

Table 8.13 Breakdown of five largest bank movements for treasury bills:¹⁰³

Transaction Type	Bank Name	2015 (LBP'000)	2016 (LBP'000)	2017 (LBP'000)	2018 (LBP'000)	2019 (LBP'000)	2020 (LBP'000)
Subscription	Societe Financiere Du Liban SAL	4,911,169,471	5,047,744,692	9,959,064,177	17,229,078,906	16,655,574,960	9,405,325,554
Subscription	Bank Audi SAL	601,081,578	2,034,857,825	1,694,694,130	1,358,293,600	1,373,100	1,582,510
Subscription	BBAC SAL	602,521,025	1,844,810,467	1,815,251,050	1,065,930,390	1,357,330	3,409,410
Subscription	Byblos Bank SAL	1,627,739,415	729,355,540	979,134,455	472,735,450	-	1,006,600
Subscription	IBL Bank SAL	655,271,130	1,647,751,480	1,202,597,680	225,299,650	542,940	445,930
Buy	Optimum Invest SAL	1,038,053,500	363,439,170	94,452,540	-	-	-
Buy	Bank Audi SAL	13,539,887	34,741,018	31,596,277	517,153,825	4,821,492	-
Buy	FransaBank SAL	7,621,761	15,127,020	257,852,991	192,627,613	-	-
Buy	Societe Generale De Banque Au Liban SAL	13,026,519	34,818,222	190,583,560	183,201,914	-	-
Buy	Banque Libano Francaise SAL	13,437,189	98,524,422	18,931,476	216,475,551	-	-
Sell	Societe Financiere Du Liban SAL	(4,911,061,260)	(5,046,547,985)	(9,956,773,917)	(17,220,329,808)	(16,657,401,780)	(9,380,041,153)
Sell	Bank Audi SAL	(366,600,452)	(2,550,696,575)	(648,595,105)	(1,362,862,029)	(8,424,586)	(2,484,066)
Sell	Optimum Invest SAL	(2,057,471,000)	(1,462,260,027)	(1,138,395,945)	-	-	-
Sell	BBAC SAL	(63,467,050)	(2,148,374,295)	(1,647,175,640)	(186,973,167)	(2,517,168)	(5,507,628)
Sell	Societe Generale De Banque Au Liban SAL	(22,556,838)	(1,861,647,666)	(2,020,869,082)	-	(5,285,993)	(4,029,828)
Coupon	BBAC SAL	(369,666,405)	(301,306,459)	(299,982,712)	(311,151,257)	(323,337,088)	(292,434,135)
Coupon	Byblos Bank SAL	(216,805,404)	(222,364,417)	(184,516,674)	(177,574,815)	(185,256,815)	(169,865,879)
Coupon	Bank Audi SAL	(139,935,757)	(117,992,070)	(144,074,017)	(174,169,571)	(215,898,493)	(215,764,262)
Coupon	Societe Generale De Banque Au Liban SAL	(222,818,679)	(197,731,440)	(136,561,923)	(99,517,059)	(149,910,282)	(149,901,979)
Coupon	FransaBank SAL	(154,113,316)	(133,861,202)	(144,710,505)	(141,610,391)	(151,475,925)	(147,641,405)

¹⁰³ See Appendix 12

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Transaction Type	Bank Name	2015 (LBP'000)	2016 (LBP'000)	2017 (LBP'000)	2018 (LBP'000)	2019 (LBP'000)	2020 (LBP'000)
Maturity	BBAC SAL	(859,753,250)	(663,497,000)	(846,149,180)	(897,402,550)	(496,570,000)	(364,159,360)
Maturity	Credit Libanais SAL	(882,524,500)	(684,250,000)	(777,520,000)	(749,317,800)	(279,185,000)	(293,907,020)
Maturity	Byblos Bank SAL	(876,415,000)	(679,924,840)	(585,636,710)	(514,884,000)	(35,831,000)	(418,531,000)
Maturity	Banque Libano Francaise SAL	(821,335,000)	(549,460,000)	(630,265,000)	(682,835,220)	(329,289,000)	(67,905,000)
Maturity	MIDCLEAR	-	(112,575,000)	(1,561,764,452)	(94,300,000)	(10,000,000)	(7,116,000)
Commission	Optimum Invest SAL	445,665,500	497,681,334	355,290,626	-	-	-
Commission	IBL Bank SAL	20,000,000	434,651,814	-	-	-	-
Commission	Bank Audi SAL	-	387,997,191	-	-	-	-
Commission	Societe Generale De Banque Au Liban SAL	-	369,452,563	-	-	-	-
Commission	Byblos Bank SAL	-	313,482,088	-	-	-	-

Term Deposits

- 8.4.6 The placement accounts of each commercial bank or financial institution will include all the Term Deposits placed by the entity in BdL, however, the interest earned on the Term Deposits will be credited to the current account of that entity.
- 8.4.7 BdL highlighted that the placement accounts value should be higher than the sum of the loan accounts value at any given time because the placement accounts are used as collateral against the loans provided by BdL to the commercial banks.
- 8.4.8 Table 8.14 below summarizes the five largest bank movements across Term Deposits between 2015 and 2020 for each transaction type:

Table 8.14 Breakdown of the five largest bank movements across various Term Deposits :¹⁰⁴

Transaction Type	Bank Name	2015 (LBP'000)	2016 (LBP'000)	2017 (LBP'000)	2018 (LBP'000)	2019 (LBP'000)	2020 (LBP'000)	Total (LBP'000)
Subscription	Bank Audi SAL	6,155,600,000	96,015,100,000	29,055,227,000	30,559,520,000	25,011,397,000	65,969,860,000	252,766,704,000
Subscription	BLOM Bank SAL	8,192,000,000	31,844,000,000	13,770,176,000	19,960,917,000	5,410,691,000	14,281,920,000	93,459,704,000
Subscription	Societe Generale De Banque Au Liban SAL	4,945,000,000	43,037,500,000	9,605,072,000	20,706,654,000	4,584,109,000	4,154,925,000	87,033,260,000
Subscription	Byblos Bank SAL	15,725,000,000	17,967,000,000	7,393,480,600	8,709,322,000	10,146,603,000	18,639,292,000	78,580,697,600
Subscription	Fransabank SAL	10,488,500,000	26,571,112,500	16,101,334,000	11,454,527,000	5,788,873,000	1,077,206,000	71,481,552,500
Coupon	BLOM Bank SAL	(234,404,000)	(250,703,038)	(548,030,896)	(885,758,113)	(1,456,308,042)	(1,288,715,895)	(4,663,919,984)
Coupon	Bank Audi SAL	(12,900,000)	(22,515,385)	(188,434,867)	(362,360,015)	(1,158,300,941)	(1,193,413,535)	(2,937,924,743)
Coupon	Societe Generale De Banque Au Liban SAL	(44,728,000)	(49,797,231)	(261,339,538)	(630,534,667)	(995,321,757)	(795,992,118)	(2,777,713,311)
Coupon	Byblos Bank SAL	(44,350,000)	(44,350,000)	(181,856,888)	(396,014,505)	(615,124,225)	(616,392,662)	(1,898,088,280)
Coupon	Fransabank SAL	(65,836,000)	(66,543,692)	(136,423,231)	(302,191,398)	(432,808,962)	(580,624,164)	(1,584,427,448)
Liquidation	Societe Generale De Banque Au Liban SAL	-	-	(1,951,584,923)	(3,536,863,970)	(1,682,611,085)	(9,710,782,000)	(16,881,841,978)
Liquidation	BLOM Bank SAL	-	-	(4,091,169,308)	(3,831,243,348)	(1,228,468,363)	(6,648,376,147)	(15,799,257,166)
Liquidation	Bank Audi SAL	-	-	(2,526,169,231)	(484,097,776)	-	(6,755,630,114)	(9,765,897,121)
Liquidation	Byblos Bank SAL	-	-	(2,020,727,500)	(962,777,624)	(1,616,484,880)	(2,042,759,632)	(6,642,749,636)
Liquidation	BankMED SAL	-	(1,211,101,442)	-	-	(216,784,713)	(2,597,721,619)	(4,025,607,774)
Maturity	Bank Audi SAL	(6,116,114,753)	(91,813,263,964)	(27,605,932,914)	(23,431,929,200)	(20,904,372,254)	(63,996,969,752)	(233,868,582,837)
Maturity	BLOM Bank SAL	(8,149,393,058)	(28,279,044,084)	(7,761,828,207)	(11,823,134,505)	(2,210,375,540)	(10,534,063,236)	(68,757,838,631)
Maturity	Byblos Bank SAL	(15,808,620,310)	(16,789,486,549)	(3,644,344,344)	(4,941,324,318)	(8,060,873,785)	(17,179,974,942)	(66,424,624,248)
Maturity	Societe Generale De Banque Au Liban SAL	(4,962,331,518)	(40,166,160,369)	(5,471,327,100)	(14,427,844,600)	(1,323,987,349)	-	(66,351,650,936)
Maturity	Fransabank SAL	(10,670,208,857)	(25,541,526,803)	(14,964,330,925)	(10,101,762,657)	(3,980,120,526)	(670,202,407)	(65,928,152,175)

¹⁰⁴ See Appendix 12.

Certificates of Deposit

- 8.4.9 Midclear acts as an intermediary and custodian in relation to the CDS. According to BdL, Midclear provides them with regular financial schedules summarizing positions and profile of maturities, however, due to bank secrecy law BdL is unwilling to provide the detailed information by commercial bank. As such we have been unable to determine each bank's position in relation to CDs, the interest rates, or maturities.
- 8.4.10 Summarized below are the overall movements for CDs between 2015 and 2020 for each transaction type to the extent the information was available. Midclear is the sole entity that subscribes to the new issuances of the CDs since it is the custodian on these financial instruments.
- 8.4.11 The data also shows movements in the secondary market as commercial banks acquire CDs and would be entitled to a coupon on the CD. BdL confirmed that Midclear is the intermediary and custodian on these financial instruments but did not provide further explanation on the commercial banks' transactions in these financial instruments. There are certain entries in CBS in relation to Optimum Invest SAL, Bank Audi, IBL and Bank of Beirut, but BdL have not provided an explanation as to why some of these transactions are included whilst the remainder go through Midclear.
- 8.4.12 The commissions in 2016 to commercial banks relate to the discounting of CDs and providing 50% of future interest that would have been earned if the CDs were held to maturity.

