

The Republic of Lebanon
Represented by the

Ministry of Finance
Riad El Solh Square

Ministry of Finance Building, 6TH Floor
Beirut, Lebanon.

28 August 2020

The Lebanese Government is about to embark on a comprehensive reform and restructuring program to lead Lebanon out of the current crisis. Apart from fiscal and debt issues that the Government intends to address, it has been also recognised that putting the banking sector and Lebanon's currency and external positions on a sound footing is a key precondition to make the reform program a sustainable success.

As guardian of the currency as well as market counterpart and supervisor of Lebanese banks, the Banque du Liban (BdL) will play a key role in resolving the current crisis. Efforts to defend the peg and to manage the Balance of Payments position are suspected to have caused substantial losses for the BdL which might not be adequately reflected on the BdL's financial statements. Considering the interlinkages between the BdL and private banks, the BdL's financial position needs to be clarified immediately to allow the Lebanese Government to devise the right strategy to address imbalances in the financial system and to obtain a fair burden sharing between depositors, investors and the taxpayer. It is also necessary to identify a suitable approach for the probable restructuring of the BdL's balance sheet, while preserving the BdL's ability to conduct monetary and financial policy. Oliver Wyman further assume that clarity on the BdL's financial position will be a precondition for any international support for the Government's reform program, and for markets' and the general publics' acceptance of any of the restructuring measures that are currently contemplated.


We are honoured by the Lebanese Republic's consideration (represented by the Ministry of Finance) to appoint Oliver Wyman to conduct an review of BdL to provide an independent view on the BdL's financial situation and the potential underlying reasons for any imbalances of the BdL's - and the banking system's - financial position

This letter summarises Oliver Wyman (Oliver Wyman, "we", "us" or "our") understanding of the Republic's situation represented by the Ministry of Finance (Ministry of Finance, "you" or "your") and confirms the approach we would follow in conducting the engagement, as well as the financial and commercial parameters.

1. PROPOSED SCOPE AND APPROACH

Based on our understanding of the situation, we have identified several issues that we suggest covering in specific modules of the study:

- 1. Review the Bdl's current balance sheet:** Over the last years, the Bdl has carried out extensive market operations as counterpart to the banking system and the Government of Lebanon. These operations have had a material impact on the balance sheet of the Bdl, cumulating over time. We understand that there might now be material imbalances accrued at the Bdl, which need to be understood well, in order to decide on the way forward. While the Bdl has always published audited balance sheets, there are questions on the underlying accounting principles, in particular as regards the comprehensive reflection of the aforementioned market operations and resulting assets and liabilities in Bdl's accounts. It is therefore vital to document and understand these principles, so as to allow an economic interpretation of the Bdl's accounts. To this end we would, based on the Bdl's published balance sheets as audited by the Bdl's statutory auditors, and based on KPMG's work on identifying and documenting accounting practices and principles as currently followed by the Bdl, perform an in-depth analysis of the Bdl's financial situation and provide a view on how these practices reconcile with internationally recognised accounting standards and leading practice in central bank accounting.
- 2. Understand the nature of the Bdl's FX reserves and other relevant assets:** As to ascertain the Bdl's asset position, we would provide a comprehensive inventory of the Bdl's current FX reserves. Specifically, we would identify which of the Bdl's reserves and other assets are pledged to third parties, e.g. banks, or otherwise unavailable for policy use. We would also check the accounting treatment and valuation of the Bdl's gold holdings.
- 3. Develop a pro-forma balance sheet based on accounting principles that follow leading international practice:** Based on our analysis, we would identify where the Bdl's current accounting framework diverts from international practice. For those elements which we identify as material considering the amount involved and/or the difference in methodological treatment between the Bdl's current practice and international standards, we would propose amendments and adjustments to the current framework. Such recommendations would be based on international standards such as IFRS and practice such as the Eurosystem's accounting framework. As per our current understanding of the situation at the Bdl, we would assume such adjustments to cover the valuation of FX reserves and liabilities, assets and liabilities vis-à-vis the Government, as well as the treatment of past and current flows from a profit and loss perspective as well as the usage of reserve accounts and provisions. We would also review the assumptions related to future profits, such as the treatment of seigniorage. Considering these adjustments, we would then produce a pro-forma balance sheet of the Bdl. This is to be based on the Bdl's current accounts but will incorporate adjustments for positions identified as material in line with the identified target principles. While such a pro-forma balance sheet will not be a comprehensive restatement of the Bdl's accounts consistent with an adjusted, comprehensive accounting framework, it should provide an adequate picture of the Bdl's financial situation in line with internationally understood practices, which will help the Government in its dealings with international creditors and multilateral financial institutions, in particular in context of program design and restructuring negotiations. Further, we would



propose corresponding adjustments to the framework to the BdL and audit companies that will be tasked with a comprehensive review of the BdL's balance sheet.

