/The Fraudulent Scheme to Support Lebanon's Sovereign Backed Securities/The Central Role of Banque du Liban in the Fraud/Determination Under Section 311 of the USA PATRIOT Act

Dear Governor Salamé,

This letter responds to your letter of February 24, 2012¹ and the correspondence and “Basic Circular” that you sent to me on April 4, 2012.²

Our team at United Against Nuclear Iran (“UANI”) was surprised by the statements contained in your letter that appear either to be ill-informed or demonstrably false and misleading. Upon receipt of your correspondence, UANI has undertaken a thorough review and analysis of the activities of Banque du Liban (“BDL”), Lebanon’s central bank, and the Lebanese banking system (“LBS”) both in the public record and through confidential sourcing. Based on the analysis that we describe to you in the below and the attached, UANI has serious concerns regarding the legitimacy of BDL, the LBS and your role as the Governor of the BDL.

Introduction

As a result of the actions and omissions of BDL and the LBS, Lebanon has become a sovereign money laundering jurisdiction that receives massive inflows of illicit deposits. Those illicit monies are generated from Hizballah terror and criminal activities, and the illicit symbiotic relationships among Iran, Syria and Hizballah that is founded on terrorism, the material support of terrorism, and weapons transfers, including as related to weapons of mass destruction. Building upon a foundation of such massive inflows of illegitimate monies, Lebanon has portrayed a false image of economic legitimacy and stability to global markets, particularly as related to its sovereign bonds and related securities including the credit default swaps (“CDS”) that “insure” those bonds. In fact, the real picture of Lebanon and its sovereign backed securities reveals a fraud and market manipulation that is used by Hizballah, BDL and the LBS to continue

¹ See attached Exhibit “A”.

² See attached Exhibit “B”.

money laundering on a massive scale. Attached to this letter, we provide a detailed economic analysis in a presentation that describes this fraud.³ In addition, we seek clarification on the apparent gross misstatements and omissions contained in your letter of February 24, 2012. Finally, we assert that BDL and the LBS meet the criteria for determination under Section 311 of the USA PATRIOT Act of 2001 (“USA PATRIOT Act”) as a jurisdiction of primary money laundering concern that would result in their ban from the U.S. financial system.

Background

As you know, Hizballah remains “the most prominent and powerful terrorist group in Lebanon.... The Lebanese government continue[s] to recognize Hizballah ... as a legitimate ‘resistance group’ and political party. Hizballah maintain[s] offices in Beirut and military-style bases elsewhere in the country.”⁴

Hizballah remains the most technically-capable terrorist group in the world and a continued security threat to the United States. Hizballah is responsible for some of the deadliest terrorist attacks against Americans in history, and the United States has designated it as a Foreign Terrorist Organization since 1997.⁵

Hizballah is the dominant military power in Lebanon, and its actions, militarily, are Lebanon’s.

One need only look to the disastrous 2006 conflict, precipitated by Hizballah’s kidnapping of Israeli soldiers from across the Blue Line in indisputably Israeli territory, to see that its arms and aggressive action are a source and motivator for violence in the immediate region.... In the 2006 case, Hizballah, without consultation or approval of even its electoral allies, unilaterally chose to take actions that dragged the country into an agonizing and destructive conflict.⁶

Despite the devastating effects of its 2006 war with Israel and the 2008 domestic conflict in Lebanon, which Hizballah initiated, Hizballah remains today one of the best armed and most dangerous militias in the world. Its capabilities exceed those

³ See attached Exhibit “C”.

⁴ U.S. State Department, [Country Reports On Terrorism 2010](#) (September 18, 2011).

⁵ [Testimony](#) of Ambassador Jeffrey D. Feltman, Assistant Secretary of State for Near Eastern Affairs and Ambassador Daniel Benjamin, Coordinator for Counterterrorism, Senate Foreign Relations Subcommittee on Near Eastern and South and Central Asian Affairs (June 8, 2010); On October 8, 1997, the U.S. Department of State designated Hizballah as a Foreign Terrorist Organization pursuant to Section 219 of the Immigration and Nationality Act, codified at Title 8, United States Code, Section 1189. See 62 Fed. Reg. 52650 (Oct. 8, 1997); On October 31, 2001, the Secretary of State identified Hizballah as a specially designated global terrorist pursuant to Executive Order 13224 because it had committed, or posed a significant risk of committing, acts of terrorism that threaten the security of U.S. nationals or the national security, foreign policy, or economy of the United States. See 67 Fed. Reg. 12633 (Mar. 19, 2002); On April 23, 2007, the U.S. Department of State issued a determination that Hizballah had engaged in activities warranting the imposition of measures pursuant to the Iran and Syria Nonproliferation Act (currently the Iran, North Korea, and Syria Nonproliferation Act, codified as amended at 50 U.S.C. § 1701 note), which provides for penalties on foreign persons and entities for the transfer to or acquisition from Iran since January 1, 1999, or the transfer to or acquisition from Syria since January 1, 2005, of equipment and technology controlled under multilateral export control lists or otherwise having the potential to make a material contribution to the development of weapons of mass destruction or cruise or ballistic missile systems. See 72 Fed. Reg. 20158 (Apr. 23, 2007).

⁶ Testimony of Feltman and Benjamin (June 8, 2010).

of the legitimate Lebanese security services and the United Nations Interim Force in Lebanon (“UNIFIL”).⁷

Hizballah has received the close attention of the international community through the United Nations (“UN”) which has issued two Security Council resolutions calling for its disarmament.⁸ To this day, Hizballah defies those resolutions.

[Hizballah] receives training, weapons, and explosives, as well as political, diplomatic, monetary, and organizational aid from Iran; training, weapons, diplomatic, and political support from Syria; and funding from private donations and profits from legal and illegal businesses.⁹

Hizballah is as strong as ever having rearmed after the 2006 war.

As Lebanon has no domestic arms industry, this would have undoubtedly been accomplished by means of smuggling activity via Syria and Iran. In 2008 alone, Iran provided hundreds of millions of dollars to Hizballah and trained thousands of Hizballah fighters at camps in Iran.¹⁰

However, Hizballah has diversified its income to supplement the money that it receives from Iran.

While Iran continues to provide a significant portion of Hizballah’s funding, Hizballah has also broadened its sources of financial support in recent years. Hizballah is now heavily involved in a wide range of criminal activity, including the drug trade and smuggling.¹¹

Hizballah’s network of financial support knows no borders, with active operations in many places around the globe, including Africa, the Middle East, Europe and Latin America.¹² Just recently, Hizballah’s insidious activities were felt by diplomatic missions abroad in Thailand,¹³ Azerbaijan,¹⁴ India and Georgia.¹⁵

⁷ Id.

⁸ See United Nations Security Council Resolutions [1559 \(2004\)](#) and [1701 \(2006\)](#).

⁹ [United States of America v. Lebanese Canadian Bank SAL, et al.](#), 11 Civ. 9186, at p. 17 (December 15, 2011).

¹⁰ Testimony of Feltman and Benjamin (June 8, 2010).

¹¹ [USA v. LCB, et al.](#) at 19.

¹² Id.; [The New York Times](#), “U.S. Sues Businesses It Says Helped Hezbollah,” (December 15, 2011); [CBC News](#), “Argentina Charges Iran, Hezbollah of 1994 Jewish Centre Attack,” (October 25, 2006); [BBC News](#), “Iran Charged Over Argentina Bomb,” (October 25, 2006); [Los Angeles Times](#), “Fears of Hezbollah Presence in Venezuela,” (August 27, 2008); [Remarks](#) by Robert M. Morgenthau at the Brookings Institution (September 8, 2009); [Testimony](#) of Douglas Farah, Senior Fellow at the International Assessment and Strategy Center and Adjunct Fellow at the Center for Strategic International Studies, Senate Subcommittee on Western Hemisphere, Peace Corps and Global Narcotics Affairs (February 16, 2012).

¹³ [The Guardian](#), “Thailand Arrests Hezbollah Suspect After Terror Tipoff,” (January 13, 2012); [Reuters](#), “Bomb Material Found in Thailand After Terror Warnings,” (January 16, 2012); [MSNBC](#), “Thailand: Iranians Planned Terror Attack on Israeli Diplomats,” (February 16, 2012).

¹⁴ [Haaretz](#), “Azerbaijan Thwarts Terror Attack Against Israeli, Jewish Targets,” (January 23, 2012); [Al Arabiya](#), “Azerbaijan Arrests Suspected Attack Plotters with Ties to Iran and Hezbollah,” (February 21, 2012); [JTA](#), “Azerbaijan Arrests Terror Suspects Linked to Hezbollah, Iran,” (February 22, 2012); [AFP](#), “Azerbaijan Arrests Iran Backed Attack Plotters,” (March 14, 2012).

Hizballah attempts to hold itself out as a legitimate Lebanese political party that is dominant in Lebanese politics. Yet, “despite the group’s rhetoric and political campaigning, there remains today no meaningful distinction between the military and political wings of Hizballah, as Hizballah’s own leaders regularly acknowledged publicly. . . .”¹⁶ The United States, European Union and others have sanctioned various affiliates of Hizballah for their support of terrorist activities and the financing that supports Hizballah’s activities. The United States has taken steps to sanction “Bayt al-Mal and the associated Yousser Company, which together function as Hizballah’s unofficial treasury, holding and investing its assets and serving as intermediaries between Hizballah and the mainstream banks.”¹⁷

Hizballah’s Bulk Cash Smuggling into Lebanon from Criminal Activities and Iran

Hizballah’s illicit support in cash and cash proceeds from criminal activities are systematically generated in and/or transferred to Lebanon. “The cash is often moved through bulk cash smuggling. . . . Hizballah members and supporters facilitate the smuggling of cash.”¹⁸ The recent civil forfeiture proceeding brought by the U.S. Attorney for the Southern District of New York against the Lebanese Canadian Bank (“LCB”) and related parties detailed a stunningly open system for the criminal smuggling of cash into Lebanon.

Ayman Joumaa’s drug-trafficking organization transports, distributes and sells multi-ton bulk shipments of South American cocaine through West Africa. Joumaa and his organization operate in Lebanon, West Africa, Panama and Colombia, and launder proceeds from their illicit activities, as much as \$200 million per month, through various channels, including *bulk cash smuggling operations* and Lebanese exchange houses. Joumaa’s organization uses, among other things, Hizballah couriers to transport and launder narcotics proceeds. Joumaa’s organization pays fees to Hizballah to facilitate the transportation and laundering of narcotics proceeds. For example, Joumaa’s organization sends *bulk cash shipments through the Beirut International Airport, and pays Hizballah security to safeguard and transport the cash to its recipient.*¹⁹ [emphasis added]

The LCB Complaint describes the Beirut International Airport as a cash smuggling hub for Hizballah.

The Ghanaian Customs, Excise, and Preventive Services recorded approximately \$1.2 billion in declared United States currency imported across the Lome border crossing in 2007 and 2008. Approximately \$845 million of this was declared by Lebanese nationals. From Accra, the cash is often flown to Beirut. *Hizballah*

¹⁵ [YNet](#), “Israeli Missions in India, Georgia Targeted,” (February 13, 2012); [Jerusalem Post](#), “Attacks target Israeli Embassies in Georgia, India,” (February 13, 2012); [Reuters](#), “Israel Blames Iran After Attacks on Embassy Staff,” (February 13, 2012); [The Guardian](#), “Israel Accuses Iran of Attacks in Delhi and Tbilisi,” (February 14, 2012).

¹⁶ Testimony of Feltman and Benjamin (June 8, 2010).

¹⁷ [Testimony](#) of Adam J. Szubin, Director, Office of Foreign Assets Control, U.S. Department of the Treasury Before the Senate Committee on Banking, Housing and Urban Affairs (September 12, 2006).

¹⁸ [USA v. LCB](#), et al. at 3.

¹⁹ *Id.* at 21.

*security facilitates the receipt of cash flown into the Beirut International Airport. For example, money couriers are sometimes instructed over the public address system to deplane first, and are escorted to private rooms in the airport where the cash would be received.*²⁰ [emphasis added]

In February of 2011, the U.S. Attorney for the Southern District of New York in the matter of United States v. Maroun Saade, et al. brought attention to a cocaine and heroin smuggling operation that involved the Taliban and Hizballah. Among the startling information contained in this action was its reference to the large scale cash smuggling operation into Lebanon. The U.S. Attorney described Saade as:

[A] member of the Free Patriotic Movement, a Lebanese Christian organization allied with Hizballah, and has provided services to Hizballah members engaged in narcotics trafficking and bulk cash smuggling in West Africa. Saade is a close associate of Oussama Salhab, a Hizballah operative who, among other things, controls a *network of money couriers who have transported millions of dollars in cash from West Africa to Lebanon.*²¹ [emphasis added]

Of course, illicit cash inflows into Lebanon require laundering and deposit into the LBS for Hizballah to effectively manage and deploy such monies across its global web of associates. The LCB Complaint details the willingness of the LBS (in this case LCB) to receive large scale cash deposits with no questions asked. The LCB Complaint describes such cash deposits including up to \$200,000.00 per day at certain branches of the LCB.²²

Iran is the Source of Significant Financial Inflow into Lebanon

Iran's role in Hizballah is no secret, but just in February of this year did Hizballah's leader Hassan Nasrallah acknowledge that Hizballah was financially supported by Iran.²³ That support is reported to be at least hundreds of millions of dollars per year and we believe much more based on the information contained herein.²⁴ Iran's support is the keystone by which Hizballah has built its dominant presence in Lebanon and avoided the economic stranglehold of U.S. and EU sanctions. "Of course, one cannot hope to apply effective financial pressure against a group like Hizballah so long as it maintains massive inflows of cash from a state sponsor of terrorism, in this case the Iranian Government."²⁵

Just a few days ago, the international press trumpeted the proud role that Iranian financial supports plays in Hizballah's Lebanon.

The Islamic Republic of Iran recently offered to build a dam in this scenic alpine village, [Tannourine], high in the Christian heartland of Lebanon. Farther south, in the dense suburbs of Beirut, Iranian largess helped to rebuild neighborhoods

²⁰ Id. at 42.

²¹ Id. at 21-24; United States of America v. Maroun Saade, et al., 11 Cr. 111, (February 14, 2011).

²² USA v. LCB, et al. at 31.

²³ Hurriyet Daily News, "Iran funds Hezbollah, leader Nasrallah admits," (February 9, 2012).

²⁴ Foreign Affairs, "Hezbollah: Party of Fraud, How Hezbollah Uses Crime to Finance its Operations," (July 27, 2011).

²⁵ Testimony of Adam J. Szubin (September 12, 2006).

flattened six years ago by Israeli bombs an achievement that was commemorated this month with a rollicking celebration. “By the same means that we got weapons and other stuff, money came as well,” the Hezbollah leader, Hassan Nasrallah, exclaimed to roars of approval from the crowd. All of this has been achieved through Iranian money!”²⁶

Iran’s eagerness to shower money on Lebanon when its own finances are being squeezed by sanctions is the latest indication of just how worried Tehran is at the prospect that Syria’s leader, Bashar al-Assad, could fall....

Iran’s ardent courtship of the Lebanese government indicates that Tehran is scrambling to find a replacement for its closest Arab ally, politicians, diplomats and analysts say. It is not only financing public projects, but also seeking to forge closer ties through cultural, military and economic agreements.

They are trying to reinforce their base in Lebanon to face any eventual collapse of the regime in Syria, said Marwan Hamade, a Druse leader and Parliament member, noting that a collapse would sever the umbilical cord through which Iran supplied Hezbollah and gained largely unfettered access to Lebanon for decades.

Hezbollah has developed into being a beachhead of Iranian influence not only in Lebanon, but on the Mediterranean trying to spread Iranian culture, Iranian political domination and now an Iranian economic presence, Mr. Hamade said.

“The Iranians say, ‘If you want factories, I am ready, if you want some electricity, I am ready,’ and they do not ask for any price in return,” said Hassan Jishi, the general manager of Waad, the organization that rebuilt the southern suburbs. (The name means “promise” in Arabic, referring to Mr. Nasrallah’s promise to reconstruct the area.) It cost \$400 million to build apartments and stores for about 20,000 people, Mr. Jishi said.

Half the money came from Iran, Mr. Nasrallah said in his speech....

“We owe a special thanks to the leaders of the Islamic republic of Iran, to the government, to the people, because without Iranian funding, we could not even have begun to achieve what we did,” Mr. Nasrallah said....

A prominent Christian politician trying to one-up his rivals asked the Islamic republic for \$40 million for the dam, and Iran agreed last December, provided an Iranian company built it. Most of the solidly Christian area’s population was horrified by the prospect that the Iranians would move in, said Mr. Torbay, most likely bringing their mosques, their wives and perhaps even their missiles. Many suspect that some company with links to the Islamic Revolutionary Guards Corps will get the contract.²⁷

²⁶ [The New York Times](#), “Iran Is Seeking Lebanon Stake as Syria Totters,” (May 24, 2012).

²⁷ [Id.](#)

Of course, the diverse Lebanese society has chafed under the dominion of Hizballah and the nefarious influence of Iran.

