

FT BIG READ. MIDDLE EAST

The rise and fall of Riad Salameh, the former central banker accused of a litany of financial crimes, mirrors that of a country blighted for decades by hubris, deceit and corruption.

By Raya Jalabi

In June 2021, as Lebanon was in the throes of a debilitating financial crisis, the country's central bank governor touched down at Paris's Le Bourget airport by private jet, where customs officials found him carrying large amounts of undeclared cash.

Riad Salameh, who also has French citizenship, told border agents that he had simply "forgotten" that the cash — €84,430 and \$7,710 — was in his bag, police records show.

That the public face of Lebanon's financial implosion could seemingly forget about \$100,000 when millions of Lebanese were locked out of their life savings, demonstrates the deep chasm between his lifestyle and that of most in 2021. While Salameh spent lavishly on private jets and alleged paramours, Lebanese saw the value of their savings plummet.

Appointed in 1993, Salameh helped build a rentier economy from the ashes of Lebanon's devastating civil war. He was praised for steadying the country through years of instability, his cosy relationships with the political and banking elites and powerful foreign patrons ensuring few questions were asked of his unorthodox financial tools.

Leaving the bank's offices for the last time in July, the 73-year-old was cheered by a small crowd of supporters. Yet his reputation is now in tatters, his 30-year tenure at the Banque du Liban tarnished by accusations that he helped lead the country down its path to ruin.

He is the focus of judicial investigations in Lebanon, the US and at least seven European countries probing allegations of financial crimes. Two of them have warrants out for his arrest. On August 10, he was sanctioned by the US, UK and Canada. The US attorney's office in the Southern District of New York has also opened an investigation into Salameh, the Financial Times has learnt. An SDNY spokesperson declined to comment.

His rise and fall mirrors that of his country, one blighted by decades of hubris, deceit and corruption, now mired in what the World Bank has called one of the world's worst economic depressions, "orchestrated by the country's elite that has long captured the state and lived off its economic rents".

The police report from Le Bourget is among a range of documents the FT has reviewed from European and Lebanese judicial investigations, probing allegations that Salameh engaged in financial practices "to the detriment of the state", laundered money, engaged in fiscal fraud and embezzled public funds. These include court and police reports, financial records, auditors' reports, company balance sheets, real estate contracts and transcripts of witness testimonies of those in Salameh's orbit.

The FT has verified the documents' authenticity and, where possible, has supplemented them with interviews of key figures. Together, they provide a comprehensive view of how he allegedly abused the powers of his office for personal gain and demonstrate a pattern of embroiling his family in his financial affairs.

Along with his brother Raja, Salameh is accused of siphoning off at least \$330mn in public funds, laundering those through a maze of international bank accounts and offshore accounts tied to his family and rumoured mistresses, buying up luxurious properties from Munich to New York, and defrauding the central bank into renting overpriced office space in Paris from a company he owns.

Announcing sanctions against him, the US Treasury said Salameh's litany of alleged crimes "contributed to Lebanon's endemic corruption and perpetuated the perception that elites in Lebanon need not abide by the same rules that apply to all Lebanese people".

Salameh, who has long denied all allegations of misconduct, declined to comment to the FT on the continuing investigations, as he "respects the law and the secrecy of interrogations".

'Financial engineering'

When Salameh took up office in 1993, he helped usher in Lebanon's economic revival following 15 years of devastating civil war. The financial system continued to rely predominantly on foreign inflows from Gulf Arab states and wealthy Lebanese citizens, and exploited its banking secrecy laws.

To keep borrowing rates affordable and finance reconstruction plans, the Lebanese pound was fixed at 1,507 to the dollar, where it remained until February. Three decades on, economists point to Salameh's decision to maintain that fixed exchange rate, whatever the cost, as the root of the current rot as the system was entirely dependent on incoming dollars.