4. **Understand the nature of the BdL's past profits and losses:** Based on the adjusted profit and loss statements of the BdL, we will compare them against the underlying policy objectives, specifically the influence of i) the BdL's contribution to finance the Government's budget; ii) the BdL's efforts to defend the peg; and iii) the cost of the BdL's operations aimed at sourcing foreign currency. This review will also include the effects of the scheme of "financial engineering" that the BdL has been operating for the past five years. We will also review the adequacy of the treatment of future expected profits. Such analysis should give important information for the Government to decide on the possible options to resolve imbalances at the BdL, the banking system and the broader economy. It will also provide relevant input to decide on the BdL's future monetary policy framework.

Certain information we will need to cover the issues might not be readily available and will need to be acquired through additional auditorial or forensic work. We understand that you will appoint KPMG to do auditorial work, whereas Alvarez & Marsal will be appointed to investigate specific issues that might be identified as part of the overall process. Therefore, we would rely on auditors and forensic investigators (e.g. Alvarez & Marsal) to fill any relevant information gaps. We would be happy to assist with this process by defining the scope of work at the outset, overseeing execution, providing steer on additional issues to be covered as they are identified and providing quality assurance.

We understand that you are in highly dynamic negotiations with international and national stakeholders to gain the necessary support for the reform program your Government has approved recently. More clarity around issues related to the BdL and the banking sector will be key for you to successfully decide on policy and for stakeholders to provide support. Above-mentioned list of issues is based on the information we have available as of today. As our analysis evolves, we might recognize additional issues that warrant closer scrutiny, and would in this case propose to realign the scope of the study in line with its overall objective. To best support the ongoing process, we are proposing an iterative approach that should provide you with relevant results quickly. Initially these will be expressed in ranges that represent remaining uncertainties and open issues but will be narrowed down as our work progresses and additional information becomes available through auditorial and forensic work. To this end, we suggest a two-phased approach:

- **During phase 1, which will take 3 weeks, a small senior team will perform an initial discovery based on available documentation that is provided by the Government, the BdL, banks and relevant advisers.** As a result, we will: i) amend – if necessary – the scope of the study where additional aspects are identified, and adjust the relative weight of the modules in line with the identified priorities; ii) further define the scope of issues to be scrutinized by auditors and/or investigators as further inputs to the study; iii) provide our initial views on above-mentioned modules to the extent possible with the information and data available.
- **Following the discovery phase, we will present our findings to you and use the opportunity to iterate and further refine with you issues, priorities and a timetable for phase 2.** We will also work with the auditors to establish a plan that allow us to progress in parallel and iteratively in phase 2



- **During phase 2, which will under our current assumption will take 6 weeks of work, we will produce a report covering all modules of the study.** We would expect auditorial and forensic work to take place in parallel to our work – with close coordination to allow for progress - and would use any outcomes of such work as it becomes available. Considering the ongoing efforts on the reform program, we will aim to provide you with intermediate findings as we go. To this end, we will stay in close touch with you throughout our engagement to see and agree how we can best prioritize our work to yield results as you need them. Please bear in mind, however, that the comprehensive analysis required for the final report will take time to produce and there are significant interdependencies that might be unknown at this stage. The 6 weeks are to be understood as the net time spent on this mandate by the full team. Project breaks, such as those caused by waiting for necessary information or outputs of the audit and forensic work, or through review and decision-making processes on the side of the government, would come with an extension of the project timeline, without an impact on the amount of work we have to put into the work and therefore no impact on the commercial parameters. However, this estimate is based on our current understanding of the situation following the discussions with you and your advisers. If, as part of the discovery phase or during execution of Phase 2 it becomes evident that the mandate and approach needs to be adjusted to successfully deliver the agreed scope, we would enter into discussions with you to mutually agree on a modification or extension of the project.