The challenge for Iran's leaders is that many Lebanese including the residents of Tannourine, the site of the proposed hydroelectric dam squirm in that embrace. They see Iran's gestures not as a show of good will, but as a stealth cultural and military colonization.... In Lebanon, a nation of various religious sects, many interpret Iran's reference to "Muslim" as solely "Shiite Muslim." Hezbollah insists that that is not the case and that the money comes with no strings attached and is for the good for all Lebanese.... The Lebanese have largely accepted that Iran serves as Hezbollah's main patron for everything from missiles to dairy cows. But branching out beyond the Shiites of Hezbollah is another matter.²⁸

Given the large-scale nature of the illicit finances that support Hizballah from Iran's backing and the inflow of other illicit funding, the transacting of that support has to be facilitated by financial institutions – Lebanese banks. Ultimately, the vast majority of these illicit funds are laundered by Bayt al-Mal, Hizballah supporters, front companies and businesses into the Lebanese financial system including and primarily its banking system.²⁹ But what was once a mechanism for providing financial support for Hizballah has also become a symbiotic financial relationship that allows Iran to evade the growing crush of international sanctions and the possible loss of its brutal ally, Bashar al-Assad in Syria.³⁰ Now, the Lebanese banking system also provides the means by which Iran transacts funds transfers to ensure the dependability of its Hizballah proxy in order for Iran to evade the effects of sanctions and the growing international banking blockade against the regime.

Hizballah and Iranian Monies Laundered into Lebanese Sovereign Bonds

By traditional economic indicators Lebanon's economy is in shambles. Lebanon suffers from an extraordinarily high level of debt and extremely high debt to GDP ratio.³¹ For example, while Lebanon's GDP is around \$40 billion, roughly equivalent to Uruguay, Lithuania, Costa Rica or Ghana, its sovereign debt is \$53.8 billion – the fourth largest debt to GDP ratio (137% as of December 2011) in the world.³² The obvious risk of sovereign default is great – unless there is a fraudulent hidden scheme driven by Hizballah and its state sponsors, Iran and Syria, to support this economic house of cards. There is exactly such a scheme.

Lebanon has consistently struggled to service its debt as the country's underlying growth continues to decline.³³ Lebanon has struggled to no avail to reduce its budget deficit which is particularly difficult given its large trade deficit.³⁴ Compounding these difficulties is Lebanon's

²⁸ *Id.*

²⁹ See *infra* section "Hizballah Monies Laundered into Lebanese Sovereign Bonds."

³⁰ [The New York Times](#) (May 24, 2012).

³¹ See Ex. "C" at 8.

³² *Id.* at 9.

³³ *Id.* at 10.

³⁴ *Id.* at 11-12.

underlying growth is in decline.³⁵ As a result of all these factors and others such as Lebanon's tenuous politics, credit rating agencies are skeptical of Lebanon. By way of example, Moody's rates Lebanon B1.³⁶ Countries with similar bond credit ratings to Lebanon have higher sovereign bond yields and higher CDS yields, demonstrating a higher risk of sovereign default.

Yet, Lebanon incongruously supports a stable and outsized banking system and sovereign debt market. Lebanon's historic cost of debt has previously been much higher than it is currently. Lebanon's cost of debt in 2006 and 2007 was much higher (approximately 9%) than it is today (between 5% and 6%).³⁷ Despite these adverse economic issues, Lebanon's sovereign bonds trade at tight spreads. Lebanese sovereign bonds trade at high cash prices reflecting spreads even lower than applicable CDS³⁸ spreads³⁹ with no rational economic explanation – except because of the backing of the money laundering described herein. Lebanese sovereign bond related CDS trade at very low premiums that are difficult to justify.⁴⁰

The irrational strength of Lebanese sovereign bonds corresponds with same time period of increased sanctions pressure against Iran. Iran has sought to avoid sanction pressure by directing more and more support to Hizballah to ensure the stability of its key proxy, and to ensure a financial outlet. Coupled with Hizballah's criminal activities (and the flight of some capital from Syria), the result is vast inflows of deposits into the LBS.⁴¹ As a result, with all economic indicators pointing to a serious risk of sovereign default, Lebanon's currency and banking system act like the currency and banking system of a far more successful sovereign.

Notably, the illicit Hizballah cash inflows into Lebanon have been gradually increasing coincidental with the rise of sanctions against Iran and as Syria falters.⁴² Once laundered into the LBS as bank deposits, the Lebanese banks pay relatively high interest rates and the deposits have to be put to work by the LBS to earn income for the banks.⁴³ Among other illicit activities, the LBS utilize these deposits to purchase Lebanese sovereign bonds. The LBS's large-scale purchases of Lebanese sovereign debt effectively price support and stabilize what would otherwise be a far more volatile security. The market effect is that Lebanese sovereign bonds and its central banking system are artificially stabilized.⁴⁴ Given the size of this financial support, such support can only come from either or both of illicit activities and a state actor – namely Iran.

Lebanon uses the massive cash inflows of criminal funds and Iranian support to fraudulently prop up Lebanon's struggling economy and to manipulate the market for its sovereign debt and the securities that "insure" that debt. Simply put, Hizballah cash is laundered

³⁵ *Id.* at 13.

³⁶ *Id.* at 15.

³⁷ *Id.* at 16.

³⁸ According to Bloomberg, credit default swaps ("CDS") are a financial swap designed to transfer the credit exposure of fixed income products between the parties. The buyer of a CDS receives credit protection and the seller of the swap guarantees the credit worthiness of the debt security.

³⁹ See attached Ex. "C" at 17.

⁴⁰ *Id.* at 18-19.

⁴¹ *Id.* at 22.

⁴² *Id.* at 23-25.

⁴³ *Id.* at 22-25; According to [BDL](#), Lebanese commercial banks' savings accounts have an interest rate of 2.59% and checking and current accounts have an interest rate of 0.91% (March 2012).

⁴⁴ *Id.*

into the LBS, whose institutions purchases Lebanese sovereign debt, thereby manipulating the yield on such securities to appear far more stable and resistant to default. Lebanese sovereign bonds (and related CDS) are a product of a sovereign money laundering scheme.⁴⁵

Based on the foregoing, the LBS can no longer be seen as a legitimate and independent banking system. The LBS is a fraud. Though the Lebanese banking system was once a great and well regarded sovereign banking system, it has evolved into a state-sponsored money laundering enterprise that enables the hidden large scale infusion of criminal and Iranian funds into Lebanon. The focal point of the fraudulent Lebanese banking system centers on BDL.

1. How can BDL explain the mismatch between the weak Lebanese economy and its artificially stabilized sovereign debt?
2. How can BDL rationalize the enormous inflow of cash deposits? And which coincides with the increase of sanctions against Iran?
3. How can BDL deny the strong financial bonds between Iran and Hizballah?

As you know Lebanese sovereign bonds are offered as a security for sale in the United States subject to the rules of the United States as well as other jurisdictions where such debt is offered. The manipulation of Lebanese sovereign-backed securities and their fraudulent underpinnings violates a variety of U.S. securities laws. As a result of the foregoing, the various credit rating agencies should issue a “no rating” for Lebanese sovereign debt.⁴⁶ Moreover, all holders of Lebanese sovereign debt and related securities should divest their ownership of such fraudulent securities.⁴⁷

The statements contained in your letter of February 24, 2012 are not credible.

As you know, in the wake of UANI’s successful SWIFT campaign, UANI wrote to you on February 20, 2012 to “express our concern regarding banking and banking services institutions based in Lebanon...” We wrote then as we feel now that “[g]iven the insidious influence of Hezbollah in Lebanese financial institutions including banks and money exchanges, Lebanon and the Banque du Liban have a higher duty to the international banking community to demonstrate that they are not complicit – knowingly or unknowingly – in facilitating Iran’s effort to avoid international sanctions.”⁴⁸

On February 24, 2012, you responded:

First, I highlight that Banque du Liban, the central bank of Lebanon, *does not have any financial relationship with the Iranian central bank, Bank Markazi. Furthermore, none of the Lebanese banks and financial institutions has financial relationships with Iranian financial institutions.* There are no Iranian banks in Lebanon except for one branch of an Iranian bank that operates on the

⁴⁵ Id. at p. 26.

⁴⁶ Id. at 28.

⁴⁷ Id. at 29 for a list of American holders of Lebanese sovereign debt.

⁴⁸ See attached Exhibit “D”.

Lebanese territory since the 1960s, Bank Sadirat Iran, and which is supervised, as all banks operating in Lebanon, by the Banking Control Commission and the Special Investigation Commission (Lebanon's Financial Intelligence Unit). The said branches balance sheet totals to a mere USD 135 million with a relatively low volume of transactions and, more Importantly [*sic*], has no interbank operations.⁴⁹ [emphasis added]

As we have detailed in this letter, Iran systematically and massively financially supports Hizballah in Lebanon. There are only two mechanisms by which Iran can transact that support into Lebanon – via cash and/or bank transfers into the LBS. Moreover, even through cash smuggling, Iranian support is ultimately laundered through the LBS by Hizballah front companies, supporters or businesses. The same holds true for Hizballah's criminal activities, which also calls into question the legitimacy of the LBS. Accordingly, your denial of any relationship by and between the LBS and Iran is either false and misleading or informed to a degree that would reflect your willful neglect.

The statements in your letter of February 24th related to the LCB are also ill-founded:

On the other hand, Banque du Liban publically announced that it is directly supervising the transfer of the assets and liabilities of the Lebanese Canadian Bank to Societe Generale de Banque au Liban through an audit and vetting process undertaken by the Banking Control Commission, the Special investigation Commission (Lebanon's Financial Intelligence Unit) and three audit firms, among which are two of the big four international audit firms, Deloitte and Ernst and Young; noting that Societe Generale de Banque au Liban was closely monitoring the process. Moreover, we were continuously liaising with the United States Treasury Department regarding the matter and its consequences.... It is also worth noting that reference to 200 accounts is overstated since the issue relates to 37 customers whom the parties to the merger agreed, based on an utterly business decision, not to include in the deal.⁵⁰

Notwithstanding your declarations of progress related to the LCB matter, serious and basic questions remain unanswered:

1. In relation to the civil forfeiture action, U.S.A. v. Lebanese Canadian Bank et al., the United States Government ("USG") seeks to forfeit all assets of LCB and other parties. If the USG requests assistance from the Banque Du Liban or the Lebanese Government generally, will you provide such assistance? Specifically will you:
 - a. Assist in identifying and locating LCB assets, in Lebanon or elsewhere?
 - b. Assuming any LCB assets are located, assist in restraining and prevent the secreting of those assets during the course of the litigation?

⁴⁹ See attached Ex. "A".

⁵⁰ See attached Ex. "A".

- c. Assuming any LCB assets are located, assist in enforcing a final judgment against those assets?
 - d. Assist in obtaining relevant records from LCB or other banks?
2. What was the total purchase price paid by Societe Generale Banque au Liban (“SGBL”) in connection with its acquisition of LCB?
3. To whom were the monies price paid? Which individuals or entities have received any portion of the purchase price paid by SGBL? Where are those funds currently held?
4. What portion of the purchase price, if any, is still in the possession of LCB? Where are those funds currently held?
5. Reports indicate that certain bank accounts held at LCB were not acquired by SGBL, and were acquired by other banks. Why were certain accounts (the “Tainted Accounts”) not included in the sale?
6. What was the nature of the taint to the Tainted Accounts and who held those Tainted Accounts? What was their dollar amount?
7. Where are the Tainted Accounts now hosted and, if these accounts were closed, where did the monies in those accounts go?
8. Why is there a discrepancy between the number of Tainted Accounts between you on the one hand and the U.S. Attorney for the Southern District of New York and *The New York Times* on the other?
9. Aside from the accounts referenced in paragraphs 5 through 8 above, were any other LCB assets not acquired by SGBL? If so, please describe those assets. If so, who currently possesses those assets?
10. As part of the acquisition of LCB, did SGBL take on the outstanding liabilities of LCB?
11. What was the role of BDL in approving and/or financing the acquisition of LCB’s assets?
12. Please provide any reports of audits or investigations of LCB and SGBL in the possession of BDL.
13. Please provide any information in the possession of BDL regarding any other Lebanese banks that engaged in transactions with Ayman Joumma, Elissa Exchange or Hassan Ayash Exchange Company.
14. Please provide a summary of Lebanese bank secrecy laws with specific citations of legal authority and the limits they impose on the Lebanese bank’s ability to share information, either informally with private citizens or in response to judicial order or law enforcement request?
15. What action, if any, have you taken regarding the other LBS banks identified in the LCB complaint as Hizballah money launderers?

We remain specifically concerned at least about the following Lebanese banks in addition to our broader concerns about the LBS:

1. Blom Bank
2. Federal Bank of Lebanon
3. Syrian Lebanese Commercial Bank
4. Middle East and Africa Bank

Please describe what specific action you have taken related to these institutions in regard to their associations with Hizballah, Iran and/or Syria?

Finally, as to your reference in your letter to your interview with *The New York Times*, I would simply note that given the detailed information contained herein, and your letter response that, respectfully, *The New York Times*' account of its interaction with you is quite credible. I also note that UANI did not make its correspondence to or from you public. Nonetheless, and shortly after we received your correspondence, its contents and the contents of our letter to you appeared in various Hizballah-related blogs and the Hizballah mouthpiece paper, *Al Akhbar* with critical commentary.⁵¹

On April 4, 2012, your assistant Claude Hayek, unsolicited, emailed UANI a purported new "Basic Circular" adopted by BDL that claimed to adopt a new anti-money laundering/terror financing set of rules for the LBS. The defensive nature of this action speaks for itself. The "Basic Circular" purports to adopt Anti-Money Laundering ("AML") rules related to "know your customer," compliant with corresponding bank country law including, ostensibly, the United States, and a provision that subject banks within the LBS to the verification by their external auditors of these provisions.⁵² While our concerns related to the "Basic Circular" are many, please clarify:

1. Why did you take action to adopt the "Basic Circular" on April 4, 2012?
2. What "know your customer" rules did you have in place prior to this "Basic Circular"?
3. What action did you take previously to enforce such rules to prohibit the obvious large-scale money laundering by Hizballah in Lebanon?
4. What has been the total dollar amount of the fines and/or forfeitures if any you have imposed on any institution within the LBS over the last seven (7) years for Hizballah's money laundering activities?
5. What banks within the LBS have violated such rules over the last seven (7) years?
6. Please describe what steps you have taken over the last seven (7) years and are currently taking to prevent the financial support of Hizballah by Iran from being facilitated by the LBS?
7. Please describe all associations, transaction and/or accounts that BDL has had with any Iranian financial institution over the last seven (7) years?
8. What role if any have BDL and/or the LBS had in the financing of any weapons based transaction by and among Hizballah, Iran and/or Syria?
9. Please provide any reports of audits or investigations in the possession, custody or control of BDL that refer or relate in any way to Hizballah money laundering through the LBS, and/or the delivery of Iranian financial support into Lebanon for the benefit of Hizballah?

⁵¹ 961EcoNews.com, "United Against Nuclear Iran Letter to Governor Salame," (February 28, 2012); Naharnet, "U.S. Organization Calls on Lebanese Central Bank Not to Help Iran Evade Sanctions," (March 2, 2012); SawtBeirut, "U.S. Organization Calls on Lebanese Central Bank Not to Help Iran Evade Sanctions," (March 3, 2012).

⁵² Basic Decision No. ____ (intentionally left blank), Relationship between banks and financial institutions and their correspondents, The Governor of Banque du Liban, Riad Toufic Salame.

Section 311 of the USA PATRIOT Act and the LBS and BDL

Based on the foregoing and other acts and omissions, BDL and the LBS have been systematically perverted for the benefit of Hizballah and its state sponsors, Iran and Syria. Pursuant to Section 311 of the USA PATRIOT Act, Title 31, United States Code, 5318A, the overwhelming evidence supports the conclusion that, because of the actions of BDL and the LBS, many of the institutions operating within the LBS are money laundering concerns and, because of the pervasive influence of Hizballah, Lebanon is a jurisdiction of “primary money laundering concern” that would require the United States to impose “special measures.”

We believe that a Section 311 determination as to significant elements of the LBS including BDL, if not all of the LBS, is clearly supported because:

- BDL and LBS operate under the pervasive influence of Hizballah;
- The vast and complex Hizballah criminal money laundering enterprise depends on both BDL and the LBS;
- The symbiotic financial relationship by and between Lebanon and Iran depends on BDL and the LBS;
- The fraudulent nature of Lebanese backed securities and the essential role that BDL and the LBS play in the underlying fraud;
- The key role that that BDL and the LBS have played in weapons transfers by and among Hizballah, Syria and Iran;
- The clear inadequacy of BDL’s anti-money laundering laws;
- The opaque nature of the LBS and the secrecy condoned/promoted by BDL;
- Lebanon’s history as a known offshore banking haven;
- The absence of a mutual legal assistance treaty with the United States, and;
- Lebanon is rife with significant government corruption.

Under the terms of Section 311, such “special measures” should include the “fifth special measure” that would prohibit any U.S. financial institution or agency from maintaining correspondent accounts on behalf of a or all Lebanese institution(s).⁵³ Simply put, under the terms of the USA PATRIOT Act, significant elements of the LBS including BDL, if not Lebanon itself, should be cut-off from the United States financial system. When considering the “fifth special measure,” important factors that must be considered include the national security concerns of the United States. Clearly, taking action to inhibit the pernicious relationship between Iran and Hizballah is a compelling national security interest. Importantly, the impact of a Section 311 jurisdiction determination would have little impact on U.S institutions and the systemic impact of such action would be of modest effect relative to the important national security interests at stake.⁵⁴

⁵³ [31 U.S.C. 5318A\(b\)\(5\)](#).