Table 8.15 Breakdown of bank movements across CDs:¹⁰⁵

Transaction Type	Bank Name	2015 (LBP'000)	2016 (LBP'000)	2017 (LBP'000)	2018 (LBP'000)	2019 (LBP'000)	2020 (LBP'000)
Subscription	MIDCLEAR	5,568,000,000	3,475,000,000	5,745,024,396	12,716,000,000	312,000,000	35,000,000
Coupon	MIDCLEAR	(2,572,849,000)	(3,012,014,200)	(2,816,811,300)	(3,630,626,300)	(4,278,989,938)	(4,177,652,277)
Coupon	Optimum Invest SAL	-	-	-	-	-	1,854,000
Coupon	Bank Audi SAL	-	-	-	-	26,380,000	-
Buy / (Sell)	MIDCLEAR	-	(9,568)	14,962,700	85,786,390	(1,212,585,618)	(14,000,000)
Buy / (Sell)	Bank of Beirut SAL	-	-	-	1,052	-	-
Buy / (Sell)	IBL Bank SAL	-	19,204	-	-	-	-
Buy / (Sell)	Optimum Invest SAL	1,238	42,287,595	-	-	9,391,849	-
Maturity	MIDCLEAR	(601,635,897)	(3,488,405,248)	(4,835,651,555)	(852,570,507)	(3,025,052)	(2,867,091,677)
Commission	Federal Bank of Lebanon SAL	-	834,382	-	-	-	-
Commission	FFA (Private Bank) SAL	-	839,700	-	-	-	-
Commission	Fransa Invest Bank SAL	-	1,304,848	-	-	-	-
Commission	JTB Bank SAL	-	5,313,668	-	-	-	-
Commission	Qatar National Bank (QPSC)	-	6,507,416	-	-	-	-
Commission	Cedrus Bank SAL	-	7,282,217	-	-	-	-
Commission	Credit Libanais SAL	-	9,056,177	-	-	-	-
Commission	BSL Bank SAL	-	12,770,843	-	-	-	-
Commission	CreditBank SAL	-	16,176,140	-	-	-	-
Commission	AM Bank SAL	-	16,234,767	-	-	-	-
Commission	LGB Bank SAL	-	20,792,036	-	-	-	-
Commission	Lebanese Islamic Bank SAL	-	30,984,780	-	-	-	-
Commission	Banque Misr Liban SAL	-	42,665,995	-	-	-	-
Commission	Saradar Bank SAL	-	48,475,715	-	-	-	-
Commission	Bank Bemo SAL	-	57,620,397	-	-	-	-
Commission	BBAC SAL	-	70,954,634	-	-	-	-
Commission	BLC Bank SAL	-	110,388,833	-	-	-	-
Commission	First National Bank SAL	-	116,126,025	-	-	-	-
Commission	Bank of Beirut SAL	-	209,475,596	-	-	-	-
Commission	Byblos Bank SAL	-	241,017,107	-	-	-	-
Commission	FransaBank SAL	-	258,401,433	-	-	-	-
Commission	BankMED SAL	-	346,007,438	-	-	-	-
Commission	Banque Libano Francaise SAL	-	373,922,231	-	-	-	-
Commission	IBL Bank SAL	-	389,604,019	-	-	-	-
Commission	BLOM Bank SAL	-	496,732,121	-	-	-	-
Commission	Societe Generale De Banque Au Liban SAL	-	1,139,275,351	-	-	-	-
Commission	Bank Audi SAL	-	2,347,361,168	-	-	-	-
Commission	Optimum Invest SAL	-	-	2,212,797,592	7,943,340,294	-	-

¹⁰⁵ See Appendix 12.

Impact of financial Engineering

- 8.4.13 Commercial banks have benefitted from the financial engineering scheme detailed in Section 5 by attracting deposits from the Lebanese diaspora and other investors and exchanging these for high yielding government Eurobonds and deposits with BdL well above their required reserves.
- 8.4.14 At Appendix 13 we have estimated the profit made by the banks through participation in the loans under leverage agreement based on the assumption that the loans taken by the banks were at an interest rate of 2% and their foreign exchange deposits returned 6% and LBP deposits returned 11%.
- 8.4.15 The summary of the profits made are summarised in Tables 8.16 to 8.19 below, which show that an estimated profit of LBP 7.3tn was made by the commercial banks :

Table 8.16 Summary of estimated profits made by the commercial banks in relation to loans under leverage agreement (LBP'000)

Estimated profit made on loans under leverage on:	2017	2018	2019	2020	Total
Treasury Bills	1,198,533,890	1,603,863,684	1,599,686,426	1,538,618,160	5,940,702,159
Term Deposits	48,688,309	288,091,274	620,128,546	525,911,667	1,482,819,796
CDs	-	102,888,000	102,888,000	102,888,000	308,664,000
Total	1,247,222,198	1,994,842,958	2,322,702,972	2,167,417,827	7,732,185,955

- 8.4.16 The estimated profit made by each bank in relation to loans under leverage agreements against treasury bills is as follows:

Table 8.17 Summary of estimated profits made in relation to loans under leverage against treasury bills (LBP'000)

	2017	2018	2019	2020
AL Mawarid Bank	-	1,143,691	1,143,692	-
AM Bank	-	-	-	1,150,153
Arab Bank PLC	6,462,899	6,426,591	6,426,597	6,462,899
Bank Audi SAL	338,056,875	271,587,043	271,587,291	273,121,421
Bank Misr Liban	23,762,222	16,210,811	16,210,826	16,302,397
Bank of Beirut SAL	20,982,728	58,018,375	58,018,428	58,346,160
Bankmed SAL	38,358,480	111,819,424	111,819,526	112,451,167
Banque BEMO SAL	7,913,803	8,903,675	8,895,306	8,945,553
Banque de Credit national SAL	-	1,612,909	1,612,911	1,622,022
Banque Libano Francaise SAL	78,013,125	65,017,322	65,017,382	65,384,649
BBAC SAL	22,016,020	57,218,551	57,218,604	57,541,817
BLC Bank SAL	12,555,171	12,191,865	12,191,876	12,260,745
BLOM Bank SAL	235,645,034	318,535,821	318,536,112	320,335,444
BSL Bank SAL	-	-	-	-

	2017	2018	2019	2020
Byblos Bank SAL	69,563,730	139,136,700	139,127,112	139,913,007
Cedrus Bank SAL	29,526,480	57,026,452	57,026,504	57,348,632
Cedrus Invest Bank SAL	17,765,085	37,778,490	37,778,524	37,991,926
Credit Bank SAL	12,923,700	14,429,122	14,429,136	14,510,642
Credit Libanais SAL	46,888,260	66,371,907	66,371,968	66,746,887
Emirates and Lebanon	2,601,300	2,586,686	2,586,688	2,601,300
Federal Bank of Lebanon	2,358,834	2,777,650	2,777,653	2,793,343
Fenicia Bank SAL	7,860,853	17,384,078	17,384,094	17,482,293
First National Bank SAL	27,191,158	37,623,478	37,623,513	37,836,039
Fransa invest bank SAL	-	152,501	152,501	153,362
Fransabank SAL	25,919,126	51,621,317	51,621,364	51,912,960
IBL Bank SAL	26,897,104	-	-	54,729,033
Intercontinental Bank of Lebanon	-	54,421,569	54,421,619	-
Jammal Trust Bank SAL	4,160,148	4,136,777	-	-
Lebanese Swiss Bank	18,108,188	19,608,527	19,608,545	19,719,308
LGB Bank SAL	-	-	-	-
Lebanon and Gulf Bank	31,096,558	61,481,144	61,481,200	-
Libank	918,528	913,368	913,369	918,528
Lucid Investment	1,040,175	2,133,308	2,133,310	2,145,360
MEAB SAL	354,828	2,162,915	2,162,455	2,174,670
National Credit Bank SAL	1,310,282	-	-	-
North Africa Commercial Bank	6,716,328	6,678,596	6,678,602	6,716,328
Saradar Bank SAL	17,175,480	27,422,337	27,398,972	27,553,742
Societe Financiere du Liban SAL	-	1,163,717	1,163,718	1,170,291
Société Générale de Banque au Liban SAL	60,276,082	59,937,455	59,937,509	60,276,082
Societe Nouvelle de la banque de syrie et du Liban SAL	4,115,308	8,229,514	8,229,521	-
Grand Total	1,198,533,890	1,603,863,684	1,599,686,426	1,538,618,160

8.4.17 The estimated profit made by each bank in relation to loans under leverage against term deposits is as follows:

Table 8.18 Summary of estimated profits made in relation to loans under leverage against term deposits (LBP'000)

Bank Name	2017	2018	2019	2020
Al-Mawarid Bank SAL	-	10,453,462	17,106,628	-
AM Bank S.A.L	-	-	-	22,177,311
Bank Audi SAL	-	181,467,222	354,846,167	253,012,101
Bank Misr Liban	-	7,337,623	10,888,445	11,075,454
Bank of Beirut SAL	-	18,086,366	176,209,139	128,836,500
Bankmed SAL	-	109,731,267	122,792,973	59,299,617
Banque BEMO SAL	-	12,562,952	14,835,820	15,090,626
Banque De Credit National S.A.L	-	-	-	6,090,084
Banque Libano Francaise SAL	-	62,036,431	101,382,245	103,623,234
BBAC SAL	-	31,195,290	80,405,639	84,579,320
BCN SAL	-	-	5,625,999	-
BLC Bank SAL	-	-	13,354,147	13,877,409
BLOM Bank SAL	-	159,634,950	282,931,046	223,230,267
BSL Bank SAL	-	-	-	15,560,610
Byblos Bank SAL	-	88,759,203	175,241,937	182,415,285
Cedrus Bank SAL	-	3,711,611	8,460,854	6,798,363
Cedrus Invest Bank SAL	-	2,801,581	9,214,072	8,255,286
Credit Bank SAL	-	6,876,619	22,894,927	16,235,622
Credit Libanais Investment Bank SAL	-	-	2,528,774	2,572,206
Credit Libanais SAL	-	38,002,489	83,841,859	76,396,710
CSC Bank SAL	-	-	541,880	551,187
Federal Bank of Lebanon	-	1,099,596	1,459,085	1,550,289
Fenicia Bank SAL	-	2,443,555	6,136,823	6,462,651

Bank Name	2017	2018	2019	2020
Finance Bank SAL	-	1,182,381	10,854,244	13,111,566
First National Bank SAL	-	17,982,280	32,284,674	32,552,554
Fransa Invest Bank SAL	440,944	386,357	389,549	396,240
Fransabank SAL	22,047,192	69,386,513	138,789,140	141,297,804
IBL Bank SAL	-	40,998,414	-	107,324,514
IBL Invest Bank SAL	-	-	3,547,354	3,608,280
Intercontinental Bank of Lebanon SAL	-	-	106,726,151	-
Jammal Trust Bank SAL	-	773,930	-	-
Lebanese Swiss Bank	-	17,621,369	31,186,733	33,221,565
LGB Bank SAL	-	-	-	59,248,917
Lebanon and Gulf Bank	-	17,932,014	58,913,185	-
Libank	-	604,405	1,035,910	1,053,702
MEAB SAL	-	1,363,011	2,703,995	2,287,428
More Capital SAL	-	358,293	9,588,860	11,737,791
National Credit Bank SAL	-	25,174	-	-
North Africa Commercial Bank	-	37,837	2,205,671	2,243,553
Optimum Invest SAL	-	-	1,192,075	1,212,549
Saradar Bank SAL	-	24,911,078	30,795,650	26,290,992
Société Générale de Banque au Liban SAL	26,200,173	107,501,627	217,541,078	135,988,332
Societe Nouvelle de la banque de syrie et du Liban SAL	-	6,191,254	15,513,194	-
Grand Total	48,688,309	288,091,274	620,128,546	525,911,667

8.4.18 The estimated profit made by each bank in relation to loans under leverage against CDs is as follows:

Table 8.19 Summary of estimated profits made in relation to loans under leverage against CDs (LBP'000)

Bank Name	2017	2018	2019	2020
Bank Audi SAL	-	102,888,000	102,888,000	102,888,000

8.5 Conclusion

8.5.1 The assets of BdL related to commercial banks and other financial institutions are represented on its balance sheet as loans and soft loans to banks and financial institutions, and loans under leverage agreement.

8.5.2 The liabilities of BdL related to commercial banks and other financial institutions are represented on its balance sheet as commercial banks' current and demand deposits, term deposits, CDs and term deposits and CDs under leverage agreement.

8.5.3 The five commercial banks that obtained the highest average loans under the leverage agreement over since 2017 are Bank Audi; Blom Bank; Byblos Bank, Bankmed; and Societe Generale de Banque au Liban. The banks that utilised facilities offered by BdL, based on the

highest average balances over the Review Period were Bank Audi; Bank of Beirut; Banque de Habitat; Blom bank; and Credit Libanais.