For years, Lebanon rebuilt but lived far beyond its means, its debt-to-GDP ratio averaging 150 per cent — one of the world's highest — for most of the past



The 'magician' of Lebanon

Protesters, above, blame the former central banker for Lebanon's financial crisis. Employees in Beirut greet Salameh, below, on his last working day in the role

FT montage: Aziz Taher/Reuters/Wael Hamzeh/EPA-EFE

two decades. Salameh was soon nicknamed "the magician" as the economy remained resilient through periods of conflict and political mayhem.

Meanwhile, the BdL stopped publishing profit-and-loss statements, instead announcing year-on-year gains through accounting tricks, findings echoed in a recent forensic audit of the BdL.

The flow of Gulf money began slowing after years of instability. Salameh turned to what he called "financial engineering": incentivising commercial banks to increase their dollar deposits at the BdL with interest rates of up to 12 per cent, to shore up the large stock of foreign reserves that were key to the currency's stability.

Lebanese banks shifted most of their foreign currency liquidity from correspondent banks abroad into deposits at the BdL. During the 1975-1990 civil war years, banks maintained about 90 per cent of their reserves in liquid assets, according to economist Toufic Gaspard. By 2019, they were down to 7 per cent.

At that point more than two-thirds of Lebanese bank deposits were invested with the state, according to Joan Chaker, an expert on Lebanon's economic history, and the rates of return were abnormally high. Politicians and economists later described it as a "state-sponsored Ponzi scheme".

It all came crashing down in 2019 to devastating effect. There were no longer enough dollars to keep the system afloat. The pound plummeted to historic lows and banks imposed punishing haircuts on customers' withdrawals, emboldened by an inert and hapless government. GDP has shrunk by 40 per cent and inflation is in the triple digits.

Much of the public anger has focused on Salameh, with many Lebanese holding him personally accountable for wiping out their savings and allowing banks to lock them out.

"We have lost everything because of him," says Mohammad Ali Hassan, a shopkeeper who angrily watched Salameh leave the BdL for the last time on July 31. "The only thing that

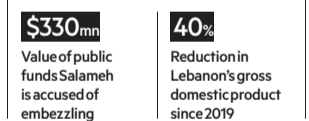
would satisfy my anger is seeing him behind bars."

Unlike most Lebanese, Salameh's personal fortune appears to have grown throughout the crisis.

This year, he told European investigators during questioning that in 1993 his cash holdings and real estate were worth \$60mn, including \$8mn in inherited family land. He said his fortune now stood at \$200mn.

Salameh has said his wealth was accrued in his years as an investment banker and subsequent wise investments. Yet a financial study commissioned by German investigators concluded in 2022 that Salameh "could not have amassed all of his wealth with the money that he legitimately possessed before assuming the post of governor".

In 2020, Switzerland launched an investigation, followed in 2021 by Lebanon, France, Germany and Luxem-



bourg. The authorities in Monaco, Liechtenstein, Belgium, the US and the UK are also probing Salameh's activities.

At the heart of the Swiss investigation was a little-known company called Forry Associates. Incorporated in 2001 and registered in the British Virgin Islands, the company is owned entirely by Raja Salameh, the governor's younger brother.

European investigators allege that this company was the main vehicle through which Salameh embezzled about \$330mn from the BdL between 2002 and 2016, funnelling much of those funds into luxury real estate acquisitions across European capitals, Lebanon and in New York.

On April 6 2002, Forry signed a brokerage contract with the BdL, which allowed it to act as an intermediary between the BdL and commercial banks for the purchase or sale of financial instruments such as eurobonds, Treasury bills and certificates of deposit.

Under this contract, signed by Riad Salameh and a company director named as Kevin Walter, Forry earned a broker's fee of up to 0.38 per cent of the value of each transaction.

BdL staff interviewed by European investigators last year said they did not have any invoices or receipts involving Forry. Instead, Salameh told investigators he handled those transactions himself, and tasked a subordinate with executing transfers to Forry's account.

The commissions were paid directly into what Salameh called a clearing account, after which they were routed to

Forry's bank accounts in Switzerland. Salameh told investigators that the BdL employee who handled the transfers would send him a letter detailing each transaction to sign.

More than two years into their probe, investigators have yet to substantiate that Forry had any activities beyond receiving money from the central bank. They have not found a list of clients nor employees, nor a Kevin Walter.