⁵⁴ Attached as Exhibit “E” is an analysis of the “relevant factors” and “specific factors” to be considered in relation to a Section 311 determination as to Lebanon.

Please be advised that UANI does not call for a Section 311 jurisdiction determination lightly. Lebanon remains a fine country with tremendous promise and the diverse Lebanese people are great. Unfortunately, Lebanon and its people are victims of Hizballah and the regional ambitions of Iran.

Conclusion

We understand that Lebanon is a diverse country with many influences and only some insidious. Unfortunately, the insidious influence of Hizballah controls Lebanon. And, of course, Hizballah is the important leading proxy of Iran. The international community has come together in an unprecedented manner to economically isolate Iran and successfully pressure Iran to forego its nuclear weapons program. As you no doubt have read, the P5+1 are engaged in serious 11th hour steps to avert a potential conflict over Iran's nuclear program and/or Iran achieving the breakout technology to build a nuclear weapon. Given the incredible importance of this moment in the isolation of the Iranian regime, it can no longer be "business as usual" between Iran and Hizballah and Lebanon. Hence, we seek your immediate action.

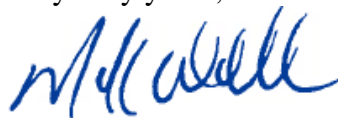
In your role as Governor of BDL, under the political control of Hizballah, it may very well be impossible for you to effectively perform your role as a legitimate central bank Governor. If that is the case, we respectfully request that you resign. To the extent that you fear for your safety and/or the safety of your family given the history of violence in Lebanon, we will advocate for the grant of political asylum for you and your family here in the United States.

I am available at your convenience to discuss all of the foregoing matters with you.

Please let us hear from you on or before the close of business on June 6, 2012 with your responses to the foregoing analysis and inquiries.

Thank you for your immediate attention to this matter.

Very truly yours,



Ambassador Mark D. Wallace

cc: The Honorable David Cohen
Under Secretary for Terrorism and Financial Intelligence, U.S. Department of the Treasury

The Honorable Preet Bharara
U.S. Attorney, Southern District of New York

The Honorable Mary Schapiro
Chairman, Securities and Exchange Commission

The Honorable Jeffrey Feltman
Assistant Secretary of State for Near Eastern Affairs, Bureau of Near Eastern
Affairs, U.S. Department of State

Exhibit A

**BANQUE DU LIBAN**

The Governor

530/1

Beirut, February 24, 2012

Ambassador Mark D. Wallace
United Against Nuclear Iran
P.O. Box 1028
New York, NY 10185-1028
United States of America

Dear Ambassador Wallace,

I have received your letter dated February 20, 2012 and would like to thank you for the opportunity it has presented me with in order to clarify Banque du Liban point of view vis-à-vis the issues addressed in your letter.

First, I highlight that Banque du Liban, the central bank of Lebanon, does not have any financial relationship with the Iranian central bank, Bank Markazi. Furthermore, none of the Lebanese banks and financial institutions has financial relationships with Iranian financial institutions. There are no Iranian banks in Lebanon except for one branch of an Iranian bank that operates on the Lebanese territory since the 1960s, Bank Sadirat Iran, and which is supervised, as all banks operating in Lebanon, by the Banking Control Commission and the Special Investigation Commission (Lebanon's Financial Intelligence Unit). The said branch's balance sheet totals to a mere USD 135 million with a relatively low volume of transactions and, more importantly, has no interbank operations.

Regarding SWIFT and AEG, as you mentioned in your letter, AEG is a regional partner of SWIFT providing services in more than 40 countries including Lebanon. The SWIFT website clearly indicates that AEG is a key partner of SWIFT similar to any other partner of SWIFT, such as IBM, Microsoft and other US and European companies. Additionally, AEG is a privately incorporated company in Lebanon, not Iran, providing normal business services and products, not engaging in banking and financial activities and, accordingly, not subject to the supervision of Banque du Liban as the central bank of Lebanon.

Banque du Liban sole relationship with AEG is that of a purely contractual nature whereby the latter provides the former with SWIFT services, namely disaster recovery connection to SWIFT like any other provider of services and products needed for the daily operations of a central bank.

In view of the above, any issue pertaining to AEG, as a key partner of SWIFT, should be addressed to SWIFT not Banque du Liban.



On the other hand, Banque du Liban publically announced that it is directly supervising the transfer of the assets and liabilities of the Lebanese Canadian Bank to Société Générale de Banque au Liban through an audit and vetting process undertaken by the Banking Control Commission, the Special Investigation Commission (Lebanon's Financial Intelligence Unit) and three audit firms, among which are two of the big four international audit firms, Deloitte and Ernst and Young; noting that Société Générale de Banque au Liban was closely monitoring the process. Moreover, we were continuously liaising with the United States Treasury Department regarding the matter and its consequences.

In the same vein, I would like to emphasize that the interview with the New York Times Jo Becker was not abridged; however, I refrained, in my capacity as governor of the central bank of Lebanon, from answering certain inquiries due to their confidential nature. It is also worth noting that reference to 200 accounts is overstated since the issue relates to 37 customers whom the parties to the merger agreed, based on an utterly business decision, not to include in the deal.

Lastly, as always, I reaffirm Banque du Liban commitment to comply with the resolutions issued by the international competent and legitimate authorities. Furthermore, Lebanon prides itself with its highly regulated banking sector, and as such, I would like to extend to you an invitation to personally visit Banque du Liban and any other entity in Lebanon you deem necessary so as to satisfy your concerns and alleviate any doubts you might have regarding the policies and procedures implemented in this matter.

Sincerely,

Riad Toufic Salamé

Exhibit B

From: Claude Hayek [<mailto:CHayek@bdl.gov.lb>]
Sent: Thursday, April 05, 2012 6:45 AM
To: Mark Wallace
Subject:

Mr. Wallace,

Please find attached the resolution adopted by Banque Du Liban on april 4, 2012.

Riad T.Salamé

Governor
Banque du Liban

*Banque du Liban
P.O. Box 11-5544
Beirut - Lebanon
Tel: + 961 1 343360
Fax: + 961 1 747600*



basic circular.pdf

BANQUE DU LIBAN

Basic Circular No.....

to Banks and Financial Institutions

Attached is a copy of Basic Decision Noof....., on the relationship between banks and financial institutions and their correspondents.

Beirut,

The Governor of Banque du Liban

Riad Toufic Salamé

Basic Decision No.

**Relationship between banks and financial institutions
and their correspondents**

The Governor of Banque du Liban,

Pursuant to the Code of Money and Credit, particularly Articles 70, 174 and 182 thereof,

Pursuant to Law No 133 of October 26, 1999 on the General Mission of Banque du Liban,

Pursuant to Law No 318 of April 20, 2001, on Fighting Money Laundering, particularly Article 5 thereof,

Pursuant to Basic Decision No 7818 of May 18, 2001 and its amendments, (Regulations for the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing),

Pursuant to Basic Decision No. 9382 of July 26, 2006, relating to Corporate Governance,

Whereas banks and financial institutions conduct an important portion of their operations through subsidiaries or sister companies or by way of correspondents abroad and participate, as a consequence, in international payment systems,

Whereas this participation has an important impact on the soundness and stability of the banking and economic conditions,

With a view to preventing reputational risks to which banks and financial institutions might be exposed, and to protecting the utmost national interest, and

Pursuant to the Decision of the Central Council of Banque du Liban, taken in its meeting of.....,

Decides the following:

Article 1:

Banks and financial institutions operating in Lebanon must:

- 1- Implement strictly the Regulations for the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing, particularly with customers who request the conduct of cross-border operations by way of correspondent banks and financial institutions, by:
 - a- Adopting a risk-based approach and vetting the identity of both the customers and the economic right owner and obtaining the requisite information and setting procedures for monitoring their operations and accounts on an ongoing basis.
 - b- Updating their database for money laundering and terrorist financing operations, in conformity with the provisions of this Decision.
 - c- Notifying the Special Investigation Commission of any operation suspected of contravening the obligations set out in this Decision.

- 2- Be fully informed of the laws and regulations governing their correspondents abroad, and deal with the latter in conformity with the laws, regulations, procedures, sanctions and restrictions adopted by international legal organizations or by the sovereign authorities in the correspondents' home countries.

Within this scope, banks and financial institutions must adopt the utmost accuracy and due diligence to vet the identity of the economic right owner in the operations conducted.

The provisions of this Article shall govern any dealings between banks and financial institutions operating in Lebanon, and their branches, subsidiaries or sister companies abroad.

- 3- Control the transactions on payable-through accounts and strictly implement the enhanced due diligence measures on concerned customers.

Article 2:

External auditors must check banks and financial institutions' compliance with the provisions of this Decision. They must also insert in their report on the procedures adopted to control financial and banking operations for fighting money laundering and terrorist financing, detailed information about their inspection of the adopted procedures, the results of their audit, and their remarks in this regard.

Article 3:

Any party violating the provisions of this Decision shall incur the administrative sanctions stipulated in the applicable laws and regulations, particularly the sanctions stipulated in Article 208 of the Code of Money and Credit.

Article 4:

This Decision shall come into force upon its issuance.

Article 5:

This Decision shall be published in the Official Gazette.

Beirut,

The Governor of Banque du Liban

Riad Toufic Salamé

Exhibit C

**UNITED
AGAINST
NUCLEAR
IRAN
WWW.UANI.COM**

Lebanon: Iran's Financial Safe Haven

A SOVEREIGN MONEY LAUNDERING SCHEME

The Strength of Lebanon's Economy and the Strength of its Sovereign Debt is Inexplicable and an International Outlier

1. Lebanon's Tenuous Politics
2. By Traditional Indicators, Lebanon's Economy is in Shambles
3. Lebanese Sovereign Debt Suspiciously Trades at Low Yields with No Rational Economic Explanation
4. Credit Default Swaps to Insure its Sovereign Debt Trade at Very Low Premiums
5. Where is the Investment Demand for Lebanese Bonds Coming From?
6. Next Steps & U.S. Government Action

1. Lebanon's Tenuous Politics

Country Overview



General

Population	4.2 million
Area	10,450 sq km
Languages	Arabic, English, French
Borders	Syria, Israel, Mediterranean Sea
Nationality	Sunni, Shia, Christian
Capital	Beirut

Political Structure

Political Parties	Organized on sectarian basis The "March 14" alliance is headed by the Future Movement (Sunni) with the Lebanese Forces (Christian) in loose alliance with the Progressive Socialist Party (Druze) and the Phalange (Christian) The "March 8" block comprises Hezbollah (Shia), Amal (Shia) and Free Patriotic Movement (Christian)
Form of State	Parliamentary republic The national assembly has 128 seats equally divided between Muslims and Christians
Prime Minister	Najib Mikati (Sunni)
President	Michael Suliman (Maronite Christian)
Next Elections	June 2013

Economic Data

Currency	Lebanese Lira/Pound (LBP) The LBP is kept at a tight exchange rate band to the USD
GDP	US\$38.5 billion
Gross Government Debt	US\$53.8 billion
Growth	8.1% average 2007-2010 Expected 1.5% in 2011
GDP Per Capita	US\$15,600
Main Industries	Banking, tourism

Lebanon's Politics & its False Economy

- **A Precarious Political Situation**
 - Severe domestic political tensions with a Hezbollah-dominated cabinet
 - Heavily influenced by the neighboring political conflict in Syria
 - Upcoming elections in June 2013
- **Deceiving the Markets & Artificially Stabilized Sovereign Debt**
 - Real risk of Lebanese debt not accurately reflected in the markets
 - Unstable economy with severe debt burden – one of the highest in the world
 - Lebanon unable to reduce budget deficit with declining underlying growth
 - Lebanese sovereign bond pricing does not reflect these major issues
 - Sovereign default has artificially maintained a low-risk profile
 - Evidence of third party (Iran/Syria) influence, and/or corruption artificially propping up the Lebanese economy

A Precarious Political Situation

The potential for political instability creates a downside risk to GDP growth and to the overall economy.

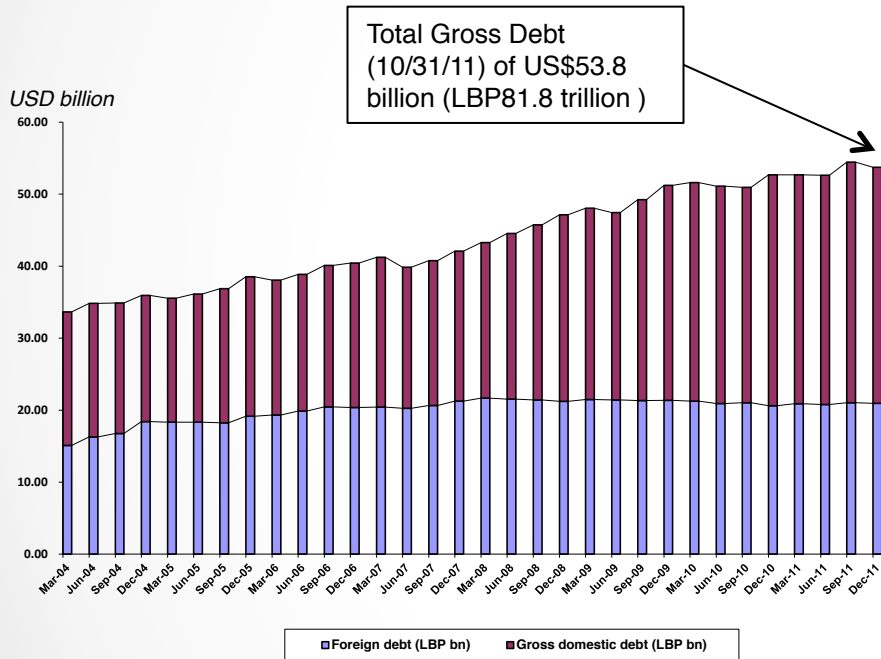
- Entrenched in sectarian tensions keep market reforms and cautious
 - Cabinet composed largely of Hezbollah members (“March 8th” alliance), supported by Iran and Syria
 - “March 8th” and “March 14th” have about even allocations in parliament with elections in 2013
- Political crisis in Syria will have an important bearing on the balance of power in Lebanon
 - Civil uprising against Bashar al-Assad’s regime has led to increased violence in Syria
 - Lebanon abstained from voting on the Arab League sanctions against Syria
 - As more Syrians flee to Lebanon, there is increasing risk of spillover
- Despite relative government stability following the assassination of Prime Minister Rafiq al-Hariri, unity remains precarious
 - UN investigation calls for the arrest of four Hezbollah members
 - The Lebanese government only agreed recently to hold to its part of financing the investigation
- Potential armed conflict with Israel
 - Hezbollah has rearmed after the 2006 conflict with Israel
 - An Israel-Iran conflict could draw in Hezbollah as a local proxy for Iran
- Relations with moderate allies impaired
 - Politicians aligned with the Assad regime may face censure from Arab allies in post-Assad world
 - U.S., France and Saudi Arabia, who support the “March 14” block will remain wary of Hezbollah's influence in Lebanon



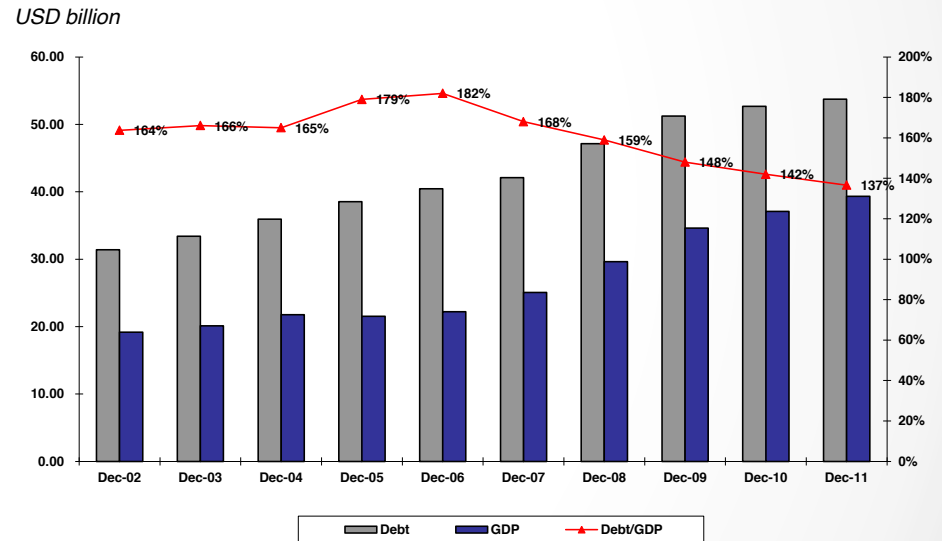
2. By Traditional Indicators, Lebanon's Economy is in Shambles

A Country with Very High Debt Load

Lebanese Government Debt



Lebanese Government Debt to GDP

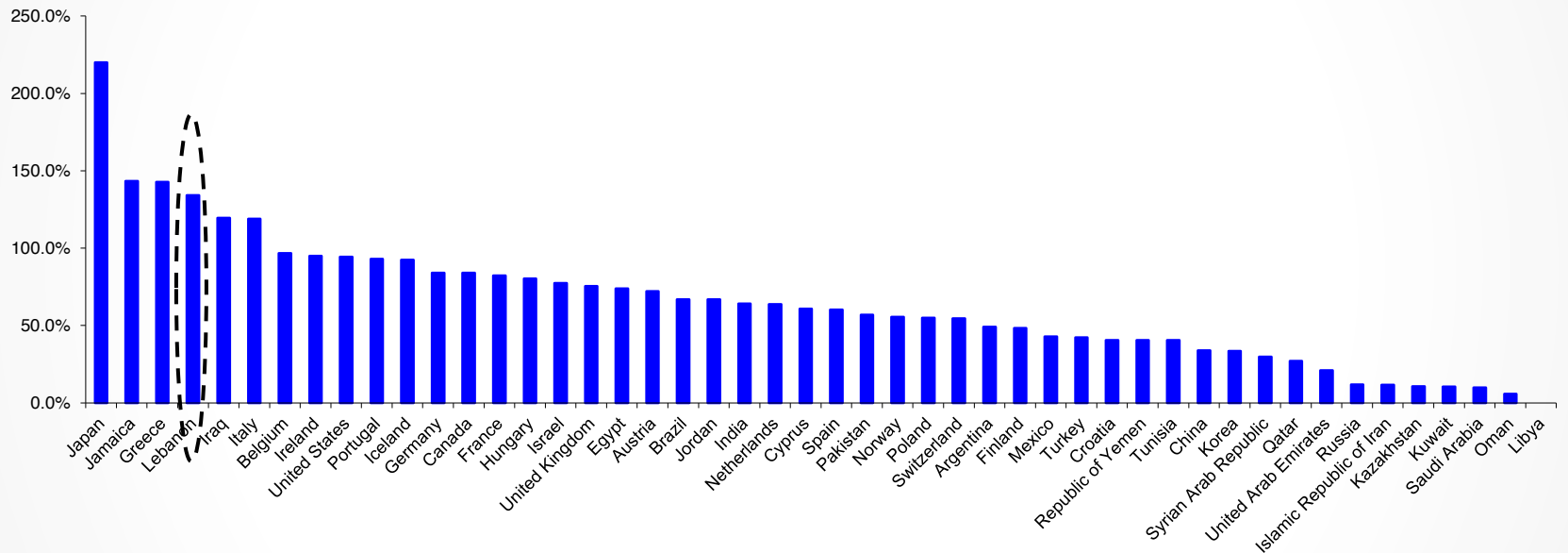


Lebanon has consistently increased its public debt level over the last 10 years.