8.5.4 The five commercial banks that maintained the largest deposits (both LBP and foreign currency) at BDL in the Review Period were Bank Audi; Byblos Bank; Blom Bank; Fransabank; and Societe Generale de Banque au Liban.

8.5.5 Commercial banks have benefitted from the financial engineering scheme through participation in the loans under leverage agreement. Bank Audi SAL and BLOM Bank SAL appear to have made the largest profits in relation to loans under leverage agreement.

9 Operational expenses

9.1 BdL's P&L

9.1.1 We have reviewed BdL's P&L in the Review Period, comprising the audited P&L in the years ending 31 December 2015 to 2018 and the unaudited P&L produced by BdL for the years ending 31 December 2019 and 2020. These are summarised at Appendix 14.

9.1.2 Included within BdL's P&L are the following, non-finance related expenses:

Table 9.1 Non-finance related expenses on BdL's P&L 2015 to 2020 (LBP '000,000)

	2015	2016	2017	2018	2019	2020
Write-back of accrued expenses	(2,850)	(8,538)	(6,906)	(3,789)	(4,907)	(8,931)
Salaries and related charges	156,609	165,659	164,900	167,199	155,634	156,698
End-of-service indemnity	5,592	5,540	7,047	4,834	(1,284)	1,461
Salaries and related charges - early retirement	41,038	42,816	113,824	70,222	20,781	2,028
Depreciation	-	-	-	-	-	-
General operating expenses	41,077	38,744	43,148	49,204	51,129	63,526
Write-down of properties and equipment	60,512	14,727	10,939	53,190	10,688	1,744

9.1.3 As discussed in Section 3, the P&L was engineered to ensure that a consistent profit was achieved in each financial year, facilitating a payment to the MoF. As BdL was reporting a profit in each financial year that did not reflect its underlying financial position, it permitted expenditure on costs that may not have been approved if BdL was reporting a loss. As such, we have reviewed non-finance related expenses.

9.2 Operating Expenses

9.2.1 Over the Relevant Period the general operating expenses of BDL increased from LBP 41,077m in 2015 to LBP 63,525m in 2020. We have reviewed the transactions and ERP accounts used to record the operating expenses line item on BdL's P&L using a schedule prepared by BdL that maps annual P&L balances to the ERP system.

9.2.2 On extracting the relevant data from the ERP system, we categorized the accounts based on the name attached to the GL account in the ERP system. This provided an overview of the type of expenses that make up the operating expenses, as indicated in the ERP system. The table below provides a summary the categorisation:

Table 9.2 Summary of account categories making up the balance of operating expenses (LBP'000)

#	GL Account Category	2015	2016	2017	2018	2019	2020	Total
1	Administrative Services & Equipment Expenses	17,210,556	18,672,466	19,569,391	22,745,669	23,491,515	24,405,057	126,094,654
2	Repairs and Maintenance	6,722,005	8,357,475	9,035,163	10,660,393	12,955,579	10,117,539	57,848,155
3	IT and Communications Expenses	3,721,134	3,756,749	3,838,775	3,995,068	4,381,087	4,869,573	24,562,385
4	Fees & Contracts Tax of Chapter iii	3,691,714	3,428,063	3,141,984	4,212,962	3,376,576	6,419,489	24,270,788
5	Advertising and Publications	1,687,590	1,389,842	1,447,948	1,542,417	844,021	333,221	7,245,039
6	Miscellaneous Expenses	167,194	488,599	757,887	576,024	752,678	1,386,552	4,128,934
7	Training, Conferences and Subscriptions	602,067	729,607	787,691	702,246	571,320	372,577	3,765,508
8	Professional and Legal Fees	548,360	459,681	493,386	988,001	451,771	737,669	3,678,868
9	Insurance expenses	70,493	62,450	66,557	68,558	158,484	168,437	594,978
10	Aids and Donations	7,230,190	3,731,227	6,231,650	7,673,896	6,569,214	856,376	32,292,554
11	Capital Expenses from Fixed Assets	14,724				141,601		156,325
12	Capital Expenses from Securities	1,246,091	1,231,069	1,627,035	2,029,276	1,632,682	1,413,794	9,179,947
13	Consumer Goods Expenses	839,828	744,594	845,260	686,803	669,282	1,093,707	4,879,474
14	Supplies	690,651	578,561	694,799	534,719	531,994	904,444	3,935,169
16	Other Expenses	149,177	166,033	150,461	152,084	137,287	189,263	944,304
17	Issuing expenses	5,320,715	5,857,896	7,461,991	6,137,899	8,173,293	23,063,234	56,015,027
19	Training, Conferences and Subscriptions	2,187,099	1,566,976	1,120,459	1,907,825	780,214	445,165	8,007,740
21	Provision for expenses of previous years	759,799	934,810	293,421	1,930,487	3,750,784	4,655,754	12,325,055
22	Real estate expenses	129,044	100,798	130,000	96,638	150,151	200,000	806,631
23	Real estate rental expenses	6,138,661	5,903,674	5,869,231	5,995,962	5,769,910	7,393,265	37,070,702

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#	GL Account Category	2015	2016	2017	2018	2019	2020	Total
24	Utilities expenses	2,984,032	2,941,365	2,971,407	3,009,176	2,868,117	2,907,149	17,681,246
25	Renting and Leasing Expenses	2,538,776	2,179,032	2,083,491	2,230,340	2,304,376	2,423,490	13,759,504
26	Repairs and Maintenance	615,853	783,277	542,982	756,446	597,417	2,062,626	5,358,602
27	Professional and Legal Fees	-	-	271,350	-	-	-	271,350
	Total	41,076,707	38,743,510	43,148,438	49,204,455	51,128,646	63,526,352	286,828,109

9.2.3 The ERP data was further analysed using two approaches:

- i) Review of the GL Accounts – we reviewed the GL account balances that make up the operating expenses line item of the P&L to identify accounts with large balances and significant increases year over year, which we then analysed in more detail to understand the underlying transactions.
- ii) Review of vendor balances – we analysed the invoice data in the payables module to identify vendors of interest based on invoice amounts and transaction descriptions.

9.3 Review of the GL accounts

9.3.1 All the accounts that had a cumulative balance equivalent to USD 1M for the Review Period were analysed. We further evaluated those accounts based on the descriptions and movements in the balance year-on-year, which resulted in a list of 29 GL accounts for review, as shown in table 9.3, and which we have grouped into six main categories:

- i) Aids and donations;
- ii) Repairs and maintenance of assets used by the bank;
- iii) Prior year adjustments;
- iv) Training and conference attendance costs;
- v) Advertising and publications; and
- vi) Fees and contracts tax of Chapter iii.

Table 9.3 List of GL account combination reviewed (LBP'000)

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#	GL Account Code	Category	2015	2016	2017	2018	2019	2020	Total
1	01.4653990001.0 0.101.00.0.0000	Aids and donations	6,693,606	-	-	-	-	-	6,693,606
2	01.4653990001.0 0.401.00.0.0000	Aids and donations	-	3,367,526	5,884,868	7,280,965	6,155,947	581,612	23,270,919
3	01.4653990001.3 7.101.00.0.0000	Aids and donations	298,519	-	-	-	-	-	298,519
4	01.4653990001.3 7.401.00.0.0000	Aids and donations	-	114,813	106,275	130,015	163,920	-	515,023
5	01.4507050309.0 0.416.00.0.0000	Repairs and maintenance of assets used by the bank	1,746,391	2,009,569	1,849,202	2,479,782	3,944,543	1,022,066	13,051,553
6	01.4353050001.0 0.401.00.0.0000	Prior year adjustments	-	-	-	554,797	1,149,007	1,491,624	3,195,428
7	01.4353050001.0 0.410.00.0.0000	Prior year adjustments	-	-	153,182	1,278,023	2,511,582	3,123,422	7,066,210
8	01.4505.30003.0 0.101.00.0.0000	Fees and contracts tax of Chapter iii	2,210,908	-	-	-	-	-	2,210,908
9	01.4505.30003.0 0.401.00.0.0000	Fees and contracts tax of Chapter iii	-	2,157,233	1,094,163	1,509,825	948,158	1,033,691	6,743,070
10	01.4901030001.0 0.101.00.0.0000	Training and conference attendance costs	1,833,013	-	-	-	-	-	1,833,013
11	01.4901030001.0 0.401.00.0.0000	Training and conference attendance costs	-	1,148,620	692,253	705,698	416,075	-	2,962,645
12	01.4507050313.0 0.405.00.0.0000	Repairs and maintenance of assets used by the bank	523,272	1,472,928	1,200,371	1,198,473	668,025	1,189,884	6,252,954
13	01.4503010002.0 0.416.00.0.0000	Repairs and maintenance of assets used by the bank	880,000	904,979	1,244,829	1,233,860	1,486,296	1,604,711	7,354,675
14	01.4549030002.0 0.101.00.0.0000	Advertising and publications	924,764	-	-	-	-	-	924,764
15	01.4549030002.0 0.401.00.0.0000	Advertising and publications	-	926,011	1,045,873	951,445	444,317	78,709	3,446,354
16	01.4505030002.0 0.101.00.0.0000	Fees and contracts tax of Chapter iii	259,993	-	-	-	-	-	259,993
17	01.4505030002.0 0.401.00.0.0000	Fees and contracts tax of Chapter iii	-	253,670	280,630	511,920	527,920	-	1,574,140
18	01.4503030001.0 0.420.00.0.0000	Advertising and publications	-	425,808	486,075	417,320	300,152	230,106	1,859,461

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#	GL Account Code	Category	2015	2016	2017	2018	2019	2020	Total
19	01.4453050105.0 0.420.00.0.0000	Repairs and maintenance of assets used by the bank	195,123	161,088	214,545	401,261	307,500	676,217	1,955,734
20	01.4505050099.0 0.401.00.0.0000	Fees and contracts tax of Chapter iii	-	-	-	-	-	81,586	81,586
21	01.4505050099.3 1.101.00.0.0000	Fees and contracts tax of Chapter iii	-	-	-	-	-	298,660	298,660
22	01.4505050099.3 5.101.00.0.0000	Fees and contracts tax of Chapter iii	-	-	-	-	-	177,879	177,879
23	01.4505050099.3 6.126.00.0.0000	Fees and contracts tax of Chapter iii	-	-	-	-	-	150,250	150,250
24	01.4505050099.3 9.101.00.0.0000	Fees and contracts tax of Chapter iii	-	-	-	-	-	150,000	150,000
25	01.4505050099.4 3.101.00.0.0000	Fees and contracts tax of Chapter iii	-	-	-	-	-	68,381	68,381
26	01.4903010001.0 0.101.00.0.0000	Training and conference attendance costs	97,291	-	-	-	-	-	97,291
27	01.4903010001.0 0.113.00.0.0000	Training and conference attendance costs	3,769	3,015	3,015	3,015	3,015	3,015	18,844
28	01.4903010001.0 0.115.00.0.0000	Training and conference attendance costs	115,158	125,517	137,178	138,058	150,837	174,870	841,617
29	01.4903010001.0 0.401.00.0.0000	Training and conference attendance costs	-	9,523	71,477	73,504	75,375	76,129	306,007
	Total		15,781,808	13,080,299	14,463,936	18,867,962	19,252,668	12,212,812	93,659,484

Aids and Donations

9.3.2 A review of Bdl's general ledger identified three accounts where the name indicates they relate to aid and donations during the Relevant Period.¹⁰⁶ The total amounts recorded in these accounts are summarised in the table below:

Table 9.4 Total amounts recorded in the aid and donation accounts (LBP'000)

2015	2016	2017	2018	2019	2020	Total
6,992,125	3,482,339	5,991,143	7,410,980	6,319,866	581,612	30,778,067

9.3.3 Approximately 9% of the transactions do not include a 'vendor' (i.e. beneficiary) in the "VENDOR_NAME" field. Where this is the case, the vendor is listed as "miscellaneous supplier" or the field is left blank.