The proposal is based under the assumption that we will have unrestricted access to relevant information from the BdL, through appointed auditors and investigators and – if need be – directly. The Ministry of Finance has the role of a “ministère de tutelle” vis-à-vis the central bank and can facilitate that Oliver Wyman, as well as auditors and investigators, will have the necessary access. However, if for reasons out of our control it is not possible to provided us with access to the information we need to properly deliver the scope of the mandate, our findings will be less robust, and we will need to refer to the corresponding uncertainties in the report. If in such scenario we came to the conclusion that we cannot reasonably deliver the agreed project scope, we would raise this with you, and we would be entitled to terminate the contract without liability.

During the engagement we will ensure alignment with KPMG to ensure a smooth flow of information and timing thereof.

The Client shall create a committee of three members which reports to the Minister of Finance and that is responsible to follow up and monitor the performance of Oliver Wyman engagement team to ensure that they comply with the terms of participation set forth in this agreement. Weekly meetings shall occur during which the Oliver Wyman engagement team will update the Minister of Finance on progress.

While not being part of this proposal, we would like to highlight the importance of reviewing the BdL’s governance framework in preparation for a potential “safeguards assessment” by the IMF. Good central bank governance is a key element of most IMF programs. In the first phase of a program, the IMF assesses several dimensions of a country’s central bank, as IMF program funds will flow through the latter, and program reviews and monitoring will heavily rely on central bank data reporting. The assessment covers important governance aspects such as the legal structure and autonomy, internal and external audit mechanisms, financial reporting and internal controls. Considering the current issues at hand, it is likely that certain aspects of the governance framework of the BdL could be improved, both in the context of a safeguards assessment, but also as a key



element of good economic policy for the country. We have helped several central banks around the world on complex governance matters and would be delighted to discuss with you, at an appropriate time, whether we could support you on this too.

2. PROPOSED TEAM

We propose the study to be chaired by Paul Fisher, Senior Advisor based in London. Paul would have the overall responsibility for the study by guiding the overall approach and developing the findings in line with international best practice in central banking. Paul is a former executive of the Bank of England (BoE), where he was responsible for managing the central bank's balance sheet as Executive Director for Markets, and he was member of the bank's monetary policy and financial policy committees as well as deputy head of the Prudential Regulation Authority (PRA). As of today, Paul, who is a British national, is chair of the London Bullion Market Association and non-executive director at the UK Debt Management office.

The execution of the study would be led by Oliver Wünsch, Senior Advisor based in Zurich. Oliver would be responsible for directing the analytical and research work, as well as for preparing the findings and the report. He would also serve as main liaison with you, the BdL and other stakeholders of the study, in particular the audit companies. Oliver has spent a substantial part of his career at the Swiss Government and the International Monetary Fund's Monetary and Capital Markets Department, where he was leading strategic reforms, large-scale transactions and emergency interventions and IMF program negotiations and reviews in Cyprus, Greece, Switzerland and several other countries. He also has a deep experience in analysing and resolving interlinkages between banking, private & public debt, fiscal and monetary policy issues. Oliver is a Swiss national.

Élie Farah will provide additional expert guidance. Élie, who is a French-Lebanese national, is a partner from our Paris Office and leads our Financial Services practice in France. He has done extensive work with European supervisors and regulators bank regulation and restructuring.

Paul Fisher, Oliver Wünsch and Élie Farah would be complemented by a small team of Oliver Wyman's senior consultants. These will work under their guidance on analytical, research and drafting tasks.

Also considering the ongoing Covid-19 crisis, we expect all or most of our work to be performed remotely. Oliver Wyman has made substantial investments into infrastructure and processes, including highly encrypted digital collaboration tools (video conferencing) and a secure cloud infrastructure allows file and data sharing. Where in compliance with applicable travel and safety policies, we would be happy to perform necessary elements of our work in Beirut and be available for senior meetings on-site.

Oliver Wyman will provide its analysis and support based on industry leading practices Oliver Wyman has observed in the marketplace and on its extensive experience working for its institutional clients, Central Banks and Regulators around the world. Oliver Wyman will not provide any legal advice. Oliver Wyman recommends that, for such advice, you independently seek and obtain advice of counsel. Any services and deliverables provided by Oliver Wyman may include advice and recommendations; however, all such advice and recommendations are premised on Oliver Wyman's understanding of industry leading practices as observed through work with its client base and its understanding of applicable laws and regulations, and all decisions in connection with



the implementation of such advice and recommendations shall be the sole responsibility of, and made by, the Banque du Liban.