Source: Lebanon Ministry of Finance, Banque du Liban

...One of the Highest Debt Levels in the World

Debt to GDP – The International Benchmark



Lebanon has the fourth largest debt to GDP ratio in the world, higher than several of the most distressed economies in the world such as Ireland and Italy.

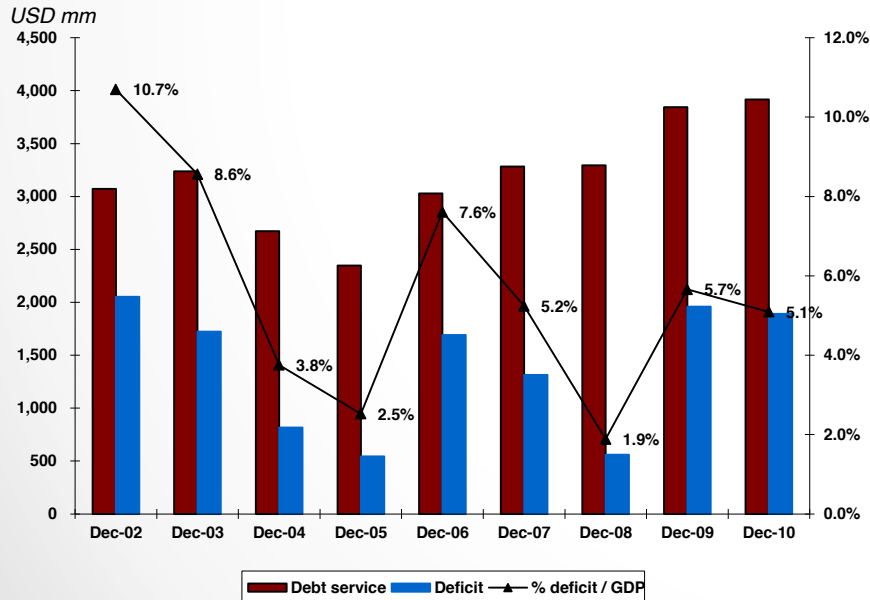
Source: International Monetary Fund, figures as of 2010

A Country that Carries a High Budget Deficit, Heavily Impacted by its Debt Burden

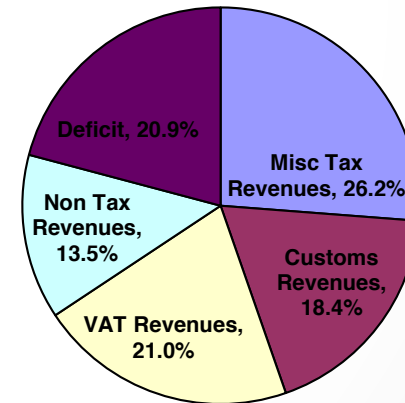
Budget and Deficit

USD m m	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Sep-10	Sep-11
Revenue	3,587	4,132	4,701	4,641	4,577	5,378	6,508	7,998	7,986	5,853	6,604
General expenditure	2,568	2,615	2,847	2,836	3,239	3,409	3,773	6,113	5,960	4,366	4,892
Debt service	3,071	3,239	2,672	2,348	3,028	3,282	3,294	3,843	3,916	2,967	2,785
Total expenditure	5,639	5,854	5,519	5,184	6,267	6,691	7,067	9,956	9,876	7,332	7,677
Deficit	(2,052)	(1,722)	(818)	(544)	(1,690)	(1,313)	(559)	(1,959)	(1,890)	(1,479)	(1,073)
GDP	19,184	20,117	21,775	21,524	22,218	25,061	29,646	34,620	37,104		
% deficit / Expenditure	36.4%	29.4%	14.8%	10.5%	27.0%	19.6%	7.9%	19.7%	19.1%	20.2%	14.0%
% deficit / GDP	10.7%	8.6%	3.8%	2.5%	7.6%	5.2%	1.9%	5.7%	5.1%		

Deficit as % of GDP and Debt Service



Breakdown of Revenue and Deficit



Total Expenses US\$9.9 million (2010)

Source: Lebanon Ministry of Finance

Struggling to Reduce the Budget Deficit

The politically entrenched process has prohibited material economic progress.

- The Lebanese government has struggled to pass the last 5 years due to political disputes and external conflicts
 - 2012 budget is now before the cabinet
 - 2012 budget includes contentious tax increases which would help pull in revenue but may prevent budget from being passed
 - Tax increase are expected to impose additional burden on the weaker social layers
- The electricity sector is in bad shape and in dire need of reform
 - The country continues to suffer from power shortages, particularly in the summer months
 - A large investment program was recently approved by the cabinet for US\$5 billion
- Privatization initiatives aimed at freeing up government resources are not moving forward
 - Private sector sees high political risk in Lebanon and has lowered demand for privatized assets
 - Infrastructure development in partnership with the private sector is slow
- Government income from the telecom sector is booked in its fiscal statistics based on expected surplus rather than actual transfers
 - Expected income is not a reliable for debt servicing

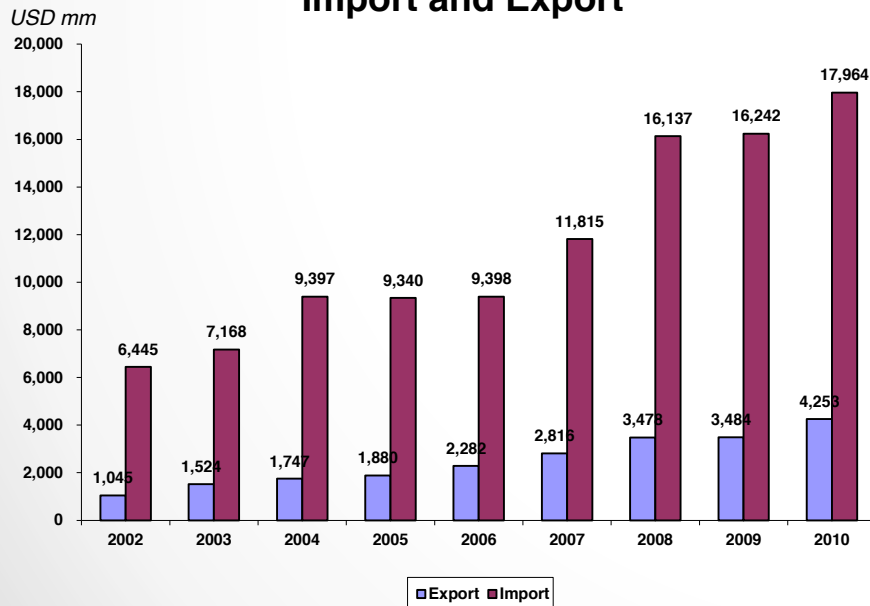


A Country with a Consistent Current Account Deficit

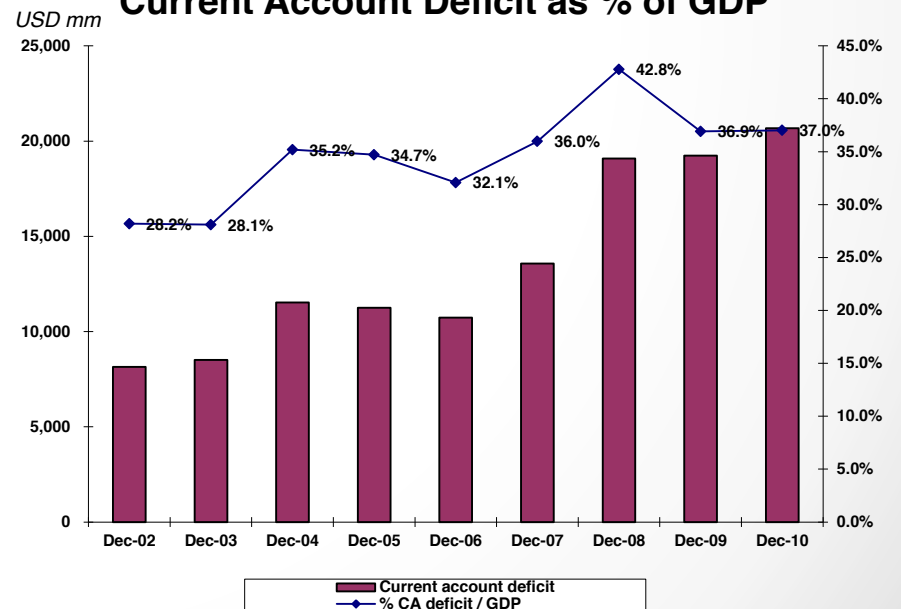
Trade Statistics

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Export (\$m)	1,045	1,524	1,747	1,880	2,282	2,816	3,478	3,484	4,253
Import (\$m)	6,445	7,168	9,397	9,340	9,398	11,815	16,137	16,242	17,964
Current account deficit (\$m)	5,400	5,644	7,650	7,460	7,116	8,999	12,659	12,758	13,711
GDP (\$bn)	19.18	20.12	21.78	21.52	22.22	25.06	29.65	34.62	37.10
% CA deficit / import	83.8%	78.7%	81.4%	79.9%	75.7%	76.2%	78.4%	78.5%	76.3%
% CA deficit / GDP	28.1%	28.1%	35.1%	34.7%	32.0%	35.9%	42.7%	36.9%	37.0%

Import and Export



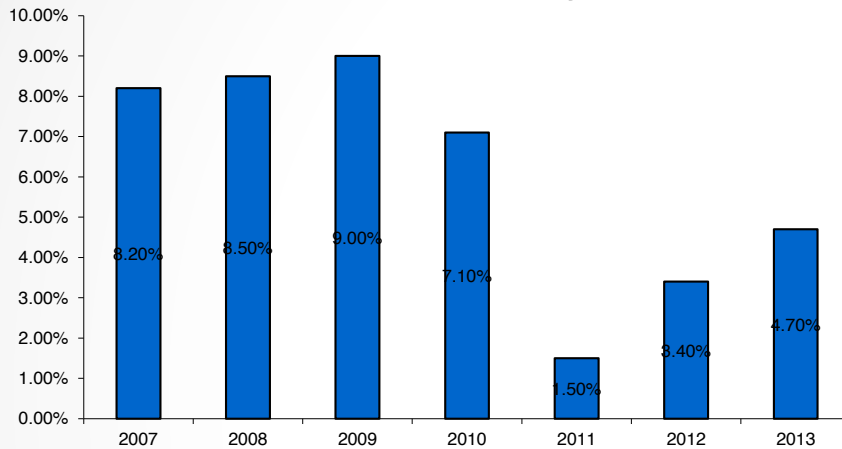
Current Account Deficit as % of GDP



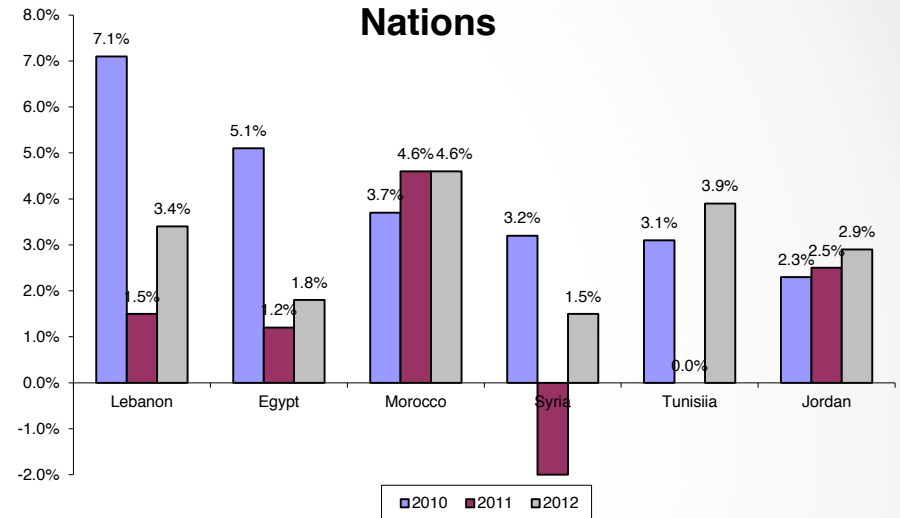
Source: Lebanon Ministry of Finance

Underlying Growth is Declining

Lebanon Historical and Projected GDP



Lebanon Growth Relative to Other Arab Nations



- The Lebanese economy is facing a material slowdown in GDP growth
 - “After four years of strong growth, Lebanon’s economy has lost momentum, reflecting domestic political uncertainty and regional unrest...” (IMF, November 2011)
- Lebanon’s growth prospects will depend upon regional performance as Arab states are the principal consumer of Lebanon’s service-oriented economy
 - Unrest in the region impacts tourism in Lebanon; tourists are primarily from Arab countries and have chosen more stable destinations like Turkey or Morocco
 - Tourism indirectly supports ¼ of jobs and generates much of the demand for construction
- Heavy government borrowing and limited price competition suggests that banks’ prime lending rates will remain prohibitively expensive for small and medium businesses, putting pressure on real economic growth
- Lebanese growth will continue to struggle and all signs point to even higher risk of sovereign debt default

Source: Lebanon Ministry of Finance

3. Lebanese Sovereign Debt Suspiciously Trades at Low Yields with No Rational Economic Explanation

Lebanon's Weak Economy and Political Situation is Reflected in its Weak Credit Rating

Lebanon's Rating

	Long Term	Short Term	Outlook
Moody's	B1	-	Stable
S&P	B	B	Stable
Fitch	B	B	Stable

"The ratings are constrained by our view of Lebanon's high public debt burden, large external imbalances, and the risk of a breakdown of the current consensus in the government..."

"...key source of political tension at present is the U.N. Special International Tribunal's investigation into the circumstances surrounding the assassination of Prime Minister Rafik Hariri...could ultimately cause Hezbollah to withdraw from the government. We believe that this would severely undermine prospects for sustainable growth and political stability..."

"Lebanon's current account deficit, which stands at over 20% of GDP, remains in our view a source of vulnerability and we believe its financing will remain highly reliant on continued investor confidence over the medium term."