9.3.4 Bdl's general ledger further categorises certain of the entries in the aid and donations related accounts, as summarised in Table 9.5 below. Although some of the entries are not categorised (those that are 'Null'), the most significant categories are those that are 'Vendor', followed by donations and event organisers.

Table 9.5 Aid and Donations categorisations per Bdl's general ledger in the Relevant Period (LBP'000)

Vendor Category	Total
Vendor	8,448,168
Donations - Other Associations	7,221,516
Donations - Charity ASS.	3,433,439
Events Organizers	3,244,139
Subscriptions - News / Mag	3,098,324
Null	2,874,550
Employee	946,735
Services Providers	579,886
Educational Institutions	204,885
Retirees	160,000
Future Employees	156,652
Public Sector	150,750
Travel Agencies	107,677
Trainers	43,846
Services Providers - Doctors	34,394
Hotels	20,350
Consultants - Experts	19,537
Tax Authority	17,795
Restaurants	10,828
Subscriptions - Others	4,595
Total	30,778,067

¹⁰⁶ See Appendix 14 for a breakdown of the total amounts by account.

9.3.5 The five largest vendors listed within the aid and donations account are the following:¹⁰⁷

- i) The Beirut Marathon Association (LBP 2,109,856,614);
 - a) This includes three payments of LBP 678,375,000 dated 27 Jan 2015, 27 July 2015 and 29 September 2015 made to the association to support the marathon in accordance with a contract between the association and BdL, per CC decision no. 30/38/12 dated “12/12/201”
 - b) A payment to the association dated 28 December 2017 for LBP 46,430,879 where the description indicates that the payment was for BdL employee’s participation, but there is no further information on what the participation relates to (although it may be assumed it is participation in a marathon).
 - c) Payment to the association for BdL employees participation in the marathon dated 3 December 2018 for LBP 28,300,735.
- ii) Chamber of Commerce Industry and Agriculture¹⁰⁸ (LBP 1,394,437,500);
 - a) This includes 3 payments of LBP 376,875,000 dated 01 August 2017, 19 June 2018 and 16 July 2019 each made to the Beirut Chamber to support the establishment of HEC Paris university branch in Beirut.
 - b) Payment against BdL contribution to help establish a training centre for food safety dated 11 February 2015 for LBP 263,812,500
- iii) The Commerce and Business Company¹⁰⁹ (LBP 1,114,049,998);

¹⁰⁷ See Appendix 14 for addition information and further vendors.

¹⁰⁸ غرفة التجارة والصناعة والزراعة في بيروت و جبل لبنان

¹⁰⁹ شركة الاقتصاد والأعمال

- a) Comprising multiple payments made to sponsor various conferences across the period from 4 April 2015 to August 2019.
- iv) First Protocol SARL (LBP 942,187,500); and
 - a) Multiple payments made to sponsor various conferences across the period from 4 March 2015 to June 2019.
 - v) Hariri Bahia Bahaeddine (LBP 829,125,000).
 - a) Single payment made on 2 September 2015 for the sponsorship of conference titled as “Lebanon home of knowledge” for the amount of LBP 829,125,000.

Repairs and maintenance of assets used by Bdl

9.3.6 A review of Bdl’s general ledger identified four accounts where the name indicates they relate to maintenance during the Relevant Period.¹¹⁰ The total amounts recorded in these accounts are summarised in the table below:

Table 9.6 Total amounts recorded in maintenance accounts (LBP’000)

2015	2016	2017	2018	2019	2020	Total
3,344,786	4,548,564	4,508,948	5,313,376	6,406,365	4,492,879	28,614,917

9.3.7 We have also reviewed the vendors listed within the transactions recorded under the maintenance related accounts in Bdl’s accounting systems, which are summarised below:

Table 9.7 Total amounts recorded in maintenance accounts (LBP’000)

Vendor Category	Total
NULL	20,531,495
Bloomberg	1,376,538
Connexions Services SAL	1,297,606
Broadbank Plus	1,277,070
Rackspace	1,183,487
Cedarcom	725,617
وزارة الاتصالات المديرية العامة الاستثمار والصيانة	242,617
Ministry of Finance	230,720
مصنع السيد الامينيوم ماسترز	168,613
Exotica S.A.L	124,625
Engineered Systems International sarl - ESI sarl	106,276
Ezedeen Hussein Shatila	100,438
Others	1,249,816
Total	28,614,917

¹¹⁰ See Appendix 14 for a breakdown of the total amounts by account.

Training and conference attendance costs

9.3.8 Six accounts have been identified in the Relevant Period where the name indicates they relate to transactions for training and conference expenses.¹¹¹ The total amounts recorded in these accounts are summarised in the table below:

Table 9.8 Total amounts recorded in training and conference related accounts (LBP'000)

2015	2016	2017	2018	2019	2020	Total
2,049,231	1,286,674	903,922	920,276	645,301	254,013	6,059,418

9.3.9 The vendor names included for the entries in these accounts are summarised below:

Table 9.9 Vendors listed in the training and conference related accounts (LBP'000)

Vendor Name	Total
Miscellaneous Supplier	2,629,139
NULL	715,938
MENAFATF	601,565
المعهد العالي للأعمال	419,809
Mr. Khalil Hassan Ghalyini &/Or Mrs. Nicole Edgard Canaan Sp. Ghlayini	301,500
Institute of International Finance	175,052
IFSB Islamic Financial Services Board	154,519
ArabNet Sarl	113,063
Others	948,833
Total	6,059,418

9.3.10 'Miscellaneous supplier' comprises over 43% of the total balance in the relevant period, however further review has revealed that this amount primarily¹¹² relates to cash provided to BdL's Governor as travel allowances when he was abroad.

Advertising and publications

9.3.11 Three accounts have been identified that were used in the Relevant Period to record transactions related to advertising and publication expenses.¹¹³ The total amounts recorded in these accounts are summarised in the table below:

Table 9.10 Total amounts recorded in advertising and publication accounts (LBP'000)

2015	2016	2017	2018	2019	2020	Total
924,764	1,351,819	1,531,948	1,368,765	744,469	308,815	6,230,579

¹¹¹ See Appendix 14 for a breakdown of the total amounts by account.

¹¹² LBP 150,750,000 of the total under 'Miscellaneous supplier' related to travel allowances for other BdL Employees.

¹¹³ See Appendix 14 for a breakdown of the total amounts by account.

9.3.12 The vendor names relating to the five largest vendors in these accounts are summarised below:

Table 9.11 Five largest vendors listed (LBP'000)

Vendor Category	Total
Lebanese company for information & studies (LCIS) SARL	498,982
M.I Associates Sarl	482,400
Street smart SAL	410,906
Dar Assayad SAL	382,500
Georges Ghanem	313,937

9.3.13 The expenditure in this category includes the creation of films about BdL and payments in relation to a book (M.I. Associates Sarl).

i) *Fees and contracts tax of Chapter iii*

9.3.14 As explained by BdL in response to our questions, fees and contracts tax of Chapter iii relate to invoices for lawyers, experts, consultants, studies, auditors, doctors allowances, and services management all subject to 7.5% tax fees.

9.3.15 Ten accounts have been identified that were used in the Relevant Period with a description that relates to 'Chapter iii' tax, however further review indicates that the transactions recorded here primarily relate to fees paid to consultants.¹¹⁴ The total amounts recorded in these accounts are summarised in the table below:

Table 9.12 Total amounts recorded in Tax of Chapter iii accounts (LBP'000)

2015	2016	2017	2018	2019	2020	Total
2,470,901	2,410,903	1,374,793	2,021,745	1,476,078	1,960,446	11,714,866

9.3.16 The five largest vendors listed within the aid and donations account are the following:¹¹⁵

- i) Teleport Company SAL (LBP 1,080,515,700);
- ii) حنا اسبيرو دميان (LBP 576,000,000);
- iii) Management Solutions Experts Sarl – MSE (LBP 459,335,249) ;

¹¹⁴ See Appendix 14 for a breakdown of the total amounts by account.

¹¹⁵ See Appendix 14 for additional information and further vendors.

- iv) M.I Associates Sarl (LBP 331,643,970) ;¹¹⁶ and
- v) Nabil Abdallah Brax (LBP 325,620,000).

9.3.17 It is also noted that transactions totalling LBP 886,800,000 do not have a vendor listed in the vendor category and LBP 3,868,041,194 are listed as ‘Miscellaneous’.

i) Prior year adjustments

9.3.18 According to BdL, the prior year adjustments account is used to record expenses from previous years that have not been recognized by any provisions. For example, any accounting entry regarding expenses or revenues (correcting invoices) is recorded on the prior year adjustment account.

9.3.19 In terms of the approvals or recording transactions to the prior year adjustments account the following applies:

- i) Transactions in the amount of up to LBP 3,000,000 are approved by the accounting department director alone;
- ii) Transactions between LBP 3,000,000 and LBP 1,000,000,000 require approval of the Governor; and
- iii) Transactions of more than LBP 1,000,000,000 should be approved by the Central Council.

9.3.20 At the end of each year the difference between prior year adjustments payable and receivable is recorded on the “Current Financial Cycle’s Results” account and put through the statement of profit and loss. The table below summarizes the accounts used to record the transactions related to prior year adjustments¹¹⁷:

Table 9.13 – Summary of account descriptions used to record prior year adjustments (LBP’000)

Account Description	2017	2018	2019	2020	Grand Total
Other liabilities - Attachment and settlement accounts -Provisions-administrative services and equipment expenses: Consulting	-	61,200	70,930	-	132,130

¹¹⁶ There are payments to this vendor also included under the advertising and publications category.

¹¹⁷ The “TRANS_REFERENCE” field was blank for all the entries recorded in this table; therefore we were unable to identify any further details in relation to these entries.

Account Description	2017	2018	2019	2020	Grand Total
Other liabilities - Attachment and settlement accounts -Provisions-administrative services and equipment expenses: External Auditors	-	104,319	104,319	831,520	1,040,158
Other liabilities - Attachment and settlement accounts -Provisions-Assistance and Donations: Various Assistance and Donations	-	389,278	973,758	393,173	1,756,208
Other liabilities - Attachment and settlement accounts -Provisions-Salary, Compensations, Expenses: Different Grants	-	-	-	266,931	266,931
Other liabilities - Attachment and settlement accounts -Provisions-Salary, Compensations, Expenses: Education Grants	-	21,780	-	-	21,780
Other liabilities - Attachment and settlement accounts -Provisions-Salary, Compensations, Expenses: end of service grants	75,430	612,940	921,205	2,909,750	4,519,324
Other liabilities - Attachment and settlement accounts -Provisions-Salary, Compensations, Expenses: Hospital Expenses	-	453,121	1,391,704	73,325	1,918,150
Other liabilities - Attachment and settlement accounts -Provisions-Salary, Compensations, Expenses: Hotel expenses	77,752	-	-	-	77,752
Other liabilities - Attachment and settlement accounts -Provisions-Salary, Compensations, Expenses: Medical expenses	-	190,183	198,673	140,347	529,203
Grand Total	153,182	1,832,820	3,660,589	4,615,047	10,261,637

9.4 Review of the vendors balances

9.4.1 We also analysed the invoice data in the payables module to identify vendors of interest based on invoice amounts and transaction descriptions, as follows:

- i) the data was categorised by vendor name and by amounts invoiced per year, with vendors paid a cumulative amount of USD 1M¹¹⁸ or more over the Review Period identified. This resulted in a list of 51 vendors;
- ii) The list of 51 vendors was then reviewed and 12 vendors of interest were identified based on the following criteria:
 - a) High value one off payments;
 - b) Local vendors with high value contracts relative to their size; and

¹¹⁸ all amounts recorded in the extract from the local currency LBP calculated in the system to USD based on a rate of 1 USD = 1507.5 LBP

c) Bdl employees.

iii) The entire payables module data was then reviewed for transaction references that included descriptions of items that appeared to be outside the normal course of business for Bdl or where there is a higher risk of misappropriation of funds. For example, purchases of high value art; donations to charities; and sponsorship of conferences and events;

iv) Finally, a list of 86 transactions was sampled and copies of all invoices, purchase order/agreements, delivery notes, payment advice and relevant approvals for procuring, delivering and payment were requested. The results from the sample review are set out in detail under section 9.5.