The financial and commercial parameters for this engagement are provided in the appendices. Appendix A describes the financial offer. The terms and conditions the engagement will be subject to are provided in Appendix B.

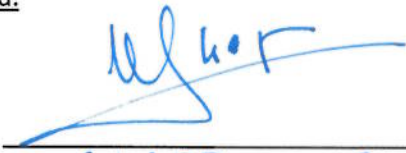
Within the next few days and weeks, you will take decisions that will shape your country for years to come. We would be honoured to support you during this important phase and are looking forward to hearing from you.

Yours faithfully,


Oliver Wuensch


Élie Farah

Approved:

By: 
Name: GHAZI WARZI
Title: Minister of finance.
Date: 1 September 2020.

The undersigned is a duly authorised representative of the Lebanese Republic

APPENDIX A: FINANCIAL OFFER

Due to the strategic nature of this engagement and its importance on safeguarding economic and financial stability in Lebanon, we will make an extraordinary investment by assigning our most senior experts with international standing and reputation to the execution and review of the mandate.

We are offering the proposed engagement at an amount of CHF 200,000 in professional fees for phase 1 (discovery phase), and CHF 750,000 for Phase 2 (report covering all modules), excluding VAT. Again, our offer for phase 2 is based on our current understanding of the situation. If, as part of the discovery phase or during execution of Phase 2 it becomes evident that the mandate and approach needs to be adjusted to successfully deliver the agreed scope, we would enter into discussions with you to mutually agree on a modification of the corresponding terms for Phase 2, while considering the expected workload, team size and time needed, and the evolving timetable and the availability of external interdependencies. If we are not able to reach such agreement, we would have the right to terminate the contract without liability. For the avoidance of doubt, the proposed budget does not cover additional work from auditors or forensic accountants.

In addition, expenses will be charged as incurred, with a cap of 10 percent of the overall professional fees. The expenses we will charge will be mostly related to travel, accommodation etc. of our staff and thereby be dependent on the scale of on-site presence we will need to successfully deliver the mandate.

Our fees would be invoiced and paid pro-rata on a rolling basis, with the instalments being dependent on the work to be performed over a given time period. We would provide you with invoices on a fortnightly or less frequent basis covering work and expenses, with a payment term of 15 days.



APPENDIX B: TERMS AND CONDITIONS OF BUSINESS

This agreement sets forth the terms and conditions on which Oliver Wyman AG, a stock corporation formed under the laws of Switzerland and Oliver Wyman Services Limited (together, the "Company"), provide services (the "Services") for the *Lebanese Republic represented by the Ministry of Finance* (the "Client") pursuant to or in connection with the attached document titled *Central Bank Review* dated *XX May 2020* or any other project description document that is or has been mutually agreed by the Company and the Client (each, a "Project Description Document"). This agreement together with all such Project Description Documents shall be referred to herein as the "Agreement". In the event of a conflict between these terms and conditions and any Project Description Document, these terms and conditions will prevail to the extent of such conflict.

Fees, Expenses, and Payment. In consideration for the Services, the Client shall pay to Oliver Wyman AG, billing and collecting for itself and acting as billing and collection agent for Oliver Wyman Services Limited, the professional fees and expenses in accordance with each Project Description Document. Oliver Wyman AG shall provide Services to the extent they are provided using its personnel or resources, and Oliver Wyman Services Limited shall, directly or through one or more of its affiliates, provide Services to the extent they are provided using personnel or resources from Oliver Wyman Services Limited or such affiliates. Payment of each invoice from the Company is due within 30 days after the date thereof. The Company reserves the right to suspend the provision of Services in the event of non-payment by the Client. The description of the fees and expenses in each Project Description Document is exclusive of any applicable taxes.