S&P, November 2010

Selected Comparable Country Ratings & Cost of Debt

	Moody's	S&P	Fitch	10yr Bond Yield (4/17/12)
Bulgaria	Baa3	BBB	BBB-	-
Egypt	Ba3	BB	BB	6.9 or 8.2
Gabon	-	BB-	BB-	4.250
Georgia	Ba3	B+	B+	5.650
Ghana	-	B	B+	-
Greece	C	CCC	B-	-
Indonesia	Ba1	BB+	BB+	6.050
Ireland	Ba1	BBB+	BBB+	6.800
Israel	A1	A+	A	3.950
Jamaica	B3	B-	B-	7.500
Jordan	Ba2	BB	-	-
Lebanon	B1	B	B	5.400
Lithuania	Baa1	BBB	BBB-	5.800
Nigeria	-	B+	BB-	-
Philippines	Ba2	BB	BB+	3.100
Senegal	B1	B+	-	7.450
Spain	A3	AA-	AA-	5.850
Sri Lanka	-	B+	BB-	5.950
Turkey	Ba2	BB	BB+	5.100
Ukraine	B2	B+	B	9.450
Vietnam	B1	BB	B+	5.250

Lebanese Historic Cost of Debt

Cost of Debt 2005-2007

<HELP> for explanation. Corp HP

BGN/ CLOSE/BID/YTM Page 1/1 Historical Price Table

GENERIC 10YR LEBAN 6.1 10/22 102.0630/102.9370 (5.83/5.72) BGN @11:50

Range 09/29/2006 - 01/31/2007 Period Monthly Avg 9.146 on 12/29/06
Market Bid Low 8.832 on 10/31/06
Low 8.522 on 10/31/06

DATE	YIELD	DATE	YIELD	DATE	YIELD
1/07	8.611				
12/06 H	9.146				
11/06	9.143				
10/06 L	8.522				
9/06	8.736				

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 319 2000 Copyright 2012 Bloomberg Finance L.P.
SN 720570 0638-1732-1 13-Apr-12 11:50:47 EDT GMT-4:00

Cost of Debt in 2012

<HELP> for explanation. Corp HP

BGN/ CLOSE/BID/YTM Page 1/1 Historical Price Table

GENERIC 10YR LEBAN 6.1 10/22 102.0350/102.8960 (5.84/5.73) BGN @ 4/20

Range 01/31/2012 - 03/30/2012 Period Monthly Avg 5.891 on 1/31/12
Market Bid Low 5.870 on 1/31/12
Low 5.831 on 3/30/12

DATE	YIELD	DATE	YIELD	DATE	YIELD
3/12 L	5.831				
2/12	5.889				
1/12 H	5.891				

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 319 2000 Copyright 2012 Bloomberg Finance L.P.
SN 227156 6549-2134-0 21-Apr-12 13:41:44 EDT GMT-4:00

Historically, cost of Lebanese sovereign debt was much higher in 2006 and 2007 (~9%) than is it today (~5% to 6%).

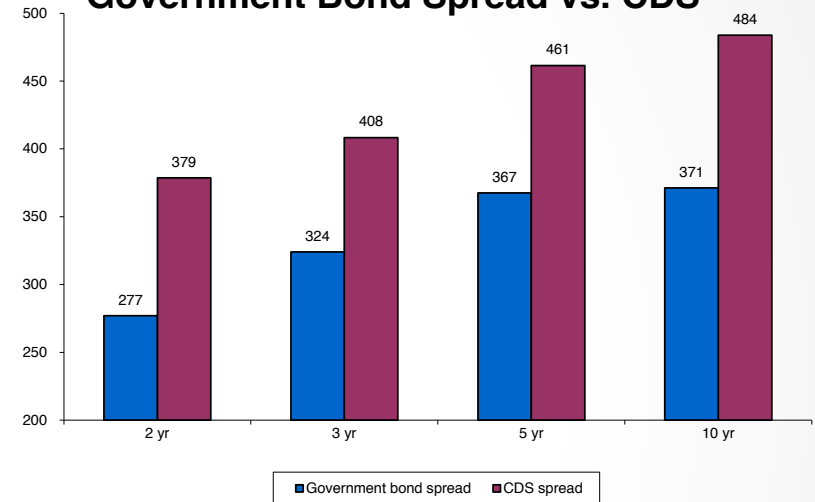
Sovereign Bonds are Trading at Tight Spreads

Lebanon government bonds trade at high cash prices, reflecting spreads even lower than applicable CDS* spreads, falsely suggesting that these bonds are backed by a more robust economy than that of Lebanon.

Lebanon Government Bond Trading Stats

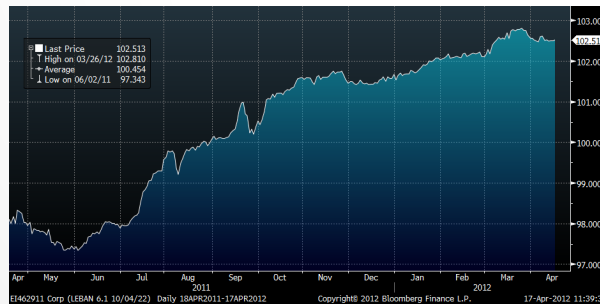
Maturity	Coupon	Price	Yield	Benchmark	
				Yield	Spread
3/25/2014	6.00%	105.1	304	27	277
5/2/2014	9.00%	111.2	306	27	279
4/22/2015	6.00%	106.2	365	41	324
7/15/2015	6.00%	106.3	376	41	335
11/30/2015	6.00%	106.3	397	41	356
1/19/2016	8.50%	114.6	410	87	323
5/11/2016	11.63%	127.0	413	87	326
3/20/2017	9.00%	118.9	454	87	367
11/12/2018	5.15%	100.6	496	87	409
11/28/2019	5.45%	100.7	526	201	325
4/12/2021	8.25%	118.9	548	201	348
10/4/2022	6.10%	102.5	572	201	371

Government Bond Spread vs. CDS

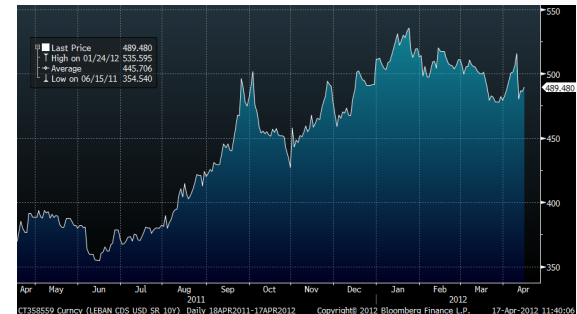


Recently and counter to intuition, both CDS and cash bonds are going up.

Sovereign Bonds Trade Well



Lebanon CDS Spreads Are Range-Bound

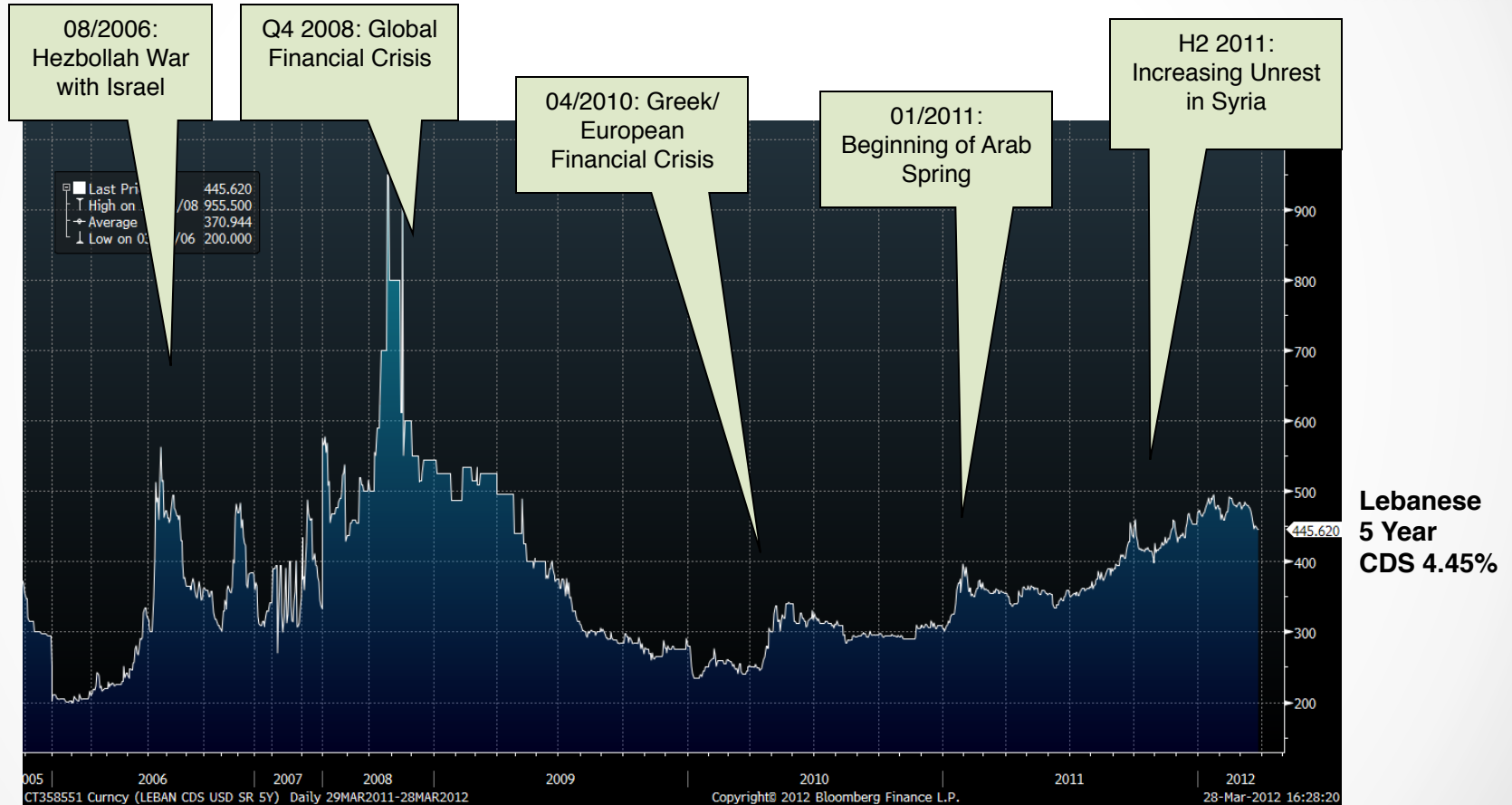


*Credit Default Swaps (CDS): A financial swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a CDS receives credit protection, and the seller of a swap guarantees the credit worthiness of the debt security.

4. Credit Default Swaps to Insure its Sovereign Debt Trade at Very Low Premiums

Premium to Insurance Against Sovereign Default Suspiciously Remains at Low Levels

Lebanon 5 Year Credit Default Swap (CDS) Spread Levels



In spite of severe risk indicators, the market registers Lebanese CDS as less risky.

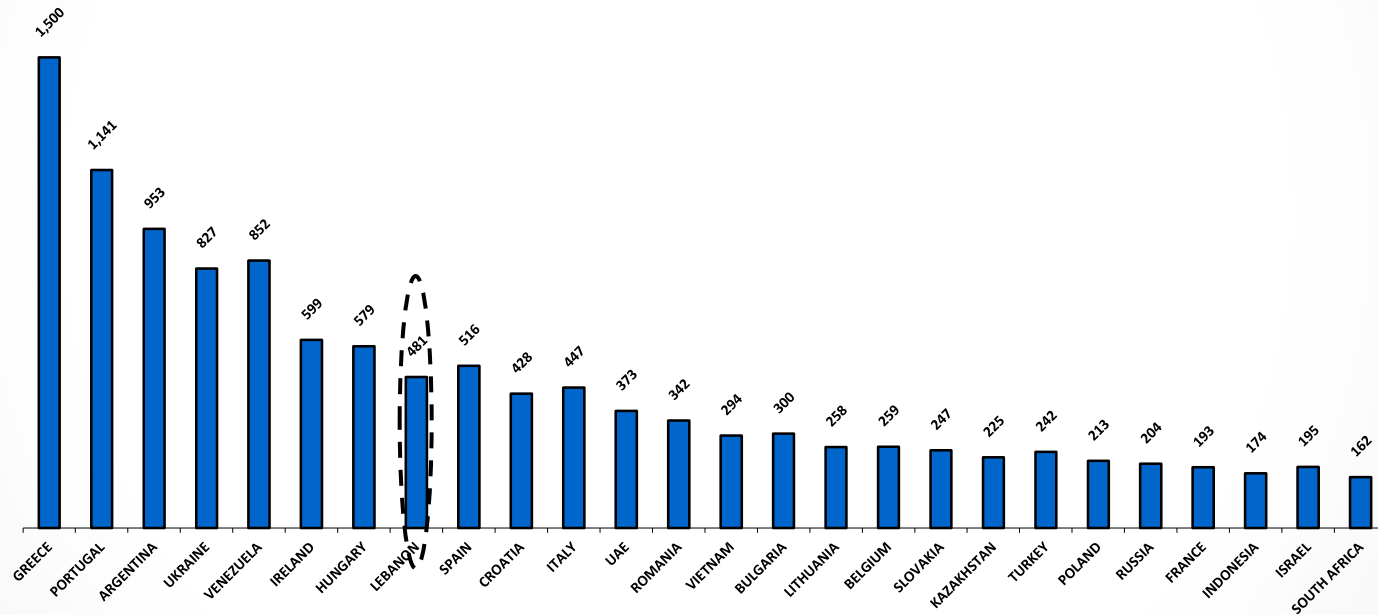
Source: Bloomberg

www.uani.com

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Low CDS Levels Difficult to Justify

5 Year CDS Spreads of Selected Countries

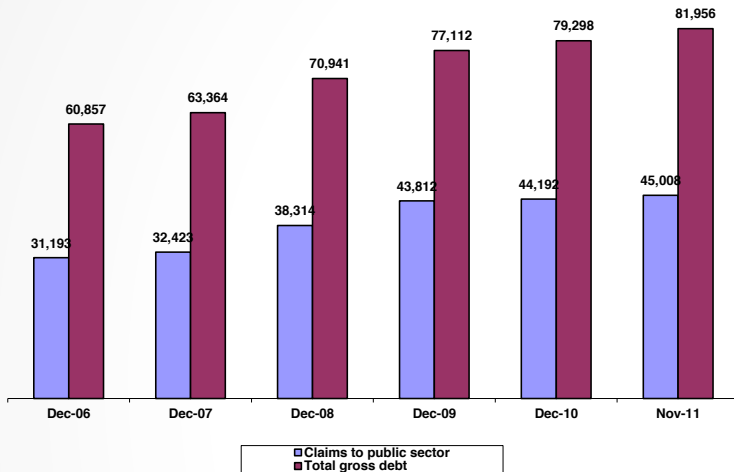


* Excluding recent movement due to default. Data as of 03/28/2012.

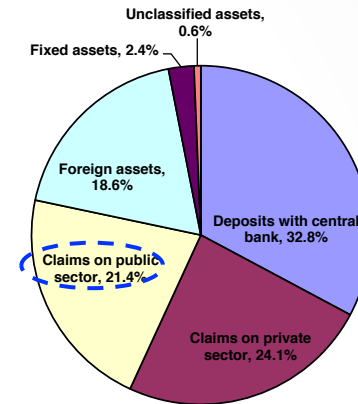
5. Where is the Investment Demand for Lebanese Bonds Coming From?