9.4.2 Based on an analysis of the 51 vendors that were paid a cumulative amount of over USD 1M during the Review Period, 12 vendors of interest were identified. The transactions recorded under each of these vendors were traced and the stated purpose of the expenditure was assessed based on the transaction descriptions in the ERP data. The table below schedules the 12 vendors of interest:

Table 9.14 List of vendors of interest identified (LBP'000)

#	Vendor Name	2015	2016	2017	2018	2019	2020	Total
1	Miscellaneous supplier	28,022,610	28,693,830	91,222,473	59,904,528	78,604,670	44,981,724	331,429,836
2	Ali and or Fatima Zahraa Naboulsi	52,295,045	-	-	-	-	-	52,295,045
3	محمد هاشم طيارة	18,090,000	-	-	-	-	-	18,090,000
4	شركة التعاونية الصحفية ش.م.ل.	-	-	8,476,673	4,748,625	-	-	13,225,298
5	المعهد العالي للأعمال	503,513	2,125,849	1,311,912	1,264,547	468,469	585,992	6,260,283
6	Eciffice	1,279,257	1,171,145	786,989	844,994	991,937	893,100	5,967,422
7	Beirut Marathon Association	2,287,521	273,991	46,431	28,300	-	-	2,636,244
8	رياض سلامة	394,668	453,795	472,092	408,713	336,213	22,613	2,088,094
9	Nada Boulos Al Assaad	401,334	279,980	492,870	743,724	-	-	1,917,908
10	Intermeuble Design sal	461,105	368,658	17,795	793,866	(695)	-	1,640,728

#	Vendor Name	2015	2016	2017	2018	2019	2020	Total
11	شركة الاقتصاد والأعمال ش.م.ل	362,088	310,348	120,977	472,820	361,483	668	1,628,383
12	غرفة التجارة والصناعة والزراعة في بيروت وجبل لبنان	-	-	376,875	376,875	376,875	376,875	1,507,500
	Total	104,097,141	33,677,597	103,325,086	69,586,993	81,138,952	46,860,972	438,686,741

9.4.3 **Miscellaneous Supplier (LBP 331.43bn)** – Transactions recorded under this vendor name that totalled USD 10,000 or more, covering 99.94% of the total population of transactions, were scheduled. We then further categorized all of the transactions that were above USD 10,000. The summary of those transaction categories is shown in the table below.

Table 9.15 Categories of transactions recorded under the Miscellaneous supplier (LBP'000)

#	Category	2015	2016	2017	2018	2019	2020	Total
1	EOSB / Early Retirement expenses	17,218,897	16,300,001	68,678,132	21,036,020	20,641,089	13,651,499	157,525,638
2	Real Estate expenses	-	-	13,145,400	24,176,454	40,508,893	332,152	78,162,900
3	Cost of manufacturing and printing Coins, notes and cheque books	-	15,607	6,711,660	5,463,209	7,525,723	22,389,229	42,105,428
4	Loan Waivers	1,061,551	2,388,346	2,796,004	3,067,028	3,395,513	3,692,523	16,400,965
5	No Description	4,894,281	5,984,068	395,043	50,926	383,687	-	11,708,006
6	Medical expenses	1,118,119	1,197,139	1,306,930	1,634,698	1,813,832	1,791,620	8,862,338
7	Settling accounts	186,089	16,500	795,160	-	2,068,165	-	3,065,913
8	Conferences attendance costs	980,454	733,455	196,575	365,349	313,390	-	2,589,222
9	Midclear fees	149,999	-	349,607	389,603	431,929	409,095	1,730,233
10	Legal Fees	764,453	75,701	-	452,250	-	347,550	1,639,953
11	Consulting fees	120,380	327,170	233,959	560,799	84,503	-	1,326,811
12	Employee reimbursements	-	67,090	-	618,063	135,000	275,642	1,095,794
13	Money transport costs	-	-	-	658,998	-	94,368	753,366
14	Departmental expenses	45,513	54,035	-	36,341	182,438	375,156	693,483
15	Vehicle purchases, rent and repairs	-	177,430	78,390	-	-	299,598	555,417

#	Category	2015	2016	2017	2018	2019	2020	Total
16	Foreign Vendors	253,929	98,256	-	-	-	-	352,185
17	Customs Duties	-	-	-	352,166	-	-	352,166
18	Professional Fees	-	-	-	-	-	339,188	339,188
19	Sponsorship Expenses	-	169,111	30,150	60,300	-	75,375	334,936
20	Advertising expenses	242,533	29,500	-	-	-	-	272,033
21	Clothing expenses	18,000	58,300	55,000	60,000	60,000	-	251,299
22	Unknown Beneficiaries	170,997	34,443	-	-	-	-	205,441
23	Travel Expenses	35,809	-	37,989	-	88,753	19,504	182,055
24	Arts and Statues acquisition costs	-	150,750	-	-	-	-	150,750
25	Aids and Donations	45,700	29,300	56,700	17,526	-	-	149,226
26	Fines expenses	-	-	129,959	-	-	-	129,959
27	Entertainment expenses	-	-	20,270	38,423	21,241	27,720	107,654
28	Gifts expenses	-	-	92,481	-	-	-	92,481
29	Other expenses	-	26,999	-	-	49,405	-	76,405
30	Tax Expenses	-	-	-	26,707	-	-	26,707
	Total	27,306,704	27,933,199	95,109,408	59,064,860	77,703,560	44,120,218	331,237,949

9.4.4 The Miscellaneous Supplier vendor name appears to be used to record various categories of transactions that do not appear to be related. We also analysed the IBAN numbers that were used to record the payments made under this vendor and found that these were linked to accounts used to make cash or cheque payments. The accounts used were as follows:

Table 9.16 List of IBANs used to record payments to Misc supplier (LBP'000)

#	IBAN Number	CBS_Account _Description _ZNAFAIDN	CBS_GL_Name _ZCAFINAM	2015	2016	2017	2018	2019	2020	Total
1	LB170999000000 0100119063110 7	مستحقات مختلفة - مديرية القطيع	ارتباط و تسوية - أعباء مدفوعة مسبقا	-	804	629	545	52	188	2,218
2	LB500999000000 0100119099620 3	حساب وسيط - مدفوعات تحاول - خدمات - ليرة لبنانية	ارتباط و تسوية - مقاصة النظام المالي: دفعات شك أو نقدي	2,035	1,002	9,824	1,341	508	1,030	15,741
3	LB309999000000 0100119099616 3	حساب وسيط - مدفوعات تحاول - معلوماتية - ليرة لبنانية	ارتباط و تسوية - مقاصة النظام المالي: دفعات شك أو نقدي	-	-	-	-	24	-	24
4	NULL			25,272	26,127	84,656	57,179	77,119	42,902	313,255
	Total			27,307	27,933	95,109	59,065	77,704	44,120	331,238

9.4.5 **Ali and or Fatima Zahraa Naboulsi (LBP 52.3bn)** – Analysis shows that this amount related to a property acquisition from this vendor in the amount of LBP 52,295,045,355. This payment was made in USD currency and amounted to a total of USD 34,689,914. As per the transaction description the property acquired was labelled as “REAL ESTATE# 83”.

9.4.6 **محمد هاشم طبارة (Mohamed Hisham Tabara) (LBP 18.1bn)** – Analysis shows that this amount relates to a property acquisition from this vendor in the amount of LBP 18,090,000,000. As per the transaction description the property acquired was labelled as “REAL ESTATE# 50”.

9.4.7 **شركة التعاونية الصحفية ش.م.ل (The Cooperative Newspaper Company) (LBP 13.23bn)** – These entries relate to acquisition of a property building. The transaction descriptions included the following description “Al Nahar real estate”.

9.4.8 **المعهد العالي للأعمال (ESA Business School) (LBP 6.26bn)** – The total amount of invoices charged during the period is USD14.4m. This primarily comprises the following items:

- i) “Barring [sic] costs of Villa Rosa Rental”;
- ii) Aids, donations and contributions to the school.

- 9.4.9 **Ecifrice (LBP 5.97bn)** – Analysis shows that the amounts paid to this vendor related to the rental of an office space by BdL in Paris. The payments were made in EUR currency.
- 9.4.10 **Beirut Marathon Association (LBP 2.64bn)** – Analysis shows that amounts paid to this vendor were categorised as aid and donations made in accordance with an agreement. The payments were made in four tranches and in LBP.
- 9.4.11 **Nada Boulos Al Assaad (LBP 1.92bn)**– Analysis shows that payments made to this vendor were in relation to acquisitions of paintings and high value art. Several of the invoices and payments made were in USD currency.
- 9.4.12 **Intermeuble Design sal (LBP 1.64bn)** – Analysis shows that invoices recorded under this vendor relate to contracts for procuring furniture for the Capital Markets Authority building and executive/Governor lounge. The main elements of the contract according to the invoice descriptions are:
- i) INV#ID00010431-GOV FURNITURE-CMA Building;
 - ii) INV#ID0008848-GOV LOUNGE FURNITURE.
- 9.4.13 **شركة الاقتصاد والأعمال ش.م.ل (The Economics and Business Company) (LBP 1.63bn)** – Our analysis showed that payments made to this vendor were in relation to sponsoring several conferences and towards subscriptions to the economics and business magazine.
- 9.4.14 **غرفة التجارة و الصناعة و الزراعة في بيروت و جبل لبنان (LBP 1.51bn)** – Our analysis showed that payments made to this vendor were in relation to contributions made by BdL to support the opening of a branch for the HEC university Paris in Beirut.
- 9.4.15 **رياض سلامة (LBP 2.1bn)** – Our analysis showed that payments made to the Governor’s account related to travel expenses, conference attendance costs and expense reimbursements.

Sponsorship fees

9.4.16 A review of the payables module raw data showed that Bdl was sponsoring several events, conferences and charities. Over the Review Period the total amount paid by Bdl totals LBP 11,484,122,940 (USD 7,617,922)¹¹⁹.

9.4.17 Our approach to the review consisted of conducting keyword searches across the transaction description field of payables module. The keywords used were "Sponsor" / "Sponsorship" or "دعم". Accordingly, the search resulted in a total of 23 vendors that were paid a total of above LBP 150,750,000 (USD 100,000). The table below lists out the names of the vendors and the amounts paid across the Review Period.