In a 2022 search of Forry's premises in Beirut — the same address registered as Raja Salameh's former office — there were no employees, no fixed telephone line and no letterhead with Forry's name on it. Attempts by the FT to contact the company were unsuccessful. Raja Salameh did not respond to requests for comment, but has previously denied any wrongdoing.

All debit transactions were made to Raja Salameh and Riad Salameh or to offshore companies, French investigating judge Aude Buresi wrote, adding that the commissions "do not correspond to any real service performed by Forry... and benefited Riad Salameh and his relatives without the knowledge of his employer."

Several banks who had paid commissions to the BdL during the period in question, told investigators that they had never heard of Forry until its existence was revealed in the media and were unaware they had paid commissions to a company owned by Raja Salameh.

Riad Salameh told Lebanese investigators that no bank employees knew about Forry's existence. He has maintained that Forry had a legitimate contract with the BdL and told investigators he could not be drawn on any of the company's actions, because he "had nothing to do with Forry".

As part of his defence, Salameh hired a local audit firm to produce a report, which exonerated him. It found that no BdL funds were sent to the governor's or Forry's accounts. But the firm's head recently told investigators it was not comprehensive, as Salameh only provided snippets to examine.

Forry hit trouble in 2015, when HSBC Switzerland detected irregularities on two transfers worth \$7mn, according to an internal bank report seen by the FT. When HSBC demanded a copy of the 2002 contract, Raja provided a version with marked discrepancies from the BdL original. The bank refused to process those transfers and shuttered the account.

French investigators have said those discrepancies mean the BdL's Forry contract was "legally non-existent".

Investigators have studied the money flows from Forry's HSBC account in Switzerland to make their case against the Salamehs, as it followed a complex layering process through multiple bank

'We have lost everything because of him. The only thing that would satisfy my anger is seeing him behind bars'

'As long as he stays [in the country], he won't squeal [on people's secrets] and everybody stays happy'

accounts in Europe, Asia and the US; as well as through a range of offshore companies and trusts.

In all, judicial documents show Forry's account transferred more than \$248mn to Raja Salameh's personal accounts at HSBC Switzerland in multiple currencies between 2002 and 2016. From there, at least \$207mn was traced back to several of his accounts at five Lebanese banks.

Much of that next went back overseas into companies, offshore accounts and investment vehicles of which Riad Salameh was the economic beneficiary — either directly from Forry's accounts or via his brother Raja's.

Investigators say funds linked to Forry were used to buy properties in Paris and New York, and in the UK, Germany, Switzerland and Belgium.

Most of the Salameh-linked real estate and bank accounts in Europe were frozen in 2022 as part of the joint investigation led by France, Germany and Luxembourg. Eurojust announced the seizure of some €120mn of assets, including bank accounts and real estate. US authorities seized the two New York properties and associated bank accounts on August 10.

The tightening net

Since stepping down last month, many are asking whether the fugitive governor might face justice, after 30 years at the heart of power.

It is widely assumed that Salameh will stay in Lebanon to avoid arrest and questions abroad. The arrangement suits Lebanon's politicians fine, one senior politician says: "As long as he stays here, he won't squeal [on their secrets] and everybody stays happy."

But impunity is rife in the tiny Mediterranean country, and Lebanon's investigations have stalled amid complaints of pushback by Salameh's powerful patrons and his refusal to co-operate. A judge was recently disbarred over her attempts to investigate Salameh and other senior Lebanese officials.

Things look very different outside Lebanon. French anti-corruption NGO Sherpa, which is party to the case in France, has said it anticipates a trial to go ahead in 2024, whether Salameh shows up or not.

The US, UK and Canada on August 10 slapped sanctions on Salameh and several family members and associates for engaging "in a variety of unlawful self-enrichment schemes."

The international net may be drawing in, but at home the central banker has allegedly crafted his own protection. Having left the BdL "with secrets in tow", the senior politician says, he has made known they are scattered on flash drives outside the country "should something bad happen to him".