Unexplained Inflows into Lebanon's Commercial Banking System

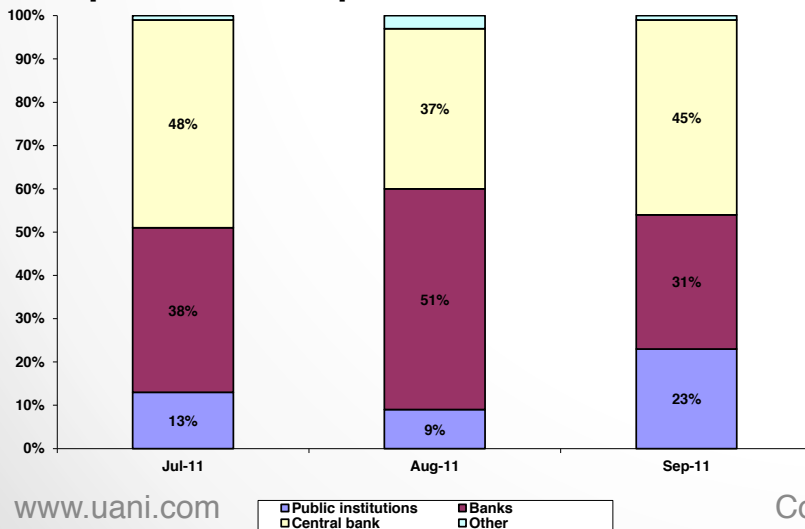
Bank's Claim on Public Sector vs. Debt



Bank Asset Split



Split of Subscriptions in Recent Auction

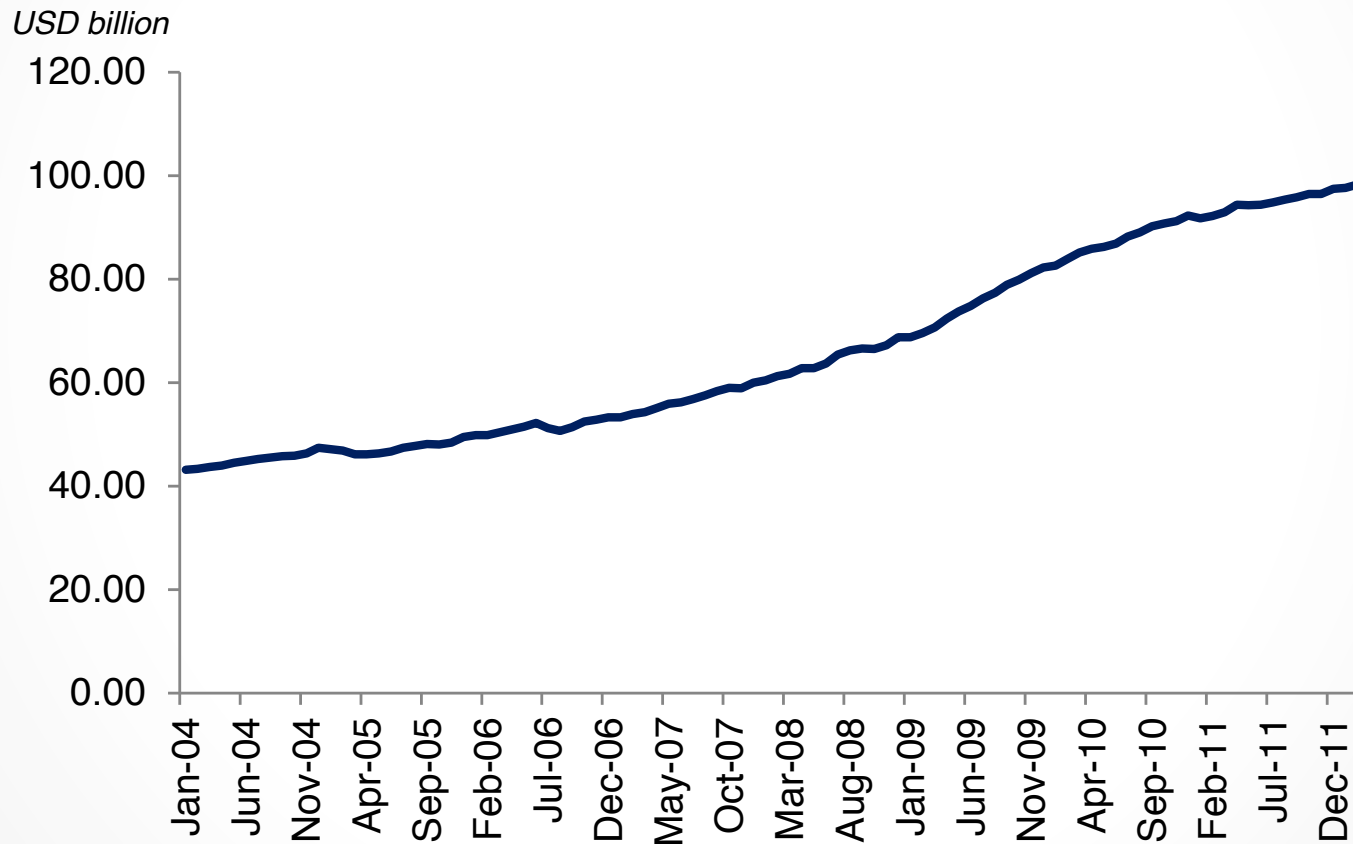


- The commercial banking system has been the leading factor in the demand for government bonds both in local and foreign currency
- Over the last few years, the Lebanese commercial banks have enjoyed material inflows of deposits. Those deposits, however, carry a relatively high interest rate and need to be put to work (LBP savings account at 2.59% and LBP checking/current accounts at 0.91%). A significant portion goes to buying government bonds.
- The fact that cash bonds trade at significantly tighter spreads than CDS supports the notion that Lebanese bonds are inflated by significant inflows of funds into the banking system rather than fundamental investment analysis.

Source: Banque du Liban

Increasing Money Supply

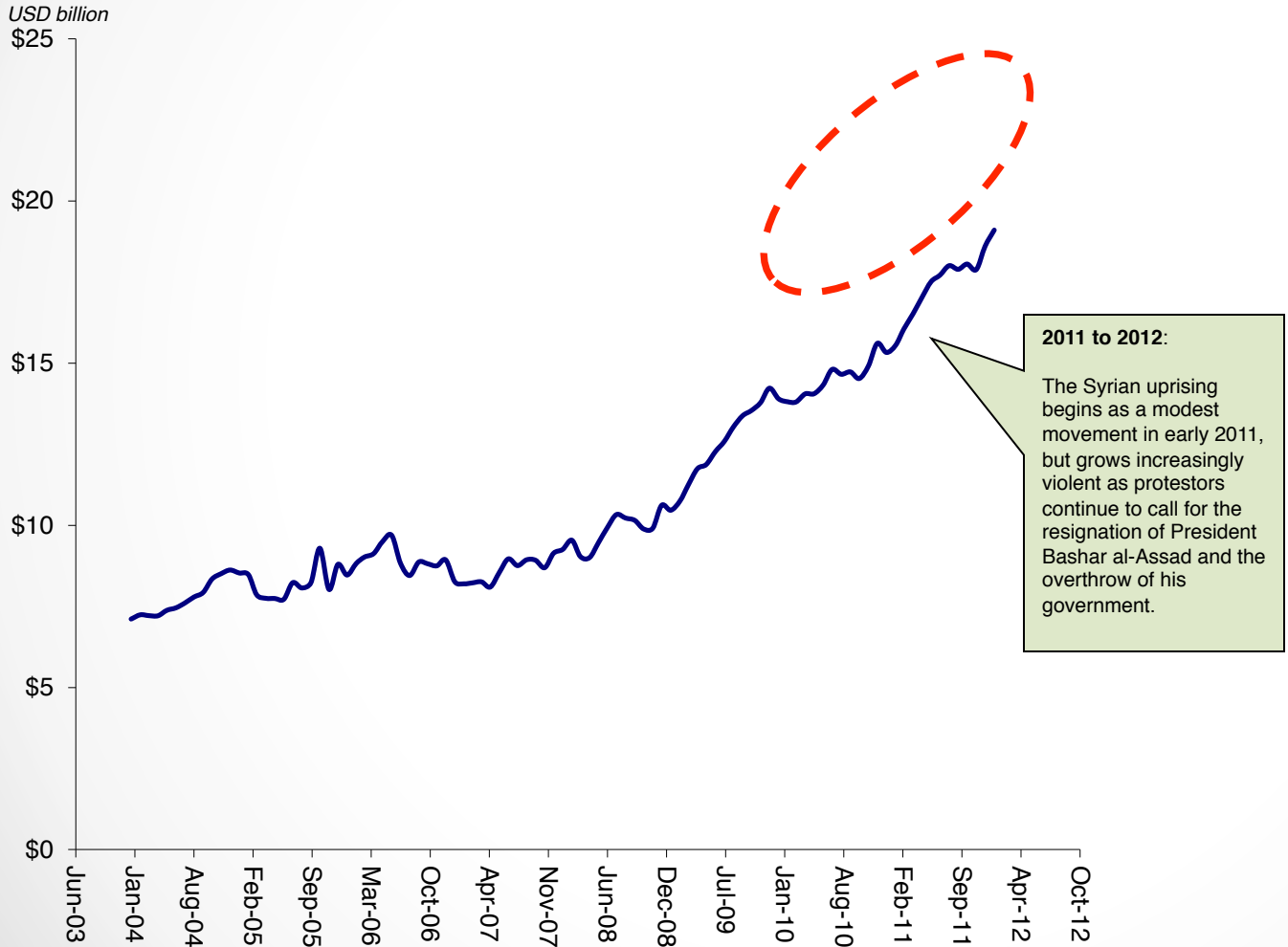
A clear gradual increase in money supply. Where is it coming from?



Source: Banque du Liban

Increased Inflows Coinciding with the Syrian Conflict?

Foreign Currency Deposits in Lebanon of Non-Residents



The increase in inflows has likely been partially influenced by the Syrian conflict. However, the increase of foreign currency deposits appear to more closely follow other events...

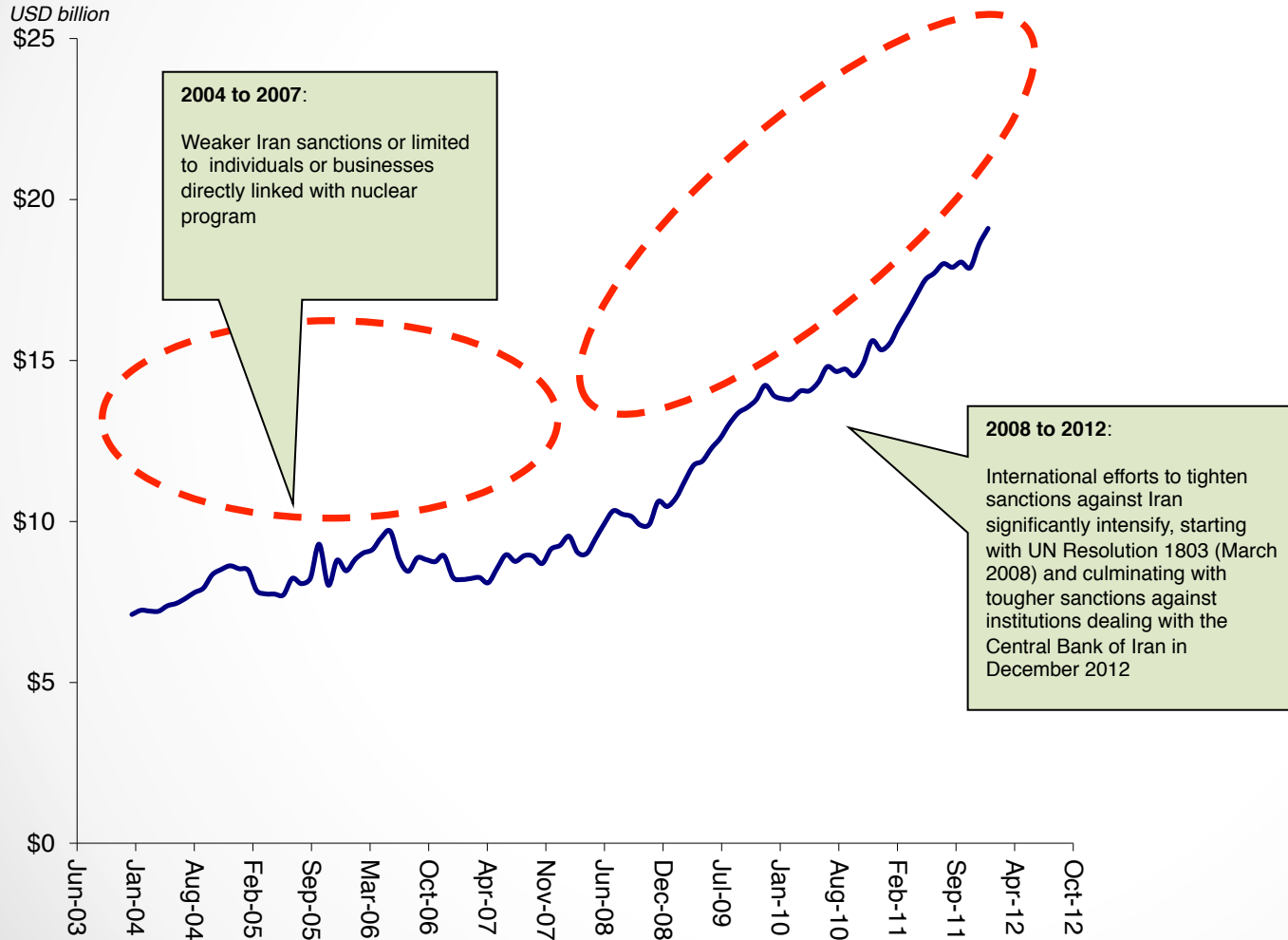
Source: Bank of Lebanon

www.uani.com

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Increased Inflows Coincides with Sanctions Against Iran

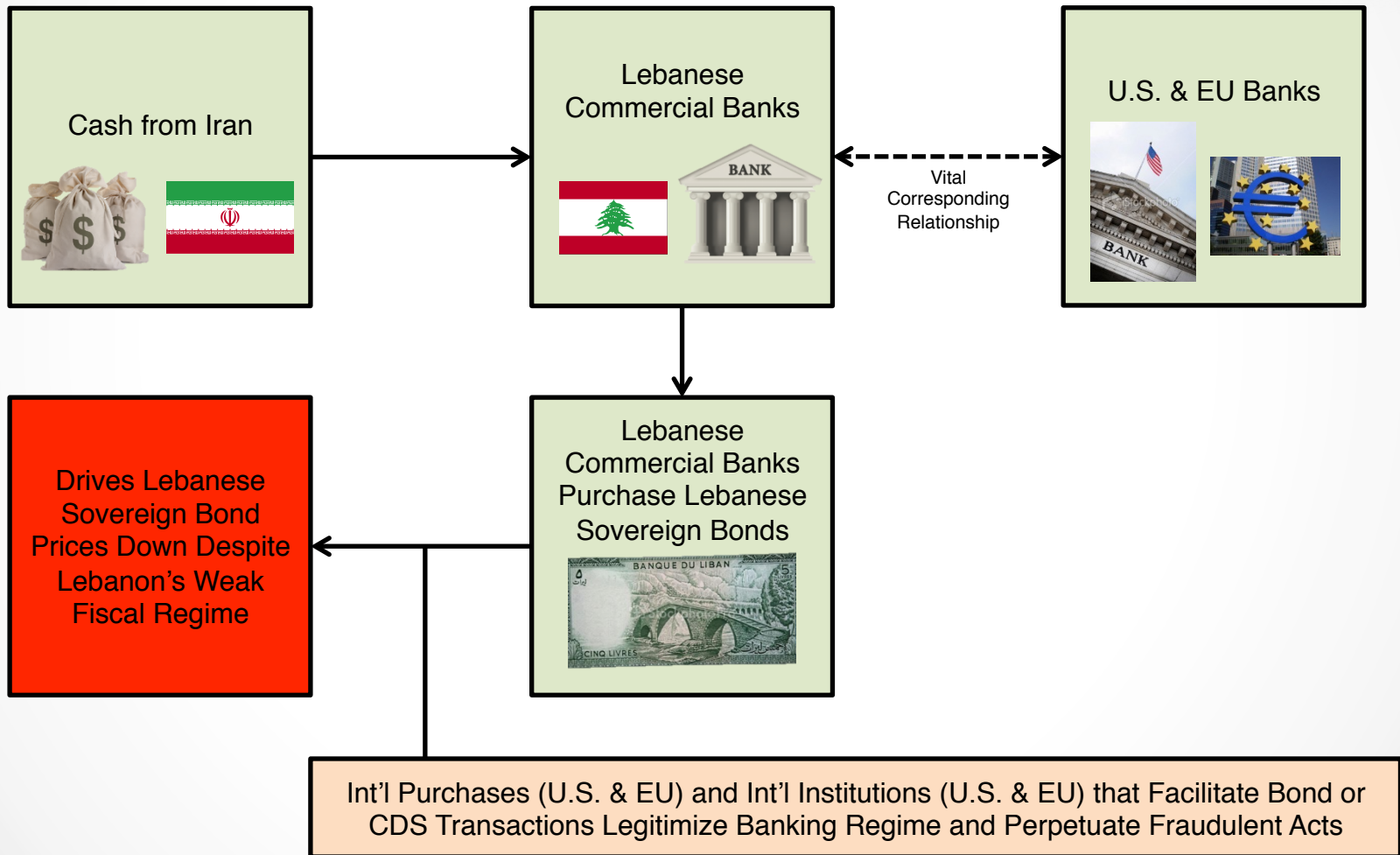
Foreign Currency Deposits in Lebanon of Non-Residents



The increase in inflows coincides with the adoption of more robust Iran sanctions, indicating a likely relationship.