Table 9.17 List of vendors paid sponsorship fees across the Review Period (LBP'000)

#	Vendor Name	2015	2016	2017	2018	2019	2020	Total
1	Hariri Bahia Baheddine	829,125	-	-	-	-	-	829,125
2	Al Sharq Newspaper	-	82,913	113,063	263,813	150,750	150,750	761,288
3	ICE International Corporate Events SAL	753,750	-	-	-	-	-	753,750
4	Beirut Marathon Association	678,375	-	-	-	-	-	678,375
5	Association of Lebanese Industrialists	-	150,750	-	150,750	150,750	150,750	603,000
6	Arabnet SAL	-	-	165,825	167,333	180,900	-	514,058
7	Lebanese International Finance Executives (LIFE)	-	150,750	150,750	150,750	-	-	452,250
8	Green Mind	-	-	150,750	150,750	75,375	-	376,875
9	Miscellaneous Supplier	15,075	169,111	30,150	-	84,503	95,375	394,214
10	The lebanese committee for the south and tyre festivals	-	-	-	150,750	150,750	-	301,500
11	Imam Sadr Foundation	-	-	-	288,712	-	-	288,712
12	Al Bustan Festival	-	45,225	82,913	-	113,063	-	241,200
13	شركة الأقتصاد و الأعمال ش.م.ل	120,600	120,600	-	-	-	-	241,200

¹¹⁹ We have sampled a total of LBP 2,530,330,270 (USD1,678,494) transactions and the documents provided are in line with those explained in section 1.3.2 below.

#	Vendor Name	2015	2016	2017	2018	2019	2020	Total
14	Friends of Beiteddine Palace and Museum Association	-	-	75,375	75,375	75,375	-	226,125
15	شركة الفجر للصحافة ش.م.م	-	-	-	75,375	150,750	-	226,125
16	لجنة مهرجانات غوسطا	75,000	-	-	75,000	75,375	-	225,374
17	Lebanese Franchise Association	67,838	-	-	75,375	75,000	-	218,212
18	Festival International De Baalbeck	37,688	75,375	37,688	37,688	-	-	188,438
19	Nudgeco Sarl	-	-	-	-	169,006	-	169,006
20	Lebanese Company For Information & Studies (LCIS) SARL	-	-	-	-	167,333	-	167,333
21	Jounieh International Festival	-	-	45,225	75,375	45,225	-	165,825
22	ماجدة مشنوق	-	-	-	155,000	-	-	155,000
23	سيمون خوري سعادة	-	-	75,375	75,375	-	-	150,750
24	Other	396,662	461,339	529,938	963,986	804,465	-	3,156,390
	Total	2,974,112	1,256,063	1,457,050	2,931,405	2,468,619	396,875	11,484,123

i) *Artwork and paintings acquisitions*

9.4.18 Our review of the payables module raw data showed that BDL has been acquiring artwork and paintings. Over the Review Period BDL has paid a total of LBP 2,684,139,484 (USD1,780,524). Based on the transaction descriptions it appears that these purchases were always approved by the Central Council.

9.4.19 Our approach to the review consisted of conducting keyword searches across the transaction description field of payables module using the keywords "Paintings" or "Paint". Accordingly, we focused on the top 5 vendors paid in relation to paintings acquisition. The table below lists out the names of the vendors and the amounts paid across the Review Period.

Table 9.18 List of vendors paid for acquisition of paintings (LBP'000)

#	Vendor Name	2015	2016	2017	2018	2019	2020	Total
1	Nada Boulos Al Assaad	305,985	279,980	492,870	743,724	-	-	1,822,558
2	Maya Joseph Ragy	-	384,413	-	-	-	-	384,413
3	NB Auction Sal	-	-	-	-	261,431	-	261,431

#	Vendor Name	2015	2016	2017	2018	2019	2020	Total
4	Dr. Nicholas Khairallah	-	-	132,660	-	-	-	132,660
5	Charbel Joseph Raji	-	-	-	82,611	-	-	82,611
6	Other	13,869	179,702	271,312	190,093	48,843	-	466,879
	Total	319,854	844,094	896,842	1,016,427	310,274	-	3,150,552

9.5 Samples review

9.5.1 In response to our request for supporting documents relating to 86 transactions, BDL provided documentation relating to 30 transactions in the sample¹²⁰, for which we provide a summary of the following:

- i) Types of documents that were typically provided by BDL in response to the request made for all documents held in relation to the sample selected; and
- ii) Transactions that we have identified potential issues within the documents provided.

9.5.2 Our review of the documents provided in response to our sample request identified a certain set of documents/forms are used to document the payment process, from initiating the request to purchasing an item to the final payment made to the vendor. The documents typically comprise:

- i) Purchase Order issued in the name of the vendor. This appears to be an Oracle system generated document issued by the purchasing department.
- ii) Internal transfer memos which document the relevant approvals sought from the different departments involved to proceed with the acquisitions / purchase.
- iii) Transfer of budget item / request for expenditure approval document which includes the following:

¹²⁰ The samples were requested using the Invoice ID, it is possible that multiple invoice IDs were covered as part of a single vendor.

- a) approval of the relevant department along with a separate section for the Governor's / Governor's office approval. Although the annual budgets are approved by the Central Council, we have seen expenditure approved by the governor out of the allocated budget.
 - b) whether the item requiring approval has been included within the year's budget / out of budget / exceeds the current budget allocated.
 - c) GL account that is to be used to record the item; and
 - d) type of reserve to use to be used when the item is out of budget or exceeds the current allocation.
- iv) Payment instructions that included fields showing the name of the beneficiary, the name of the beneficiary's bank, their IBAN, type of payment (Cash, Swift etc.), currency and the payment date. There were several instances where the payment type was shown as "SWIFT" and the beneficiary name was a BdL core banking account name and the beneficiary bank was titled as BdL.
- v) Invoice from the vendor for the services provided.
- vi) Letter from the accounting department to the relevant department setting out the procedure to follow and GL account to be used in recording the transaction.
- vii) Depending on the amount required, the Governor would send a letter to the relevant department informing them of the Central Council approval and decision number.

9.5.3 Overall we consider the transaction samples reviewed to be in conformity with the nature of the operations of the bank with the exceptions of those set out in the paragraphs below.

Paintings and Artwork

9.5.4 Purchase of paintings from Maya Joseph Rady

- i) The sample documents reviewed included an internal transfer memo signed by Second Vice Governor (9 February 2016), Governor (15 February 2016) and Services Department (16 February 2016). It included a note that the invoice and IBAN are attached however, no IBAN details were attached nor included on the invoice. It also included a note seeking approval from the governor to purchase the painting from the collection of the late "Fouad Al Turki".
- ii) The transfer of budget item / request for expenditure approval document dated 31 March 2016 stated that the item was out of budget given that the original budget was LBP 10,251,000 and the current available balance was zero. The justification for exceeding the budget field shows a note stating that it was not included in the 2016 budget and would be allocated from the recycled reserves based on governor approval dated 15 March 2016. It also states that the account to be used to record this transaction is 01.1551110903.00.101.00.0.0000 – Fixed Assets.
- iii) The payment instructions dated 11 April 2016 issued to Maya Joseph Rady for the amount of USD 255,000 (LBP384,412,500). It is not clear who this is and how they are related to the Turki Family.

9.5.5 Purchase of paintings from Nada Boulos Al Assaad

- i) The transfer of budget item / request for expenditure approval document dated 19 March 2016 stated that the item was out of budget given that the original budget was LBP 10,251,000 and the current available balance was zero. It does not provide justification as to why the item was out of budget and specifies that it would be allocated from the recycled reserves based on governor approval. It also states that the account to be used to record this transaction is 01.1551110903.00.101.00.0.0000 – Fixed Assets.

- ii) The payment instructions document dated 13 April 2016 shows the beneficiary as Nada Boulos Ep. EL Assaad through Société Generale Bank for the amount of USD 82,225 although the invoice is from “At Auction” in the name of Nada Boulos Al Assaad dated 10 March 2016 for the purchase of seven paintings for a price of USD 71,500 plus Premium USD 10,725 for a total of USD 82,225

9.5.6 Purchase of wax statue / Misc Supplier

- i) The transfer of budget item / request for expenditure approval document dated 9 May 2016 stated that the item was out of budget given that the original budget was LBP 10,251,000 and the current available balance was zero. It does not provide justification as to why the item was out of budget and specifies that it would be allocated from the recycled reserves based on governor approval. It also states that the account to be used to record this transaction is 01.1551119703.00.101.00.0.0000 – Fixed Assets. It was approved by the Governor on 9 May 2016
- ii) The payment instruction states HUS GALLERY LIMITED, IBAN: GB78COUT18000206226221, and an address of 10 Hanover Street London, W1S 1YQ. The proforma invoice was dated 6 May 2016 in the amount of 100,000 GBP¹²¹.
- iii) The purchase order is issued for “MISC Supplier” without any reference to HUS Gallery.

9.5.7 Purchase of paintings from Martha Georges Hraoui

- i) The transfer of budget item / request for expenditure approval document dated 15 September 2016 stated that the item was out of budget given that original budget was LBP 539,617,750 and available balance was LBP 45,813. There is a note stating that item was out of budget and to be allocated from recycled reserves. It does not provide

¹²¹ Whilst the invoice states 100,000 GBP, it also includes a ‘\$’ symbol.

justification as to why the item was out of budget and specifies that it would be allocated from the recycled reserves based on governor approval. It also states that the account to be used to record this transaction is 01.1551110903.00.101.00.0.0000 – Fixed Assets. It was approved by the Governor on 9 May 2016

- ii) Payment instruction dated 6 October 2016 showing beneficiary as Martha Georges Hraoui through Fransbank for an amount of LBP 51,255,000 (USD34,000).
- iii) Invoice no.32 dated 14 September 2016 for two paintings with the value of USD 18,000 and USD 16,000 for a total of USD 34,000. The invoice is handwritten and appears to be from a printed invoice register.

9.5.8 Purchase of painting form Wajih Nahle

- i) The transfer of budget item / request for expenditure approval document dated 27 January 2017 stated that the item was out of budget given that original budget was LBP 539,617,750 and available balance was LBP 45,813. There is a note stating that original budget was zero and available balance was zero. It does not provide justification as to why the item was out of budget and specifies that it would be allocated from the recycled reserves based on governor approval. It also states that the account to be used to record this transaction is 01.1551110903.00.101.00.0.0000 – Fixed Assets. It was approved by the Governor on 9 May 2016.
- ii) Payment instruction dated 11 February 2017 showing beneficiary as Wajih and/Or Mounira Nahle through Bank Audi for an amount of LBP 37,687,500 (USD25,000).
- iii) Invoice issued in the form of a handwritten note on the letterhead of Wajih Nahle requesting payment of USD25,000 for the oil painting. It has the governor signature for approval on 20 January 2017.

Furniture and Fixtures

9.5.9 Furnishing of Governor's office / lounge at CMA

- i) The transfer of budget item / request for expenditure approval document dated 10 April 2018 stated that the item was out of budget given that the original budget was LBP zero and the current available balance was zero. There is a note stating that it would be allocated from the recycled reserves based on governor approval. The amount approved was EUR 297,768.
- ii) Letter from purchasing unit manager to Governor after review of second VG providing the results of the bids received and recommending Intermeuble option 2. This was not the lowest option, and no explanation was provided for the selection. The bids received were as follows: Obegi O1 – 79,164 EURO, Obegi O2 – 64,746 Euro, Intermeuble O2 – 88,000 Euros and Intermeuble O1 – 134,667.50¹²²
- iii) The furniture purchased appears to have custom specifications and appear to be excessive in nature.

Vehicles acquisitions

9.5.10 Purchase of JAGUAR XE 2017 and JAGUAR XJ 2016

- i) The transfer of budget item / request for expenditure approval document dated 28 November 2016 stated that the item (Jaguar XJ 2016) was out of budget given that the original budget was LBP 1,362,750,000 and the current available balance was zero. There is a note stating that it would be allocated from the recycled reserves based on governor approval on 5 December 2016. The amount approved was LBP 158,287,500.
- ii) A quote from Saad et Traad SAL for Jaguar XJ 2016 was provided with a total price of USD 105,000 and includes trade in value for an existing

¹²² This information was provided as part of a different sample for intermeuble; therefore it is not clear if this relates to the same order.