1. **Confidentiality.** Each party shall keep confidential and not disclose any confidential information, advice or material of any nature that is provided or made available by the other party, including, without limitation, any written reports or other data (collectively, "Confidential Information"), without the prior written

consent of the other party. Neither party may disclose Confidential Information outside of its organization, unless permitted by this agreement or otherwise mutually between the parties. Confidential Information may only be disclosed internally, including to other arms of the government, to those who are bound by confidentiality restrictions consistent with those set forth herein, and externally to the International Monetary Fund the purposes of contributing to your efforts on restructuring Lebanese debt as well as getting external financial support. In addition, the Company's Services may be disclosed to KPMG and Alvarez & Marsal solely in connection with their participation of the central bank review, and to Lazard and Cleary Gottlieb, and any other advisors appointed by the Lebanese Government, in their capacity as advisors on the public debt restructuring, on condition that these advisers first sign a non-reliance letter with the Company in a form that is acceptable to the Company.

This Section 2 shall not apply to any information that:

- i. is or at any time becomes publicly available other than as a result of breach by the recipient of its obligations under this Agreement,
- ii. the recipient acquires from a third party who owes no obligations of



confidence to the other party in respect thereof,

- iii. was already known to the recipient at the time it received such information from the other party as shown by the recipient's prior written records, or
- iv. is independently developed by the recipient without use of, or reference to, Confidential Information.

If either the Company or the Client is requested or required by any regulator or any legal or investigative process, or any rules of any stock exchange to disclose any Confidential Information, that party shall, to the extent legally permissible, provide the other party with prompt notice of each such request and the Confidential Information requested so that such other party may seek to prevent disclosure or the entry of a protective order. If disclosure is required and a protective order is not obtained, the party from whom disclosure is required shall disclose only such Confidential Information that it is advised by its legal counsel is legally required to be disclosed.

- 2. **Client Information.** In performing the Services, the Company will use all information supplied by or on behalf of the Client without having independently verified the same and the Company assumes no responsibility for the accuracy or completeness of such information. Unless otherwise agreed, the Client shall not share any personal data with the Company other than the contact details of those of its employees or agents who may interact with the Company during the provision of the Services.
- 3. **Work Product.** All intellectual property in project materials developed by the Company specifically and exclusively for the Client in the course of providing the Services (the "Works") shall be owned by the Client. At the request and expense of the Client, the Company shall do all such

things and sign all such documents or instruments reasonably necessary to give effect to the foregoing. Notwithstanding anything to the contrary contained in this Agreement or any Project Description Document, the Company retains all rights in, and shall be entitled to use without restriction: (i) its intellectual capital, including, without limitation, methodologies, ideas, know how, techniques, models, tools, skills, generic or aggregated industry information, knowledge and experience, and any graphic representations of any of these, whether now possessed or hereafter acquired by the Company ("Company IC"), and (ii) any software-based tools that may be developed hereunder ("Software"). The Services and deliverables provided by the Company hereunder will inherently contain and/or embed Company IC and/or Software. The Company hereby grants to the Client from the date of this Agreement a non-exclusive, non-transferable, irrevocable and royalty-free license to use Company IC and any Software included in the Services or deliverables, solely for the Client's internal use. If any Software is developed hereunder, the parties shall cooperate in good faith to agree upon definitive documentation relating to the Software and the Company's maintenance and support obligations, if any, with respect thereto.

- 4. **Use of the Services and Works.** The Services and Works provided by the Company may include advice and recommendations; however, all decisions in connection with the implementation of such advice and recommendations shall be the sole responsibility of, and made by, the Client. Unless permitted by this agreement or otherwise agreed in writing, the Services and Works are furnished solely for the Client's internal use, and



shall not be disclosed in whole or in part to any third party.

Use of Names. Neither Party will refer to the other Party or a

5. Attribute any information to the other Party, in the press or publicly, without the other party's prior written consent.
6. **Non-Exclusivity.** It is the Company's practice to serve multiple clients within industries, including those with potentially opposing interests. Accordingly, the Company may have served, may currently be serving or may in the future serve other clients whose interests may be adverse to those of the Client. In all such situations, the Company is committed to maintaining the confidentiality of each client's information. As of the date of this agreement the Company has not identified any services it is providing to other clients which are in conflict with the Services. During the performance of the Services, the Company will not accept any engagement by any third party in respect of the subject matter of this Agreement, which can be in a conflict with the Services.
7. **Limit of Liability.**
 - a. In no event shall either party be liable for any indirect, special, incidental, consequential or punitive damages or for any lost profits arising out of or relating to the Services.
 - b. In no event shall the aggregate liability of the Company, its affiliates and its subcontractors (whether based on any action or claim in contract, tort, or otherwise) to the Client or its affiliates arising out of or relating to any Services exceed the fees payable to the Company for such Services, in any event such liability not exceed USD 2,000,000.

