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The banking sector continued its retrenchment in 2023. 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 2023.

Overview:

As the table below shows, assets stood at \$115.2B, less by 31.85% from 2022. Similarly, deposits fell to \$94.75B, lower by 24.62%, with the dollarization rate at 96%. Loans declined significantly, falling by 59.12% to \$8.1B, while the dollarization rate stood at 91%; as to shareholders' equity, it declined by 72.18% to \$5.1B. Note that 2022 figures were converted at the rate 1507.5 per USD while 2023 figures were converted at the new official rate of 15,000 LBP per USD, meanwhile the parallel market rate reached LBP 89,700 per USD by end of year 2023.

USD Billion	Dec-22 (LBP1507.5/USD)	Dec-23 (LBP15,000/USD)
Assets	169.1	115.2
Deposits	125.7	94.75
Dollarization rate (%)	76%	96%
Loans	19.9	8.1
Dollarization rate (%)	50%	91%
Shareholders' equity	18.3	5.1
End of Period (EOP) Parallel exchange rate in LBP	42,400	89,700

In 2023, the Lebanese banking sector continued to grapple with multiple challenges, including capital controls, liquidity shortages, and a lack of foreign

currency reserves. These challenges have led to a loss of trust in the banking system, prompting many Lebanese citizens to seek alternative means to safeguard their assets. Furthermore, the political and economic instability in Lebanon has deterred foreign investment and strained relations with international financial institutions, hindering the country's ability to access vital financial support and assistance.

In more details, in 2023, the Lebanese banking sector found itself at a critical juncture following the conclusion of Riad Salameh's tenure as the governor of the Banque du Liban (BDL) on July 31, 2023. After three decades at the helm of Lebanon's financial landscape, Salameh left behind an institution encased in outdated structures and burdened by a crisis exacerbated, in part, by its own policies. As such, Wassim Mansouri was appointed as acting governor of BDL and citizens were hopeful that he would bring a degree of change in order to stabilize the banking sector amidst ongoing challenges and reforms. Additionally, in February 2023, the central bank adjusted the official exchange rate from LBP 1507.5 per USD to LBP 15,000 per USD, reflecting the currency depreciation in the country.

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 744 by June 2023. Furthermore, the number of commercial banks fell insignificantly from 47 in December 2019 to 46 in June 2023. However, the number of Lebanese Banks' branches abroad dropped remarkably from 73 in December 2019 to 49 in June 2023, 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 304 in June 2023.

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 remarkably, reaching 18,815 persons by end of year 2021, compared to 22,325 by end of 2020 and 24,886 employees by end of 2019.

Regulations:

1. BDL issued, on 17/11/2023, an amendment to Basic Decision 13335, outlining exceptional measures for the gradual repayment of deposits in foreign currencies as per Circular No 158. This decision applies to depositors whose accounts were in any bank (transferring bank) in foreign currencies before October 31, 2019, and subsequently transferred to other banks (remitting banks). The main beneficiaries of this decision are the primary account holders from whom the amounts were transferred. In case of the account holder's death, inheritors can

benefit up to 100% of the specified limits. However, the account holder must sign a form lifting banking secrecy with the referred bank in favor of BDL and the Banking Control Commission. Additionally, a statement from the transferring bank confirming that the amount to be returned corresponds to the account holder must be obtained. The remitting bank is responsible for calculating the transferable amount, based on the available balance on October 31, 2023. The transferred amount should not exceed the balance on the date of opening the account with the receiving bank, excluding amounts not received from the account holder's account.

2. Circular 679 modifying basic decision 13100 issued on Tuesday October 03, 2023 by which it advises banks to regulate their commissions charged on customers' accounts.
3. BDL issued on 5 July 2023 two intermediate Circulars.
 - Intermediate Circular 673 extends Basic Circular 151 to 31/12/2023. The circular permits clients to exchange every month their USD deposits at commercial banks for a maximum amount of 1,600 USD at the official exchange rate of 15,000 LBP.
 - In addition, Intermediate Circular 674 amends Basic Circular 158. It eliminated the \$400 that clients used to withdraw every month from their "special designated accounts" of USD at the official exchange rate of 15,000. Thus, the eligible monthly cash withdrawal is reduced to \$300 for an annual total of maximum \$3,600.
4. BDL issued a new Circular No 165 on 19/04/2023 in relation to the electronic settlement operations related to "banknotes" or "cash money". The Central Bank took the initiative to declare several decisions within the monetary and credit law that aim to organize the work of cash money and fresh checks and legalize their exchange through BDL in line with the exceptional circumstances that the Lebanese economy is going through.
5. BDL Issues Circular 677 that Suspends Previous Circular 675 on FX Operations and Circular 676 on Consolidated Financial Accounts at Banks on September 11, 2023. More specifically, Intermediate Circular 677 suspended:
 - Article 3 of Intermediate Circular 675 that deals with the regulatory actions that banks will be subjected to in case they don't meet the required net FX position.