A Sovereign Money Laundering Scheme

The Iran-Lebanon Connection



6. Next Steps & U.S. Government Action

Rating Agencies Should Issue a 'No Rating' for Lebanese Bonds



- A bond credit rating assesses the credit worthiness of a corporation's or a government's debt issues
- Rating agencies that issue any kind of rating (either 'investment grade' or 'junk bonds') help to legitimize the exchange of these artificially stable bonds
- **UANI calls upon all credit rating agencies to withdraw ratings for Lebanese bonds due to their fraudulent values**
 - Without an official rating, no reputable institution would purchase such bonds
 - Without an official rating, no institution can justify the purchase of Lebanese bonds to its clients
 - A 'no rating' will drive buyers and sellers out of the Lebanese bond market
- Further, there is already an extremely small ownership level by foreign institutions of Lebanese bonds

Lebanese Sovereign Bonds

Total Bonds Outstanding	\$	21,559,668,069.90
Total Bonds Foreign Owned	\$	559,892,335.00
% Foreign Owned		2.60%

Source: Bloomberg, figures as of April 9, 2012

Lebanese Bond Holders & Firms Facilitating Transactions

- Institutions that engage in the buying and selling of Lebanese bonds help legitimize this debt instrument as a serious investment
- By investing in Lebanese bonds, institutions facilitate the Iranian regime in hiding large amounts of hard currency in the Lebanese banking system
 - Providing a safe haven for Iranian currency as the regime actively pursues an illicit nuclear program, supports terrorism and is responsible for egregious human rights abuses
- Firms cannot justify holding/facilitating transactions of junk-rated Lebanese bonds that have been artificially valued as a sovereign money laundering enterprise
- **UANI calls on all such firms to divest from Lebanese sovereign debt and to end its transaction services for these bonds and CDS**

Involved Parties of Bond Transactions

Abousleiman & Partners
Bank Audi SAE
Bank of America Merrill Lynch
Bank of Beirut
Bank of New York
Bank of New York London
Banque Audi Sal
Banque de la Mediterranee Sal
Banque Libanaise pour le Commerce
Banque Mediterranee
BLOM Bank SAL
BNP Paribas
BNP Paribas/London
Byblos Bank
Citigroup Global Markets Ltd
Credit Libanais SAL
Credit Suisse First Boston (Europe)
Credit Suisse First Boston Corp
Credit Suisse First Boston Ltd
Credit Suisse Securities USA LLC
Deutsche Bank AG
Deutsche Bank AG London
Deutsche Bank Luxembourg SA
Deutsche Bank Securities Inc
Deutsche Bank Trust Company Americas
Dewey & LeBoeuf LLP
Dewey Ballantine LLP/London
El Khoury & Partners
Fransabank SAL
Freshfields Bruckhaus Deringer
HSBC Bank PLC
HSBC Holdings
Lebanese Canadian Bank
LeBoeuf Lamb Greene & Macrae LLP
Merrill Lynch International
Morgan Stanley & Co International
Nabil Abdel-Malek
Societe Generale
Standard Chartered Bank

Source: Bloomberg as of April 17, 2012

Lebanese Bond Holders

Advanced Series Trust
AGF Management Limited
Aktia Fund Management Ltd
Aletti Gestielle SGR SPA
American Life Insurance Company
Amundi
Aviva Funds Sicav
Blackrock Asset Management
Blackrock Fund Advisors
BNP Paribas Asset Management SG
Consultinvest Asset Management
Deka International SA
Eaton Vance Advisors Ireland Lt
Erste Sparinvest Kagmbh
Eurizon Capital SA
Fidelity Investments Canada Ltd
Fidelity Management & Research
Fideuram Gestions SA
GE Asset Management
GE Asset Management Incorporate
Hartford Life & Accident Ins Co
HSBC Investment Funds Inc
Interfund Advisory Co SA
JP Morgan Investment Management
Jyske Invest
Lombard Odier Darier Hentsch
Mackay Shields Financial Corp
Nationwide Fund Advisors
Neuberger Berman LLC
Nord Est Asset Management SA
Normura Asset Management Co. Ltd.
Price T Rowe Associates Inc
RBC Global Investment Management Inc.
Riversource Investments LLC
San Paolo IMI Asset Management
SEI Investments Fund Management
Sparinvest
Sparinvest Fondsmaglerselskab
T Rowe Price Global Asset Management
T Rowe Price Global Investment Management
Thrivent Financial Lutherans
Union Bancaire Privée
Union Investment Luxembourg SA
Universal Investment Lux SA

Source: Bloomberg as of March 30, 2012

Exhibit D

February 20, 2012

Governor Riad T. Salamé
Banque du Liban
Masraf Lubnan Street
P.O. Box 11-5544
Beirut, Lebanon

**Re: Banque du Liban, Bank Saderat, Allied Engineering Group S.A.R.L.,
SWIFT and Iran**

Dear Governor Salamé:

We write to you today to express our concern regarding banking and banking services institutions based in Lebanon that are facilitating Iran's avoidance of international sanctions. United Against Nuclear Iran ("UANI") calls on you and the Lebanese Central Bank to publicly clarify your work with Iran and/or with Iranian institutions and ensure that Lebanon is not used as a sanctions avoidance hub by Iran.

On January 30th, UANI called upon the Society for Worldwide Interbank Financial Telecommunication ("SWIFT") to publicly clarify its work in Iran and to terminate its relationship with and deny SWIFT access to Bank Markazi, Iran's Central Bank, and other Iranian Banks. A copy of our January 30, 2012 letter is attached for your review.

In response to our campaign and legislation passed by the United States Senate Banking Committee, on February 17, 2012 SWIFT indicated that it would end its business in Iran. SWIFT stated:

A clear multi-lateral legal framework in relation to international financial sanctions against Iran is emerging. We understand that the European Union is now drafting new international sanctions regulations which directly affect the ability of EU based financial communication service providers (such as SWIFT) to provide their services to Iranian financial institutions subject to EU sanctions. In addition, we are closely following the progress of a bill passed by the US Senate Banking Committee regarding Iran which has similar intention. SWIFT stands ready to act and discontinue its services to sanctioned Iranian financial institutions as soon as it has clarity on EU legislation currently being drafted.

This decision follows extensive consultation with our board and with relevant regulatory authorities. The decision also reflects the extraordinary and highly

exceptional circumstances of significant multi-lateral international support for the intensification of sanctions against Iran.

SWIFT has also informed its overseers. SWIFT is overseen by the G10 Central Banks.

The responsibility of SWIFT with regard to international financial sanctions has always been to assist our member banks in meeting their responsibilities to comply with national and international regulation. SWIFT is and has always been in full compliance with applicable sanctions regulations and has received confirmation of this from the competent regulatory authorities. ([SWIFT Website](#))

Currently, at least one Iranian sanctioned institution, Bank Saderat, operates in Iran and others transact with Lebanese institutions. Importantly, the Lebanese-based business Allied Engineering Group S.A.R.L. (“AEG”) serves as the SWIFT regional representative for Iranian institutions and provides other key banking related services to such Iranian institutions.

As you know, unfortunately, the SWIFT system and Lebanese banks and money exchanges have been used by Iran and its terror proxies to facilitate the finance of Iran’s nuclear weapons program, finance terrorist activities and to provide the financial support necessary to brutally repress the Iranian people. As recently as 2011, the United States Treasury Department identified the Lebanese Canadian Bank as a Hezbollah money laundering enterprise. At the time it was Lebanon’s 8th largest bank. The United States Department of Justice subsequently launched a money laundering and forfeiture proceeding that sought the recovery of more than \$480 million from various Hezbollah related entities including Lebanese financial institutions. Those institutions included both bank and “money exchange” companies that utilized electronic funds transfers through SWIFT as a primary means to transfer money to be laundered.

Your response to this insidious activity, as detailed in the *New York Times*, was not appropriate given your important status and role as the Governor of Lebanon’s Central Bank:

The signs are not terribly encouraging. The Central Bank governor, [Riad Salameh](#), cut short an interview when asked about the aftermath of the American action, calling it an “old story.” As for those nearly 200 suspect accounts, Mr. Salameh would only say that he does not involve himself in such commercial questions.

Privately, he has played down the findings to the Treasury Department, attributing much of the suspicious activity to peculiarities in the way business is done in Africa. Those accounts he did deem problematic, he told the Americans, have been referred to Lebanon’s general prosecutor. But the prosecutor refused to comment, and his deputy, who handles money-laundering inquiries, said last week that he had received nothing.

In fact, as Treasury officials acknowledge, on Mr. Salameh’s watch, most of the accounts were simply transferred to several other Lebanese banks. (*The New*

York Times. [“Beirut Bank Seen as a Hub of Hezbollah’s Financing.”](#) Jo Becker, December 13, 2011)

Other important Iranian connections to the Lebanese banking system are disturbing as well. AEG is the Beirut, Lebanon based SWIFT Regional Partner for the Middle East and Africa. AEG provides full services related to SWIFT systems and SWIFTNET for more than 400 banks in more than 40 countries. AEG provides SWIFT and SWIFT technology infrastructure and related services through three Service Bureaus based in Lebanon, Bahrain and Egypt. AEG further provides a variety of other products and services to facilitate communication and money transfer by and among financial institutions, businesses and individuals.

AEG is the primary SWIFT and related service provider to Iranian banks, including financial institutions sanction-designated under United States and European Union law. SWIFT’s action to end its work in Iran is significant yet such action may be diluted in the absence of like-minded action from AEG. AEG, as SWIFT’s regional partner servicing Iran, has been silent on its intentions and on the current scope of its relationship and provision of products and services to Iranian sanction-designated financial institutions. UANI remains particularly concerned that as SWIFT ends its services to Iranian sanction-designated institutions that AEG will provide a communications “work-around” for such Iranian institutions through its Service Bureaus and/or through the provision of its own financial communication products and services. UANI has called on AEG to clarify its work with Iranian institutions and to terminate its work in Iran. Attached for your review is our letter to AEG of February 20, 2012.

UANI calls on you and the Banque Du Liban to ensure that AEG terminates its relationship with Iranian financial institutions. In addition, we call on you and the Banque du Liban to cease Lebanese business with any and all Iranian sanction-designated financial institutions including Bank Saderat.

Given the insidious influence of Hezbollah in Lebanese financial institutions including banks and money exchanges, Lebanon and the Banque du Liban have a higher duty to the international banking community to demonstrate that they are not complicit – knowingly or unknowingly – in facilitating Iran’s effort to avoid international sanctions. Lebanon must be transparent in its relationships with Iranian banks and must ensure that Lebanon is not used as the base of operations for institutions like AEG and Bank Saderat to assist Iran in avoiding international sanctions.

Please let us hear from you by February 28, 2012 regarding your intentions.

Thank you for your immediate attention to this matter.

Very truly yours,



Ambassador Mark D. Wallace

Enclosed:

--UANI Letter to SWIFT, January 30, 2012

--UANI Letter to AEG, February 20, 2012

cc: Luc Coen
Governor, National Bank of Belgium

Francois Masai
Deputy Governor, National Bank of Belgium

Ben S. Bernanke
Chairman, United States Federal Reserve

Janet Y. Yellen
Vice Chair, United States Federal Reserve

Mark J. Carney
Governor, Bank of Canada

Tiff Macklem
Senior Deputy Governor, Bank of Canada

Christian Noyer
Governor, Chairman of the General Council, Banque De France

Anne Le Lorier
First Deputy Governor, Banque De France

Dr. Jens Weidmann
President, Deutsche Bundesbank

Sabine Lautenschlager
Deputy President, Deutsche Bundesbank

Ignazio Visco
Governor, Banca D'Italia

Fabrizio Saccomanni
Director General, Banca D'Italia

Giovanni Carosio
Deputy Director General, Banca D'Italia

Masaaki Shirakawa
Governor, Bank of Japan

Hirohide Yamaguchi
Deputy Governor, Bank of Japan

Klass Knot
President, De Nederlandsche Bank

J.F. van Duynes
Chairman, De Nederlandsche Bank

Stefan Ingves
Chairman of the Executive Board and Governor, the Riksbank

Kerstin af Jochnick
First Deputy Governor, the Riksbank

Hansueli Raggenbass
President of the Bank Council, Swiss National Bank

Thomas J. Jordan
Vice Chairman of the Governing Board, Swiss National Bank

Sir Mervyn King
Governor, Bank of England

Charles Bean
Deputy Governor, Monetary Policy, Bank of England

Christine Lagarde
Managing Director, International Monetary Fund

David Lipton
First Deputy Managing Director, International Monetary Fund

Angel Gurría
Secretary-General, Organization for Economic Co-operation and Development

Pier Carlo Padoa-Schioppa
Deputy Secretary-General and Chief of Staff, Organization for Economic Co-operation and Development

Jamie Caruana
General Manager, Bank for International Settlements

Herve Hannoun
Deputy General Manager, Bank for International Settlements

Martin J. Gruenberg
Chairman and Vice Chairman, Federal Deposit Insurance Corporation

Thomas J. Curry
Director, Federal Deposit Insurance Corporation

John Walsh
Comptroller of the Currency, Federal Deposit Insurance Corporation

Richard Cordray
Director, Federal Deposit Insurance Corporation

Elizabeth A. Duke
Board Member, United States Federal Reserve

Daniel K. Tarullo
Board Member, United States Federal Reserve

Sarah Bloom Raskin
Board Member, United States Federal Reserve

Mario Draghi
President, European Central Bank

Vitor Constancio
Vice President, European Central Bank

Adam Farkas
Executive Director, European Banking Authority

Andrea Enria
Chairperson, European Banking Authority

Helmut Ettl
Board Member, European Banking Authority, Austria

Mathias Dewatripont
Board Member, European Banking Authority, Belgium

Rumen Simeonov
Board Member, European Banking Authority, Bulgaria

Costas S. Poullis
Board Member, European Banking Authority, Cyprus

David Rozumek
Board Member, European Banking Authority, Czech Republic

Ulrik Nodgaard
Board Member, European Banking Authority, Denmark

Raul Malmstein
Board Member, European Banking Authority, Estonia

Jukka Vesala
Board Member, European Banking Authority, Finland

Daniele Nouy
Board Member, European Banking Authority, France

Raimund Roseler
Board Member, European Banking Authority, Germany

Ioannis Gousios
Board Member, European Banking Authority, Greece

Karoly Szaz
Board Member, European Banking Authority, Hungary

Matthew Elderfield
Board Member, European Banking Authority, Ireland

Giovanni Carosio
Board Member, European Banking Authority, Italy

Kristaps Zakulis
Board Member, European Banking Authority, Latvia

Vytautas Valvonis
Board Member, European Banking Authority, Lithuania

Claude Simon
Board Member, European Banking Authority, Luxembourg

Andre Camilleri
Board Member, European Banking Authority, Malta

Jan Sijbrand
Board Member, European Banking Authority, Netherlands

Andrzej Reich
Board Member, European Banking Authority, Poland

Pedro Duarte Neves
Board Member, European Banking Authority, Portugal

Nicolae Cinteza
Board Member, European Banking Authority, Romania

Vladimir Dvoracek
Board Member, European Banking Authority, Slovakia

Stanislava Zadavec Capriolo
Board Member, European Banking Authority, Slovenia

Francisco Javier-Ariztegui Yanez
Board Member, European Banking Authority, Spain

Martin Andersson
Board Member, European Banking Authority, Sweden

Hector Sants
Board Member, European Banking Authority, UK

The Honorable Joseph I. Lieberman
Chairman, United States Senate Committee on Homeland Security &
Governmental Affairs

The Honorable Susan M. Collins
Ranking Member, United States Senate Committee on Homeland Security &
Governmental Affairs

The Honorable John Kerry
Chairman, United States Senate Committee on Foreign Relations

The Honorable Richard Lugar
Ranking Member, United States Senate Committee on Foreign Relations

The Honorable Jon Tester
United States Senate

The Honorable Robert Menendez
United States Senate

The Honorable Peter T. King
Chairman, United States House Committee on Homeland Security

The Honorable Bennie Thompson
Ranking Member, United States House Committee on Homeland Security

The Honorable Ileana Ros-Lehtinen
Chairman, United States House Committee on Foreign Affairs

The Honorable Howard Berman
Ranking Member, United States House Committee on Foreign Affairs

The Honorable Howard P. McKeon
Chairman, United States House Armed Services Committee

The Honorable Adam Smith
Ranking Member, United States House Armed Services Committee

The Honorable Henry Waxman
Ranking Member, United States House Committee on Energy and Commerce

The Honorable Steve Israel
United States House of Representatives

The Honorable Ted Deutch
United States House of Representatives

The Honorable Nita Lowey
United States House of Representatives

The Honorable Carolyn Maloney
United States House of Representatives

The Honorable Gary Ackerman
United States House of Representatives

The Honorable Rob Andrews
United States House of Representatives

The Honorable Steve Chabot
United States House of Representatives

The Honorable Gerry Connolly
United States House of Representatives

The Honorable Henry Cueller
United States House of Representatives

The Honorable Susan Davis
United States House of Representatives

The Honorable Tim Griffin
United States House of Representatives

The Honorable Jim Himes
United States House of Representatives

The Honorable Kathy Hochul
United States House of Representatives

The Honorable Rush Holt
United States House of Representatives

The Honorable Jerry Nadler
United States House of Representatives

The Honorable Bill Owens
United States House of Representatives

The Honorable Ed Perlmutter
United States House of Representatives

The Honorable Adam Schiff
United States House of Representatives

The Honorable Betty Sutton
United States House of Representatives

The Honorable Bob Turner
United States House of Representatives

The Honorable Leon E. Panetta
Secretary of Defense, United States Department of Defense

The Honorable David S. Cohen
Under Secretary for Terrorism and Financial Intelligence, United States
Department of the Treasury

The Honorable Adam Szubin
Director, Office of Foreign Assets Control

Lazaro Campos
Chief Executive Officer, SWIFT

Chris Church
Chief Executive Americas and Global Head of Securities, SWIFT

Michael Fish
Chief Information Officer, Head of Information Technology and Operations,
SWIFT

Ian Johnston
Chief Executive, Asia Pacific Region, SWIFT

Gottfried Leibbrandt
Head of Marketing, SWIFT

Alain Raes
Chief Executive, Europe, Middle East and Africa Region, SWIFT

Francis Vanbever
Chief Financial Officer, SWIFT

Stephen Zimmerman
Chief Group Internal Audit, Swiss Bank at UBS AG & Deputy Chairman, Board
of Directors, SWIFT

Guy Beniada
Chief Financial Officer and Managing Director, ING Belgium & Board of
Directors, SWIFT

Udo Braun
Group Markets Operations, Commerzbank, Germany & Board of Directors,
SWIFT

Fabrice Denele
Head of Payments, BPCE, France & Board of Directors, SWIFT

John Ellington
Director, Retail Banking Operations, The Royal Bank of Scotland, UK & Board
of Directors, SWIFT

Giorgio Ferrero
Head of Payment Systems Strategy and Development, Intesa Sanpaolo, Italy &
Board of Directors, SWIFT

Goran Fors
Global Head of Custody Services, SEB, Sweden & Board of Directors, SWIFT

Wolfgang Gaertner
Chief Information Officer, Deutsche Bank AG, Germany & Board of Directors,
SWIFT

Gunther Gall
Head of Transactions Services Division, Raiffeisenbank International AG, Austria
& Board of Directors, SWIFT

Alan Goldstein
Managing Director, Worldwide Securities Services, J.P. Morgan, United States &
Board of Directors, SWIFT

Rob Green
Chief Risk Officer, Global Transaction Services, Corporate and Investment
Banking, FirstRand Bank Limited, South Africa & Board of Directors, SWIFT

Finn Otto Hansen
Clearing and Settlement Strategies, DnB NOR Bank ASA, Norway & Board of
Directors, SWIFT

Gerard Hartsink
Senior Advisor to the ABN AMRO Board, ABN AMRO Bank, Netherlands &
Board of Directors, SWIFT

Yumesaku Ishigaki
General Manager, Transaction Services Division, the Bank of Tokyo-Mitsubishi
UFJ, Japan, & Board of Directors, SWIFT

John Laurens
Head of Global Payments and Cash Management, Asia-Pacific, HSBC, Hong
Kong & Board of Directors, SWIFT

Yves Maas
Head of International Operations, Credit Suisse, Switzerland & Board of
Directors, SWIFT

Lynn Matthews
Chairman of the Australian National Member Group & Board of Directors,
SWIFT

Godelieve Mostrey

Executive Director and Chief Technology and Services Officer, Euroclear
& Board of Directors, SWIFT

Pochet Alain

Head of Clearing, Custody and Corporate Trust Services, BNP Paribas, Securities
Services, France & Board of Directors, SWIFT

Javier Santamaria

Head of Finance Systems and Forums, Deputy General Manager, Banco
Santander, Spain & Board of Directors, SWIFT

Jeffrey Tessler

Chief Executive Officer of Clearstream International, S.A., Luxembourg & Board
of Directors, SWIFT

Marcus Treacher

Head of e-Commerce and Client Experience, Global Transaction Banking, HSBC,
United Kingdom & Board of Directors, SWIFT

Ingrid Versnel

Head, Wealth Management and Payments, Operations and Technology, Royal
Bank of Canada & Board of Directors, SWIFT

Jee Hong Yee-Tang

Technology Advisor to ABS, Singapore & Board of Directors, SWIFT

Exhibit E

SECTION 311 OF THE USA PATRIOT ACT

TITLE 31, UNITED STATES CODE, 5318A

Pursuant to Section 311 of the USA PATRIOT Act, Title 31, United States Code, 5318A, the overwhelming evidence supports the conclusion that, because of the actions of Banque du Liban (BDL) and the Lebanese banking system (LBS), that elements of the LBS including BDL are money laundering concerns, and that Lebanon should be considered for determination as a jurisdiction of “primary money laundering concern” that would require the United States to impose “special measures.”

