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The banking sector continued its retrenchment in 2022. It was a year where the economic and financial crisis continued un-abated with no corrective measures to arrest the decline. Below, we will discuss the banking sector's balance sheet, BDL's new circulars, and the main issues that the sector faced in 2022.

Overview:

As the table below shows, assets stood at \$169.1 B, less by 3% from 2021. Similarly, deposits fell to \$125.7B, lower by 3%, with the dollarization rate mostly stable at 76%. Loans declined the most, falling by 28% to \$19.9B, while the dollarization rate fell by 10.7% to 50%; as to shareholders' equity, it grew by 3% to \$18.3B. Note that all these figures are converted at the official rate of 1,507 LBP per USD, at a time during the period the parallel market rate increased from 27,600 LBP to 42,400 LBP per USD.

USD Billion (per 1507.5 LBP)	Dec-21	Dec-22
Assets	174.9	169.1
Deposits	129.8	125.7
Dollarization rate (%)	79%	76%
Loans	27.5	19.9
Dollarization rate (%)	56%	50%
Shareholders' equity	17.7	18.3
End of Period (EOP) Parallel exchange rate in LBP	27,600	42,400

Lebanon's banks imposed an informal but needed capital control at the beginning of Lebanon's economic crisis in 2019, when signs of the country's liquidity crisis first began to show, locking people out of their savings. Since then, banks have severely limited the amount of money depositors can withdraw from their accounts. For the most part, depositors can only withdraw dollars at BDL's imposed rate that is worth a fraction of the dollar's true value in the parallel exchange market in Lebanon.

As such, the banking sector witnessed a remarkable financial crisis where the number of branches in Lebanon fell from 1,058 by the end of 2019 to 801 by September 2022. Furthermore, the number of commercial banks fell insignificantly from 47 in December 2019 to 46 in September 2022. However, the number of Lebanese Banks' branches abroad dropped remarkably from 73 in December 2019 to 51 in September 2022, as a few Lebanese banks have exited some foreign markets. Surprisingly, the number of Foreign exchange dealers slightly grew from 303 in December 2019 to 306 in September 2022.

Similarly, according to the last annual report from Association of Banks in Lebanon (ABL), the number of employees in the banks operating in Lebanon decreased by more than 2,500 employees at the end of 2020, reaching 22,325 persons, compared to 24,886 employees at the end of 2019.

Regulation:

Circular 13495:

On 1/11/2022, BDL issued Intermediate Circular 13495 in which it stated two articles. Article 1 reduces by 50% the interest rate it pays Banks on their long-term USD deposits at BDL; however, BDL will continue to pay half the interest on these deposits in USD and the other half in LBP. Article 2 reduces by 50% also the interest rate it pays Banks on their investments in USD CDs issued by BDL. Similarly, BDL will continue to pay half the interest on these CDs in USD and the other half in LBP. The Circular is valid for 6 months since the day it was issued.

Circular 646:

On 12/10/2022, the Central Bank issued a new circular no. 646 stating that clients are allowed to make advance payments without the approval of BDL on housing loans, study loans and environmental loans less than LBP 30M.

As a matter of fact, in the past three years, residents were settling the above facilities in USD on the exchange rate 1507.5 LBP per USD on a monthly basis. As such, with the latest BDL circular, residents are now allowed to settle in advance their whole exposure without the approval of BDL and without commission fees. The circular applies to subsidized credit and to credit benefiting from deductions from reserve requirements (the bulk of the loans) and credit benefiting from deductions from banks liabilities subject to reserve requirements.

In fact, BDL was aiming towards collecting all mentioned exposures on the rate LBP 1507.5 per USD before the implementation of the new exchange rate of LBP 15,000 per USD, which was put into effect on February 1, 2023.

Balance Sheet:

Lebanon's financial system used to be driven by a significant concentration in Lebanese sovereign exposure and placements at the Central Bank; as such 69.1% of their assets are with the State and the Central Bank. As to deposits with the Central Bank, they declined by 10.42% since December 2019, standing at \$105.46B at end 2022, out of which about \$88.08B were denominated in foreign currency.