Jaguar (2012 model) for USD 50,000 hence, resulting in a net purchase price of USD 55,000.

- iii) Payment instruction dated 5 May 2016 showing the beneficiary as Saad ET Trad SAL, with payment to be done by cheque for an amount of LBP 78,390,000 for a Jaguar XE 2017 model.
- iv) It is not clear why a second Jaguar XE 2017 was necessary.

Aids and donations

9.5.11 Purchase of purifiers from Direct Marketing Sales

- i) Invoice from Direct Sales Marketing dated 1 October 2019 for 100 "Icleen HealthPremium Air Cleaners" for USD 300,000.
- ii) Email from Imad Tawil (Imad.tawil@gmail.com) specifying the account details for the USD account with Credit Libanais SAL bank to transfer the funds to.
- iii) Payment instructions dated 19 August 2019 showing beneficiary as Messrs Direct Marketing And Sales Me (DMS ME) SAL through Credit Libanais bank for an amount of LBP 226,125,000 (USD 150,000).
- iv) According to the invoice, the cost of each device was USD 3,000. Online searches showed that the same device models were priced at USD 800 to USD 1,300 resulting in an overpayment between USD 170,000 and USD 220,000.¹²³
- v) It is also not clear why the purifier devices were recorded under aids and donations rather than a fixed asset owned by BdL.

9.5.12 Payment to PWC for IT reporting software

- i) Although all the relevant approvals were in place and the payments were done directly to the account of PWC, it is not clear why this

¹²³ <https://www.iqair.com/us/air-purifiers>

transaction was recorded under account no. 01.4653990001.00.401.00.0.0000 "Aids and Donations" when it related to the setup of a software for exchange of tax information as stated in clause 6 of law on information sharing for tax purposes.

9.5.13 The total project value was USD 554,000 plus VAT based on the letter from the Governor to the accounting department dated 10 October 2018 notifying them of the Central Council approval.

9.6 Conclusion

9.6.1 During the Review Period operating expenses have shown a slight drop from LBP 41bn in 2015 to LBP 38.7bn in 2016 followed by a steady increase year over year reaching LBP 63.5bn in 2020, an increase of approximately 55% from 2015 to 2020.

9.6.2 Our review of Bdl's expenditures during the Review Period showed significant amounts paid towards items which may not be considered appropriate had Bdl's financial position been scrutinised, including the following:

- i) The use of a miscellaneous supplier vendor name to record transactions of around LBP 331.4bn.
- ii) Aids and donations of LBP 30.7bn paid out. There is no particular policy that governs the spend on aids and donations as it is completely decided at the discretion of the central council.
- iii) Sponsorship of several events, conferences and charities by Bdl for a total amount of LBP 11.4bn. There is no policy governing this type of spend as it is completely decided at the discretion of the central council.
- iv) Rental of Bdl's office in Paris for an amount of LBP 5.97bn made in their equivalent amount in Euros.
- v) Acquisition of paintings and artwork for a total of LBP 2.7bn. There is no policy governing this type of spend as it is completely decided at the discretion of the central council.

- vi) LBP 2.1bn of payments made in cash to the Governor on account of travel expenses, conference attendance costs and expense reimbursements.
- vii) Purchase of furniture and fixtures for the governor's office at the CMA building and other executive's offices for LBP 1.6bn

9.7 Accrued expenses

Introduction

9.7.1 A&M has carried out an analysis of the Accrued expenses and other liabilities line item in the Liabilities section of the BdL financial statements. The analysis is based on the following steps:

- i) Reconciliation of the notes to the financial statements and the breakdown of sub-categories to the Trial Balance and assessment of the accuracy of the descriptions in the notes; and
- ii) Deep dive into significant movements through analysis of CBS movements and GL movements.

Findings

9.7.2 The annual movements in Accrued expenses and other liabilities is summarised in Table 9.19 below. The balance grows from LBP 180bn (USD 120m) in 2015 to LBP 691bn (USD 458m) in 2020. The notes below explain A&M's understanding of each balance and the key drivers for significant movements in each sub-category based on the analysis performed to date.

Table 9.19 Categorisation of accrued expenses and other liabilities, 2015 - 2020

	2020	2019	2018	2017	2016	2015
	LBP'm	LBP'm	LBP'm	LBP'm	LBP'm	LBP'm
Accounts payable - Matured treasury bills - Public (1)	8,792	8,729	8,290	8,957	5,272	2,333
Transitory accounts (2)	81,817	19,214	19,024	20,327	18,942	19,348
Accrued expenses (3)	46,637	43,259	107,696	118,016	50,866	85,895
Social security dues	1,047	1,229	1,054	1,128	1,535	1,665
Payables - Problematic bank's Group - Previously called Al Madina (4)	6,165	6,165	6,165	6,165	6,269	6,269
Payment orders in favor of Public and Private sector (5)	414	232	10,348	159,927	6,250	6,483
Unearned Income (6)	4,735	2,407	4,397	4,021	4,116	6,115
Withholding tax on interest	184,626	209,575	122,646	23,638	-	-
Interest subsidy - retail loans granted by banks (7)	149,703	105,542	63,106	-	-	-
Other (8)	207,001	232,073	211,507	222,086	48,003	52,165
Total (reconcile to financial statements)	690,938	628,425	554,233	564,265	141,253	180,274
Adjustment (9)			925,589	60,425	60,683	61,043
Gross			1,479,822	624,690	201,936	241,317

Notes

- (1) Transactions recorded as 'Accounts payable - matured treasury bills - Public' trace to a GL account titled 'matured T bills and coupon held by the public'. Transactions are debited to the MOF account and credited to Accrued expenses, then Dr Accrued expenses.
- (2) 'Transitory Accounts' includes a LBP10.6bn opening balance in 2015 that stays throughout the period. Movements are debited to RTGS and currency clearing accounts, unearned revenue-rents and miscellaneous rents account. The large increase in 2020 is booked to 'Foreign currency intervention accounts LBP v USD'
- (3) Accrued expenses includes 3 significant items: a. Consulting commissions which are described in the Section of this report related to consulting commissions and payments to Forry and others; b. provisions for early retirement as discussed further in the section on Early Retirement; and c. Sudden expense which related to a balance booked prior to the period under review for which further information is required.

Ledger account	2020 LBP'm	2019 LBP'm	2018 LBP'm	2017 LBP'm	2016 LBP'm	2015 LBP'm
Accrued Expenses Payable-Other Expenses:Miscellaneous (Consulting commissions)	107	107	16,761	43,593	1	27,711
Provisions-Assistance and Donations:Early Retirement	-	-	46,500	33,073	8,250	22,174
Provisions-Sudden Expenses:Sudden Expenses	22,059	22,059	22,059	22,059	22,059	22,059
Other	24,472	21,094	22,377	19,291	20,556	13,951
Total	46,637	43,259	107,696	118,016	50,866	85,895

(4) Payables - Problematic bank's Group amount is an adjustment to the financial statements at year end according to schedules provided by BdL. According to the notes to the audited financial statements, "Payables - Problematic bank's Group represents amounts due to the problematic group as a result of the Bank's acquisition in previous years of assets in satisfaction of loans granted to that group and recorded under "Real estate acquired in satisfaction of loans to problematic banks". In accordance with the original loan agreement and the Central Council's decision, payables on acquired assets in excess of the amounts used by the problematic group to settle its loans granted by the Bank and settle the group's customers' deposits are written off to the income statement".

(5) Payment orders in favor of Public and Private sector: The large increase in 2017 relates to a payment order of USD102m debited to the treasury account of Ministry of Finance dated 29 December 2017, settled on 2 Jan 2018. The notes to the audited financials state: "Payment orders in favor of Public and Private sectors includes an amount of LBP154 billion as at December 31, 2017 payable to a foreign bank on behalf of the Ministry of Finance. This amount was subsequently settled in 2018".

(6) The Unearned income amount is booked as an adjustment to the financial statements at year end according to schedules provided by BdL

(7) Interest subsidy - retail loans granted by banks is explained in the notes to the financial statements as follows: "During 2018, the Bank set up an interest subsidy credit balance in the amount of LBP66.69 billion against interest income from loans to banks granted pursuant to Central Bank of Lebanon basic decision number 6116 dated March 7, 1996 and its subsequent amendments in particular intermediary circular 485 dated February 1, 2018. An aggregate amount of LBP 3.58 billion was distributed to banks as a subsidy of interest on retail loans granted by these banks to their customers.

(8) 'Other' includes a loan received from an Arab Fund in the amount of KWD34 million (LBP170 billion) which accounts for the large increase in 2017. According to the notes to the 2018 audited financials, "The purpose of the loan is to finance housing loans through a Lebanese housing bank. The role of the Bank is to manage the loan against commission fees. The loan is subject to an interest rate equal to 3% and is repaid through 37 semi annual installments of KWD920,000 (LBP4.6 billion) each, starting February 1, 2021, with a final installment of KWD880,000 (LBP4.4 billion) on February 1, 2039". The remainder appears to relate to accrued tax expenses, accounts payable and various creditors, based on descriptions of the sub ledger accounts.

(9) Adjustments are year end entries which are booked to adjust the final year end balances as reflected in the audited financial statements and are broken down as follows:

	2020 LBP'm	2019 LBP'm	2018 LBP'm	2017 LBP'm	2016 LBP'm	2015 LBP'm
Payables - Problematic bank Group - Previously called Al Madina	6,165	6,165	6,165	6,165	6,269	6,269
Unearned income	-	-	912	912	912	912
Other - profit (10)	(6,165)	(6,209)	(67,435)	(67,502)	(67,864)	(68,225)
Other - deposits against loans (soft loans / repos against CDs/TB/TD)	-	-	(865,231)	-	-	-
Total adjustments	-	(44)	(925,589)	(60,425)	(60,683)	(61,043)

(10) The most significant adjustment at each year end involves entries related to the distribution of profit of USD40 million to the Ministry of Finance each year. The entries include a credit on 31 December of each year to the Accrued expenses account for an amount always approximately equal to USD40 million, debit the Equity-profit or losses account. In March or April of the following year, there is a debit to the Accrued expenses account, credit Ministry of Finance account, reflecting the distribution of 80% of income after appropriation to the Ministry of Finance. In order for the Trial Balance to reconcile to the financial statements as at 31 December, the credit to the Accrued Expenses account is manually adjusted to transfer the balance to the Equity account.

Conclusion

9.7.3 A&M has been able to reconcile the notes to the accounts to the Trial Balance and underlying movements in most instances. The following key findings have been identified:

- i) BdL booked unpaid Consulting Commissions in Accrued expenses and other liabilities under a sub-category with the generic title "Accrued Expenses".
- ii) The annual distribution of net income after appropriation to the Ministry of Finance was pre-determined at approximately USD 40m each year and booked in Accrued expenses and other liabilities as a credit to the account on 31 December each year. In order to not show the amount related to this entry in the year-end balance sheet as a payable, BdL reversed the credit entry to net income through manual adjustments.
- iii) Items booked to Accrued expenses and other liabilities under the generic sub-categories "Accrued Expenses" and "Other" warrant further investigation, including:
 - a) Amounts related to provisions for Early Retirement booked in Accrued expenses and other liabilities under sub-category "Accrued Expenses".
 - b) Amounts labelled 'Payables - Problematic bank's Group' booked as an adjustment entry each year end.
 - c) An amount of LBP 22bn (USD 15m) recorded under the account 'Provisions-Sudden Expenses:Sudden Expenses' included in the sub-category "Accrued expenses".
- iv) Deposits against loans (soft loans / repos against CDs/TB/TD) amounting to LBP 865bn (USD 574m) manually adjusted in 2018.