c. This Section 8 shall apply to the fullest extent permitted by applicable law

8. **Additional Costs.** The scope of Services and fees hereunder do not contemplate the Company being involved in any legal or regulatory proceedings or investigations or subject to third-party claims. Accordingly, the Client agrees to pay, to the extent permitted by law, the Company's standard rates for professional time spent (including, without limitation, for preparing, defending or giving testimony or furnishing documents) and reimburse and hold harmless the Company for liabilities, losses, damages, costs and expenses as incurred (including, without limitation, reasonable legal fees and costs), in connection with any actual or threatened actions, proceedings or investigations, either if the Company is sued directly or subpoenaed in any proceedings, or asked to assist any legal process (collectively "Costs"), relating to or arising out of the Services under any Project Description Document or any matter relating to such Services. However, the Client will not be liable under this Section 9 to the Company to the extent any Costs sustained by the Company are finally determined to have resulted primarily from the intentional misconduct or bad faith of the Company.
9. **Force Majeure.** Neither party shall have any liability for any failure or delay in performance of its obligations under this Agreement because of circumstances beyond its reasonable control, including, without limitation, epidemics, public health emergencies, acts of God, fires, floods, earthquakes, acts of war or terrorism, civil disturbances, sabotage, accidents, unusually severe weather, governmental actions, power failures, computer/network viruses that are not preventable through generally available retail products, catastrophic hardware failures or attacks on its server.



10. **Governing Law and Jurisdiction.** This Agreement and all matters arising out of or relating to this Agreement, including, without limitation, its enforcement, shall be governed by and construed in accordance with the internal laws of Switzerland (excluding Swiss Private International Law and international treaties). Each party submits to the exclusive jurisdiction of the competent court in Zurich, Switzerland.
11. **Dispute Resolution.** If any dispute between the parties arises out of any matter governed by this Agreement, each party will first attempt in good faith to reach a settlement through negotiation by its appointed representative.
12. **Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be legally effective, binding and valid under the applicable law, but if any provision of this Agreement shall be unenforceable or invalid thereunder, such provision shall be ineffective only to the extent of such unenforceability or invalidity and be replaced by such valid and enforceable provision which bona fide parties would consider to match as closely as possible the invalid or unenforceable provision, attaining the same or a similar economic effect. The remaining provisions of this Agreement shall under all circumstances continue to be binding and in full force and effect.
13. **Amendment, Waiver and Assignment.** This Agreement may not be amended, modified or waived except by a signed written agreement. Neither party shall have the right to assign or transfer this Agreement or any rights hereunder to any third party without the prior written consent of the other party.
14. **Miscellaneous.** This Agreement contains the entire understanding of the parties with respect to the subject matter

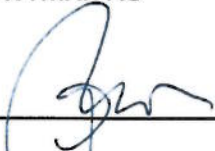
contained herein, superseding all prior Terms & Conditions agreements with respect to such matters. This Agreement shall be binding upon and inure to the benefit of the parties' respective successors. There are no third party beneficiaries with respect to this Agreement. This Agreement may be executed on separate counterparts, each of which shall constitute an original, but both of which when taken together shall constitute a single contract. Delivery of an executed signature page of this Agreement by facsimile or other electronic transmission shall be effective as delivery of a manually executed counterpart hereof. The obligations of the parties under this Agreement that by their nature continue beyond the termination of this Agreement shall survive any termination of this Agreement.



**FOR VALUABLE CONSIDERATION,
AGREED TO:**

OLIVER WYMAN AG

By:




Name: Oliver Wunsch

Title: Senior Advisor

Date: 13 August 2020

OLIVER WYMAN AG

By:



Name: Joris d'Inca

Title: Partner

Date: 13 August 2020

OLIVER WYMAN SERVICES LIMITED

By:

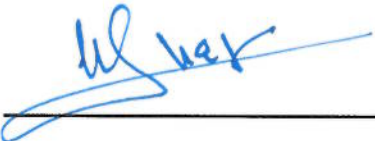
Name:

Title:

Date:

Lebanese Republic represented

By:



Name: GHAZI WAZNI

Title: Minister of finance

Date: 1 september 2020.