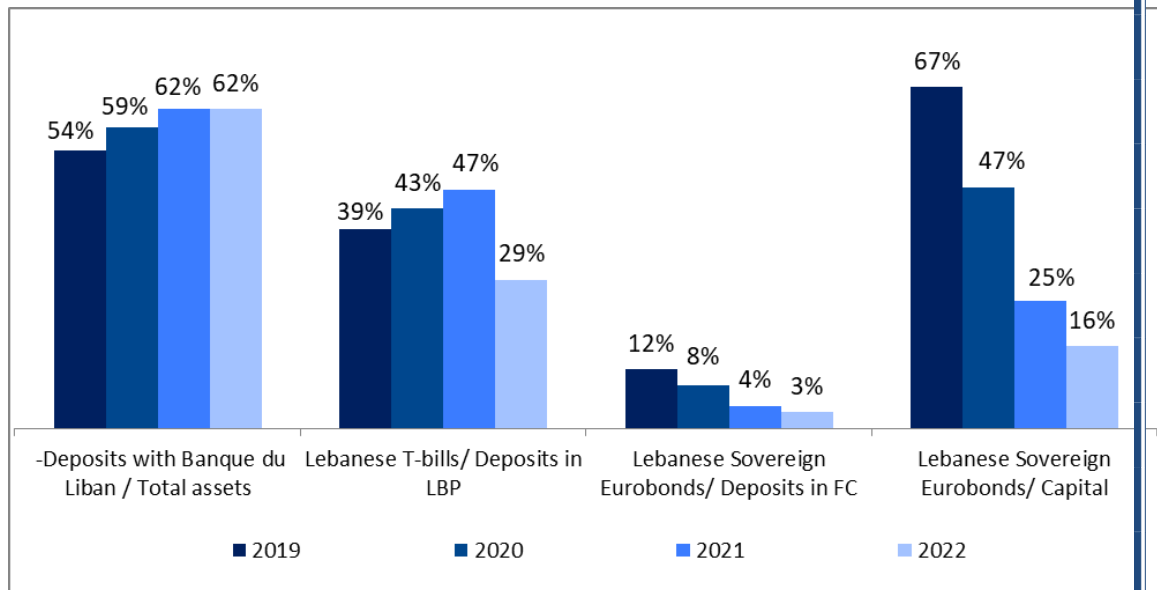
Additionally, as per the latest data by the Lebanese Ministry of Finance, in October 2022, Lebanese banks were bearing 12.12% of the public debt totaling \$101.95B. In fact, banks' subscription to Treasury bills denominated in Lebanese Pound fell by 46.67% from \$16.51B in October 2019 to \$8.81B in October 2022. Similarly, banks' subscription to Lebanese sovereign Eurobonds fell sharply but at a higher pace of 75.96% from \$14.76B in October 2019 to reach \$3.55B by October 2022.

In relation to claims on non-resident financial sector, they fell by 8.48% since December 2021, however they fell by 37.92% since December 2019 to reach \$4.2B by December 2022. Similarly, non-resident financial sector

liabilities similarly slumped by 11.47% since December 2021 and by 51.16% since December 2019, to stand at \$4.31B in December 2022. Moreover, for the year 2022, the ratio of claims on non-resident financial sector over non-resident financial sector liabilities reached 97.41% versus 76.65% in December 2019. The rise in 2022 is alarming as the ratio of claims of non-resident financial sector over non-resident financial liabilities indicates a short position for banks regarding their foreign liabilities.