“Special Measures” Under Section 311	Reasons for Concern	Supporting Data
Evidence that organized criminal groups, international terrorists, or entities involved in the proliferation of weapons of mass destruction or missiles, have transacted business in that jurisdiction	Lebanon operates under the influence of Hizballah. Hizballah is a known terrorist organization that has been designated by the U.S. Hizballah is known or suspected to have been involved in numerous terrorist attacks. It has been historically connected to Iran and Syria.	<p>Hizballah is a known terrorist organization that has been designated by the U.S. as a Foreign Terrorist Organization (FTO) by the Secretary of State in accordance with section 219 of the Immigration and Nationality Act (INA), as amended. (U.S. State Department Website)</p> <p>Hizballah is known or suspected to have been involved in numerous anti-U.S. terrorist attacks, including the suicide truck bombing of the U.S. embassy and U.S. Marine barracks in Beirut in October 1983, and the U.S. embassy annex in Beirut in September 1984. Receives substantial amounts of financial, training, weapons, explosives, political, diplomatic, and organizational aid from Iran and Syria. (Center for Defense Information Website)</p> <p>Iran’s role in Hizballah is no secret, but only in February of 2012 did Hizballah’s leader Hassan Nasrallah admit in a speech that Hizballah was financially supported by Iran. (<i>Hurriyet Daily News</i>, “Iran funds Hezbollah, leader Nasrallah admits,” 2/9/2012)</p>

<p>The extent to which that jurisdiction or financial institutions operating in that jurisdiction offer bank secrecy or special regulatory advantages to nonresidents or nondomiciliaries of that jurisdiction</p>	<p>Lebanon's bank secrecy policies have been historically worrisome, and recent findings regarding the Lebanese Canadian Bank indicate that there are remaining concerns about the Lebanese banking system.</p>	<p>"The country's 1956 Law on Bank Secrecy prohibits bank managers and employees from revealing client names, or information regarding client assets and holdings (with certain limited exceptions) to any individual or public administrative, law enforcement, or judicial authority.</p> <ul style="list-style-type: none"> - The Banking Control Commission, with supervisory authority over all commercial banks in Lebanon, does not have access to individual account information and the names of depositors. - Numbered accounts are permitted in Lebanon. Only bank managers know the identities of numbered account-holders, and they are prohibited by the Law of Bank Secrecy from revealing this information to Lebanese officials. - The Law on Bank Secrecy may impede access to financial and commercial records in criminal investigations. However, bank secrecy does not apply to investigations into public corruption or money laundering charges involving drug manufacturing. - The Law on Bank Secrecy can operate to prevent foreign authorities from obtaining customer identity information, even pursuant to formal requests for judicial assistance." <p>(FinCEN Advisory 18, July 2000)</p> <p>Note: This Advisory was withdrawn by FinCEN in July 2002 because of the enactment of a new counter-money laundering system. However, recent findings indicate that there are remaining concerns about the Lebanese banking system.</p>
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<p>The substance and quality of administration of the bank supervisory and counter-money laundering laws of that jurisdiction</p>	<p>After significant pressure from the U.S., Lebanon enacted anti-money laundering legislation. However, loopholes remain as the policy does not cover all terrorist financing transactions nor does it cover Hizballah's activities.</p>	<p>“Lebanon faces significant money laundering and terrorist financing vulnerabilities. For example, Lebanon has a substantial influx of remittances from expatriate workers and family members, estimated by the World Bank at \$7 billion per year. It has been reported that a number of these Lebanese abroad are involved in underground finance and trade-based money laundering (TBML) activities. Laundered criminal proceeds come primarily from foreign criminal activity and organized crime.”</p> <p>"In 2001, Lebanon enacted its anti-money laundering (AML) legislation, Law No. 318. This legislation creates a framework for lifting bank secrecy, broadening the criminalization of money laundering, and facilitating access to banking information and records by judicial authorities. Under this law, money laundering is a criminal offense. Law No. 318 broadens the criminalization of money laundering beyond narcotics but does not cover all terrorist financing transactions."</p> <p>"In 2003, Lebanon also adopted Laws 547 and 553. Law 547 expands Article One of Law No. 318, criminalizing any funds resulting from the financing or contribution to the financing of terrorism or terrorist acts or organizations based on the definition of terrorism as it appears in the Lebanese Penal Code. Such definition does not apply to Hizballah, which is considered a legitimate political party..."</p> <p>(The 2010 International Narcotics Control Strategy Report)</p>
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<p>The relationship between the volume of financial transactions occurring in that jurisdiction and the size of the economy of the jurisdiction</p>	<p>Lebanon’s devastated economy suspiciously supports a stable banking system. While Lebanon’s GDP is around \$40 billion, roughly equivalent to Uruguay, Lithuania, Costa Rica or Ghana, its sovereign debt is \$53.8 billion – the fourth largest debt to GDP ratio in the world. Lebanon has consistently struggled to service its debt as the country’s underlying growth continues to decline. Despite these issues, Lebanon’s sovereign bonds and corresponding credit default swaps (“CDS”) appear to trade at low yields with no rational economic explanation. Questionably, Lebanon’s cost of debt in 2006 and 2007 was much higher (approximately 9%) than it is today (between 5% and 6%) – conveniently corresponding with increased sanctions pressure against Iran. All signs point to a serious risk of sovereign default, but even with its enormous debt, Lebanon’s currency and banking system act like a far more successful sovereign.</p> <p>Hizballah’s leader Hassan Nasrallah acknowledged that Hizballah was</p>	<p>See UANI’s economic and financial analysis and presentation on Lebanon and UANI’s letter to Banque du Liban’s Governor Riad Salame of May 28, 2012.</p> <p>Iran’s role in Hizballah is no secret, but only in February of 2012 did Hizballah’s leader Hassan Nasrallah admit in a speech that Hizballah was financially supported by Iran. (<i>Hurriyet Daily News</i>, “Iran funds Hezbollah, leader Nasrallah admits,” 2/9/2012)</p> <p>“Hezbollah has long relied almost exclusively on its relationship with Iran and Syria for funding. Since the early 1990s, Hezbollah has operated with a guaranteed annual contribution of at least \$100 million a year from Tehran. Early last decade, Iran doubled that investment to more than \$200 million a year, and its financial support for Hezbollah reached its pinnacle in 2008-9. “ (<i>Foreign Affairs</i>, “Hezbollah: Party of Fraud, How Hezbollah Uses Crime to Finance its Operations,” 7/27/2011)</p>
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financially supported by Iran. That support is reported to be at least hundreds of millions of dollars per year. And Iran's support is the keystone by which Hizballah has built its dominant presence in Lebanon and avoided the economic stranglehold of U.S. and EU sanctions.

It is clear that Lebanon's false economy is being artificially propped up by such massive cash inflows.

<p>The extent to which that jurisdiction is characterized as an offshore banking or secrecy haven by credible international organizations or multilateral expert groups</p>	<p>Lebanon is considered an offshore tax haven known for its banking secrecy policies.</p>	<p>The Congressional Research Service report entitled “Tax Havens: International Avoidance and Evasion” identifies Lebanon as a tax haven jurisdiction. (CRS Report, “Tax Havens: International Avoidance and Evasion,” Jane G. Gravelle, 9/3/2010)</p> <p>The Financial Secrecy Index identifies Lebanon as a tax haven with high levels of bank secrecy. (Financial Secrecy Index, “Mapping Financial Secrecy: Lebanon,” Tax Justice Network, 10/4/2011)</p>
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<p>Whether the United States has mutual legal assistance treaty with that jurisdiction, and the experience of United States law enforcement officials and regulatory officials in obtaining information about transactions originating in or routed through or to such jurisdiction</p>	<p>The U.S. does not have a mutual legal assistance treaty with Lebanon. Other than a bilateral trade framework agreement, the U.S. and Lebanon have not established any other bilateral treaty or agreement.</p>	<p>The U.S. does not have a mutual legal assistance treaty with Lebanon. (U.S. State Department, "2012 INCSR: Treaties & Agreements," 3/7/20120)</p> <p>"The U.S. has neither a bilateral investment treaty (BIT) with Lebanon nor an agreement on the avoidance of double taxation. However, on December 1, 2006, the U.S. signed a Trade and Investment Framework Agreement (TIFA) with the Government of Lebanon to help promote an attractive investment climate, expand trade relations, and remove obstacles to trade and investment between the two countries." (U.S. State Department, "Background Note: Lebanon," 12/1/2011)</p>
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<p>The extent to which that jurisdiction is characterized by high levels of official or institutional corruption</p>	<p>Lebanon has consistently scored poorly on the Transparency International's Corruption Perception Index. The U.S. State Department has also acknowledged that while Lebanon has laws and regulations to combat corruption, such laws and regulations are not always enforced. Lebanon appears to suffer from significant bribery problems within its public sector.</p>	<p>According to Transparency International's (TI) 2011 Corruption Perception Index (CPI), Lebanon ranked 134 out of 182 countries worldwide and 15 out of 18 MENA countries. (Transparency International's Corruption Perception Index 2011)</p> <p>"Lebanon has laws and regulations to combat corruption, but these laws are not always enforced. According to Lebanese law, it is a criminal act to give or accept a bribe.... Bribing a government official is also a criminal act. The Central Inspection Directorate is responsible for combating corruption in the public sector, while the public prosecutor is responsible for combating corruption in the private sector. In April 2009, Lebanon ratified the UN Convention against Corruption. Lebanon is not a signatory to the OECD Convention on Combating Bribery. Corruption is more pervasive in government contracts (primarily in procurement and public works), taxation, and real estate registration than in private sector deals. It is widely believed that investors routinely pay bribes to win government contracts, which are often awarded to companies close to powerful politicians...." (U.S. State Department, "2011 Investment Climate - Lebanon," March 2011)</p>
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Further, before imposing these “special measures,” the statute requires the consideration of the following “specific factors” as outlined in the chart below.

“Specific Factors” Under Section 311	Expected Impact	Supporting Data
<p>Whether similar action has been or is being taken by other nations or multilateral groups</p>	<p>Lebanon has not been designated as a jurisdiction of primary laundering concern by other nations or multilateral groups. However, Lebanon is subject to numerous UN resolutions and banking sanctions.</p>	<p>U.S. Lebanon-related sanctions, including the designation of the Lebanese Canadian Bank SAL as a financial institution of primary money laundering concern. (U.S. Department of Treasury, “Lebanon-Related Sanctions,” 1/25/2012; U.S. Department of the Treasury, Federal Register, Vol. 76, N. 33, Proposed Rules, 2/17/2011)</p> <p>The U.S., pursuant to Section 311 of the USA PATRIOT Act, has designated the Lebanese Canadian Bank SAL and the Syrian Lebanese Commercial Bank as financial institutions of primary money laundering concern. (Financial Crimes Enforcement Network, “Section 311 – Special Measures,” accessed 5/26/2012)</p> <p>The UN Security Council adopted resolution 1701 on August 11, 2006 imposing sanctions against Lebanon in response to the continued escalation of hostilities in Lebanon and Israel stemming from Hizballah’s attack of July 12, 2006 on Israel. The measures imposed against Lebanon include (1) a prohibition on the export of arms and related material to any person in Lebanon and (2) a prohibition on the provision to any person in Lebanon of any technical assistance related to the provision, manufacture, maintenance or use of arms and related materials. (United Nations Security Council Resolution 1701 (2006))</p> <p>The UN Security Council adopted resolution 1559 on September 4, 2004 calling for the disbanding and disarmament of all Lebanese and non-Lebanese militias. (United Nations Security Council Resolution 1559 (2004))</p>

Whether the imposition of any particular special measures would create a significant competitive disadvantage, including any undue cost or burden associated with compliance, for financial institutions organized or licensed in the United States

The impact of a Section 311 designation on Lebanon would have a *de minimis* effect on U.S. banks and financial institutions. A Section 311 designation would not create an undue cost or burden for the U.S. financial system.

According to Banque du Liban, very few financial institutions have meaningful connections/operations in the U.S. and/or EU financial systems. (Banque du Liban, "[List of Complete Financial Institutions](#)," accessed 5/26/2012)

"The Lebanese Banking Sector comprises 54 small, medium and large size private commercial banks and 14 specialized medium and long term credit banks better known by investment banks. Banks operating in Lebanon are categorized also, in terms of ownership, as Lebanese, foreign and mixed, hence revealing the diversity and competitiveness of this sector and the low to moderate concentration of activities. The Lebanese banking industry employs currently close to 21,337 employees in 943 branches conveniently spread throughout the country. It manages around USD 140 billion in assets nation-wide (i.e., excluding assets of abroad subsidiaries and other entities) according to the latest available data (June 2011)." (Association of Banks in Lebanon, "[Facts & Figures](#)," October 2011)

The extent to which the action or the timing of the action would have a significant adverse systemic impact on the international payment, clearance and settlement system, or on legitimate business activities involving the particular jurisdiction

Lebanon's GDP of approximately \$40 billion is 80th in the world (out of 193 countries). Its banking and financial system, though important on a regional level, would have a limited impact globally.

[World Bank Gross Domestic Product Rankings](#) (2010)

<p>The effect of the action on U.S. national security and foreign policy</p>	<p>Lebanon is a country run by Hizballah. Hizballah is a known terrorist organization responsible for numerous terrorist attacks and human rights violations. Hizballah has been designated by the U.S. as a Foreign Terrorist Organization, and it has been considered a proxy of Iran. Such concerns make Lebanon a threat to American national security.</p>	<p>Hizballah is a known terrorist organization that has been designated by the U.S. as a Foreign Terrorist Organization (FTO) by the Secretary of State in accordance with section 219 of the Immigration and Nationality Act (INA), as amended. (U.S. State Department Website)</p> <p>Hizballah is known or suspected to have been involved in numerous anti-U.S. terrorist attacks, including the suicide truck bombing of the U.S. embassy and U.S. Marine barracks in Beirut in October 1983, and the U.S. embassy annex in Beirut in September 1984. Receives substantial amounts of financial, training, weapons, explosives, political, diplomatic, and organizational aid from Iran and Syria. (Center for Defense Information Website)</p> <p>Iran's role in Hizballah is no secret, but only in February of 2012 did Hizballah's leader Hassan Nasrallah admit in a speech that Hizballah was financially supported by Iran. (<i>Hurriyet Daily News</i>, "Iran funds Hezbollah, leader Nasrallah admits," 2/9/2012)</p> <p>"Of course, one cannot hope to apply effective financial pressure against a group like Hizballah so long as it maintains massive inflows of cash from a state sponsor of terrorism, in this case the Iranian Government." (Testimony of Adam J. Szubin, Director, Office of Foreign Assets Control, U.S. Department of the Treasury, Before the U.S. Senate Committee on Banking, Housing and Urban Affairs, 9/12/2006)</p>
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