9.8 Properties and Equipment

Introduction

- 9.8.1 Our review also identified significant property related expenditure. BdL's balance sheet carries the following amounts in relation to property and equipment:

Table 9.20 Property and Equipment¹²⁴

LBP million	2015	2016	2017	2018
Land	53,881	54,341	54,341	54,341
Buildings	140,246	142,622	142,743	159,579
Freehold improvements	15,765	18,815	20,072	19,665
Fixtures and furniture	36,085	38,902	41,108	47,971
Officer and computer equipment	66,733	83,252	89,392	118,256
Work in Progress	37,056	38,960	79,712	49,258
Other	1,958	1,966	2,179	2,179
Sub-total	351,724	378,857	429,548	451,248
Write down of P&E	(260,924)	(285,693)	(295,632)	(347,787)
Total	90,799	93,163	133,916	103,462

- 9.8.2 As stated in the Accounting Manuals, BdL follows a policy of depreciating¹²⁵ all asset categories in the year the asset is acquired, except for work-in-progress and land, which is not written down. As such, BdL's expenditure on items such as fixtures, office equipment and furniture etc, is valued at zero in BdL's year-end balance sheet.
- 9.8.3 The amounts written down in each year are either recorded through BdL's P&L or Other Reserves, as set out below:

Table 9.21 Property and Equipment Write Downs

LBP million	2015	2016	2017	2018
Write-downs through P&L	60,512	14,727	10,939	53,190
Write-downs through Other Reserves	682	369	377	996
Total write downs	61,194	15,095	11,316	54,186

- 9.8.4 A&M has requested further documentation in relation to a sample of these assets, our review of which is summarise below.

¹²⁴ This information is contained within the property and equipment note to BdL's Audited Financial Statements.

¹²⁵ In BdL's Audited Financial Statements the phrase "Write Down" is used to refer to the depreciation amounts in each year.

Samples review

9.8.5 We have reviewed a total of 24 sample responses provided by BdL (47 samples were requested), which we summarise as follows:

- i) The types of documents we that typically were provided for each transaction; and
- ii) Transactions for which we have additional questions or concerns.

9.8.6 During our review of the samples received indicates that a certain set of documents/forms are typically used to document the process cycle, from the initial request to purchase an item to the final payment made to the vendor, specifically:

- i) Issuance of a Purchase Order in the name of the vendor. This appears to be an Oracle system generated document initiated by the purchasing department.
- ii) Internal transfer memos which document the relevant approvals sought from different departments in order to proceed with the acquisition / purchase.
- iii) Transfer of budget item / request for expenditure approval document which includes the following:
 - a) approval of the relevant department along with a separate section for the Governor's / Governor's office approval;
 - b) The document also shows whether the item requiring approval has been included within the year's budget / is out of budget / exceeds the current budget allocated;
 - c) The GL account that is to be used to record the item; and
 - d) Which type of reserve to use to allocate budget when the item is out of budget or exceeds the current allocation.

- iv) Payment instructions that include fields showing the name of the beneficiary, the name of the beneficiary's bank, their IBAN, type of payment (Cash, Swift etc.), currency and the payment date. There were several instances where the payment type is shown as "SWIFT", the beneficiary name is a BdL core banking account name and the beneficiary bank is titled as BdL.
- v) Invoice from the vendor for the services or goods provided.
- vi) Letter from the accounting department to the relevant department setting out the procedure to follow and GL account to be used in recording the transaction.
- vii) Depending on the amount required, the Governor would send a letter to the relevant department informing them of the CC approval and decision number.
- viii) A sale contract, in the case of property acquisitions.

9.8.7 We note that none of the documents provided in support of property acquisitions included the reason behind why BdL is entering into such a transaction. Property acquisitions from our sample that raise further questions as to their purpose are set out below:

- i) Purchase of plot 83 from Fatma Al Zahra Nowery and Ali Mohamed Naboulsi for USD 17.5m.
- ii) Purchase of plot 50 from Mohammed Tabara for USD 7m.
- iii) Purchase of Al Nahar Newspaper building for USD 13.5m.

9.8.8 Furthermore, we have identified three transactions from the sample reviewed have potential issues. These details of those transactions are explained in the paragraphs below.

Payment of expenses related to Plot 84 to the Engineering Syndicate

- 9.8.9 The documents provided in relation to this land deal included an email from Adel Mardelli (Senior Project Manager at Engineered Systems International SARL) includes the following text " *Please arrange for reimbursement of this amount, if possible by cash payment in order not to have to invoice it, since ESI is paying this on behalf of BDL and not as a task within some scope of work. The next steps are:*
- i) *ESI will register this at the Municipality of Beirut and notify you of its receipt officially.*
 - ii) *Facilitation fees have to be paid to the person in charge. We should discuss this separately."*
- 9.8.10 As per the Internal transfer memo, the 2nd Vice Governor approved the transaction on 18 December 2014 and the Governor on 23 Dec 2014.
- 9.8.11 On 17 December 2014 the Services department sent a letter to the Governor requesting approval to open a budget item for the settlement on plot 84 Ras Beirut for the amount of LBP 15,883,000.
- 9.8.12 According to the payment instruction dated 13 Dec 2013 for an amount of LBP 15,883,000 with payment method noted as "CASH".
- 9.8.13 The Engineering Syndicate issued two transaction recording certificates / dated 11 Dec 2013 for an amount of LBP 13,283,500 and LBP 2,599,500.
- 9.8.14 We have additional concerns around the above expense transaction as:
- i) There is a request not to invoice the amount, which raises issues around internal controls;
 - ii) There is a suggestion that the payment was in cash;
 - iii) It was not clear what the payment was actually for; and
 - iv) There is also a mention of a facilitation payment, without reference to why such payment is required.

9.8.15 Asset retirements

Asset retirements – Header 3213132 & 3213136

9.8.16 The documents included a letter from the Sour branch to the services department dated 7 Dec 2017 detailing a list of assets to be retired. The main item retired is listed as building improvements with a book value of LBP 167,108,878.

9.8.17 On 11 Jan 2018 the Services department sent a letter to the Governor requesting approval to retire the assets referenced in the letter received from the Sour branch at a book value of LBP 187,599,043, stating that some of it is no longer usable, partially due to the renovation works.

9.8.18 The documents provided in response to this sample request further included an internal transfer memo approved by inspection department on 23 Jan 2018, services department on 29 Jan 2018, the Governor on 16 Jan 2018, and the 2nd vice governor on 16 Jan 2018 authorising the retirement.

9.8.19 None of the documents provided provide an explanation of how the assets were to be retired nor how they were disposed of.

Asset retirement – Header 3356556

9.8.20 On 8 May 2018 the accounting department sent a letter to the Services department stating that based on the inventory counts done by Jounieh, Sayda, Nabteya, Bekfaya and Alleyeh branches certain assets would need to be written off, based on the governor approval dated 03 May 2018. The list included the sample item for building improvements for LBP 223,536,488 at Alleyeh Branch.

9.8.21 None of the documents provided provide an explanation of how the assets were to be retired nor how they were disposed of.

Conclusion

9.8.22 During the Review Period BdL engaged in a number of high value property transactions, which were recorded as real estate assets on the balance sheet and incurred related expenditure through its P&L. As discussed at Section 6. BdL's

financial position was considerably worse than disclosed and scrutiny of such transactions may have been higher had the financial position been known.

- 9.8.23 Further work is required to understand the purpose of a number of property transactions identified in our review. Furthermore, we suggest further investigation is required into the circumstances for obtaining approval and payment for the properties and related expenses.

10 Employee Remuneration

10.1 Salaries and related charges

10.1.1 In this section we summarize the results of our review of the salaries and related charges amounts paid out to employees and recorded on the P&L during the Review Period. We further provide a comparison of the changes in salary expenses charged year-on-year and identify any specific categories that show significant hikes in amounts.

10.1.2 Bdl's salaries and related charges were between LBP 155bn and LBP 167bn during the Review Period. The table below provides a summary of the expense amount charged during each year.

Table 10.1 Salaries and related charges recorded on the P&L (LBP'm)

Category	2015	2016	2017	2018	2019	2020
Salaries and related charges	156,609	165,659	164,900	167,199	155,634	156,698

10.1.3 To further analyse the changes in salaries and related charges recorded on the P&L, we identified the GL accounts that make up the balances. We then further categorized the accounts used based on the account description field to understand the different types of pay received by Bdl employees. The categories are set out in the table below.

Table 10.2 Breakdown of pay categories making up the salaries expense in (LBP'm)

Category	2015	2016	2017	2018	2019	2020
Staff, Contract Employees and Day Workers Salaries	88,789	89,225	89,474	87,414	82,790	85,465
General Compensation: Basic and Additional	18,476	21,029	21,555	20,258	18,447	19,727
Allowances and Bonuses	12,909	18,717	15,871	20,386	15,572	18,901
Health Care Services	12,338	12,428	13,230	13,969	16,171	14,289
Contributions to Social Security	12,537	12,556	12,710	12,353	11,710	12,242
Mission Expenses	7,086	7,942	8,264	8,754	7,661	3,168
Social Security Compensation: Basic and Additional	1,346	1,327	1,284	1,272	1,230	1,205
Transportation Expenses	875	964	982	1,115	1,084	807
Employee Training	470	717	944	1,014	247	-
Clothing Expenses	251	271	307	299	287	850
End of Service Compensation from the Bank	1,026	-	-	-	-	-
Compensation and Related Expenses: Day Workers	58	74	111	190	283	-
Miscellaneous	318	256	2	10	10	-

Category	2015	2016	2017	2018	2019	2020
Medical Care & Hospitalization Expenses	88	106	116	110	92	-
Insurance Expenses	42	46	50	56	49	44
Total	156,609	165,659	164,900	167,199	155,634	156,698

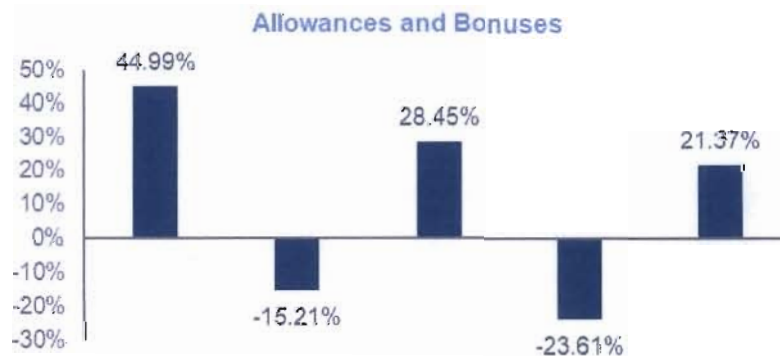
10.1.4 We have reviewed three of these categories in more detail:

- i) Allowances and bonuses;
- ii) Health care services; and
- iii) End of service compensation from the Bank.

Allowances and Bonuses

10.1.5 The Allowances and Bonuses category recorded as part of the salaries expenses shows significant fluctuations in the amounts charged every year, as illustrated below.

Figure 10.1 Year-on-year change in allowances and bonuses



10.1.6 In response to our request to the HR department to provide an overview of the Bonuses received by employees, Bdl's HR department stated that "Bonuses in the context of this question are the ones related to retirement, hence it is granted upon retirement of employees at age of 64, such a decision is taken by central council based on Bdl Employee Regulation ("B.E.R") article 73. On the other hand, if the term bonuses means salary bonuses, it is stated in some accounts names as bonus while it is merely payroll related subject as stated in B.E.R".