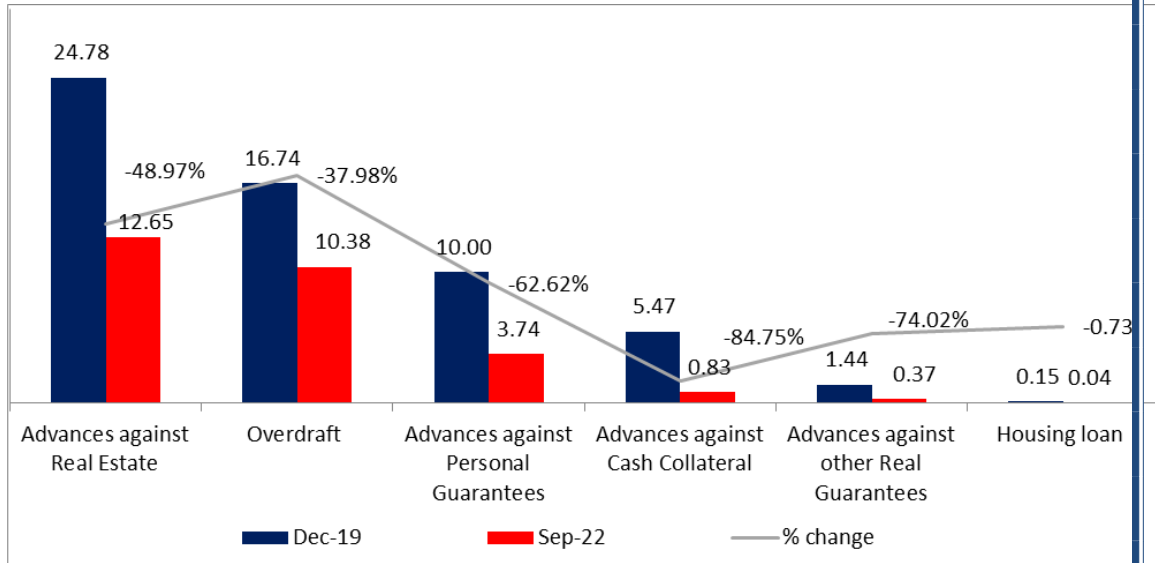
Also, claims on resident customers, representing 10.55% of banks' total assets in 2022, slumped by 27.75% YOY and by 59.39% since December 2019 to reach \$17.83B by December 2022. Moreover, loans to non-resident customers, representing 1.21% of 2022 total assets, went down by 28% YOY and by 63.35% since December 2019, to stand at \$2.04B in December 2022.

Sovereign Exposure and placements at Central Bank of Lebanese Banks for 2020 till 2022



Source: BDL, BLOMINVEST

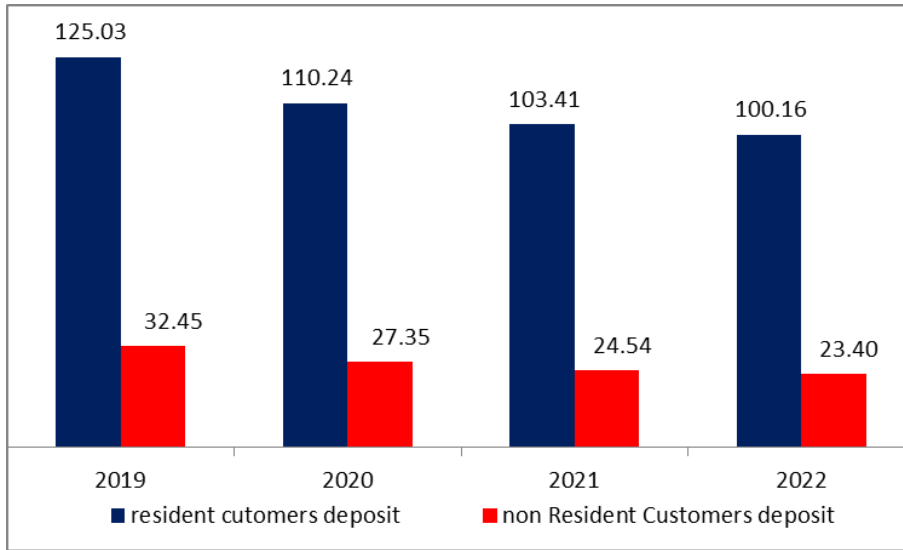
Loans in December 2019 versus September 2022 (in Millions of USD)



Source: BDL, BLOMINVEST

According to the quarterly report from BDL for the third quarter of 2022, loans fell dramatically since December 2019. In more details, advances against cash collateral dropped the most by 84.75%, to reach \$0.83M by September 2022. In contrast, overdraft facilities fell the least by 37.98% to reach \$10.38M by September 2022 as they consist of automatically renewable financial products through which one can withdraw money from his current account, even if his account balance is zero. Arguably, since the financial crisis in 2019, banks have stopped granting new loans to individuals and businesses.

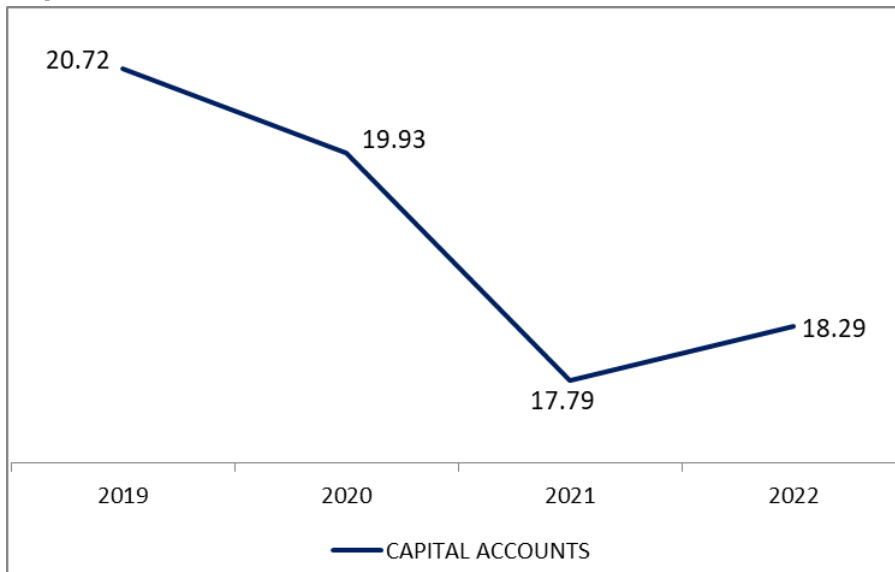
Banking sector deposits for 2019-2022 (in Billions USD)



Source: BDL, BLOMINVEST

Resident customers deposit dropped slightly by 3.15% yearly, but significantly by 19.89% since December 2019, to reach \$100.16B by December 2022. Moreover, non-resident customers deposit fell by 4.66% YOY and by 27.9% since December 2019, to reach \$23.4B by the end of the period.

Capital Accounts for 2019-2022 (in Billions USD)



Source: BDL, BLOMINVEST

Banks' capital grew by 2.83% yearly, however it fell by 11.75% since December 2019, to reach \$18.29B by December 2022. Interestingly, in 2021, banks managed to reinforce their position by mostly complying with the Central Bank circular 154, thus largely increasing by 20% their capital.

Conclusion

More than three years into the worst economic and financial crisis in Lebanon's history and banks are still facing persistently tough conditions characterized by political deadlock and regional tensions. In fact, given the chaos and the acute deterioration of the economic situation in the country, desperate and armed Lebanese had resorted to hold banks hostages in order to retrieve their own blocked money. Consequently, banks went on a strike for a period of one week, and upon their re-opening on the 26th of September, 2022, they increased security measures and imposed that all bank transactions be set upon appointment or through ATMs.

The urgent need for formal capital control law has been a demand by banks, along with foreign aid and the implementation of much needed economic reforms. Also, an orderly resolution of the financial gap (estimated at around \$60B) among banks, BDL and the government is a prerequisite for efficient restructuring of the banking system. Keeping in mind that Lebanon cannot have a way out of the current situation without a well-functioning and resilient banking sector that will stay as the main pillar for the country' s economy and build for a new era in Lebanese banking sector.

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