- Article 4 of Intermediate Circular 675 that deals with the maximum period allowed for banks to settle their violation of the required net FX position.
- Article 1 of Intermediate Circular 676 that deals with how banks should report the changes in their net FX position in their consolidated financial statements.

Balance Sheet:

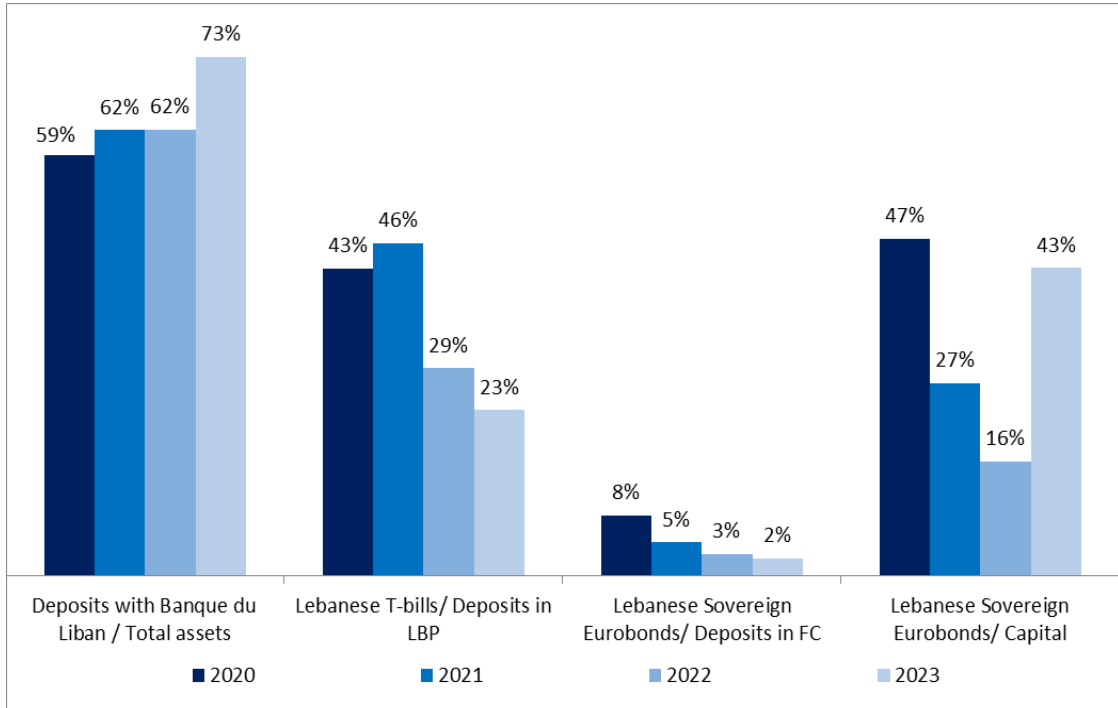
Lebanon's financial system has been driven by a significant concentration in Lebanese sovereign exposure and placements at the Central Bank; as such, by end of December 2023, 75.12% of their assets were registered with the State and the Central Bank. As to deposits with the Central Bank, they declined by 20.71% since December 2022 and by 28.97% since December 2019, standing at \$83.62B by end of year 2023.

Additionally, as per the latest data by the Lebanese Ministry of Finance in January 2023, Lebanese banks were bearing 11% of the public debt amounting \$102.47B. In fact, banks' subscription to Treasury bills denominated in Lebanese Pound fell by 26.53% since January 2020 to reach \$8.41M by January 2023. Similarly, banks' subscription to Lebanese sovereign Eurobonds fell sharply but at a higher pace by 69.12% since January 2020 to reach \$2.9B by January 2023. Furthermore, looking at data of December 2023, Treasury bills denominated in Lebanese Pound fell by 90.96% annually to reach \$762.38M while Lebanese sovereign Eurobond declined by 25.31% year over year (YOY) to reach 2,191.5M.

In relation to claims on non-resident financial sector, they rose by 6.18% since December 2022, however they fell by 34.09% since December 2019 to reach \$4.46B by December 2023. Similarly, non-resident financial sector liabilities similarly slumped by 33.11% since December 2022 and by 67.33% since December 2019, to stand at \$2.88B in December 2023. Moreover, for the year 2023, the ratio of claims on non-resident financial sector over non-resident financial sector liabilities reached 154.63% versus 76.65% in December 2019.

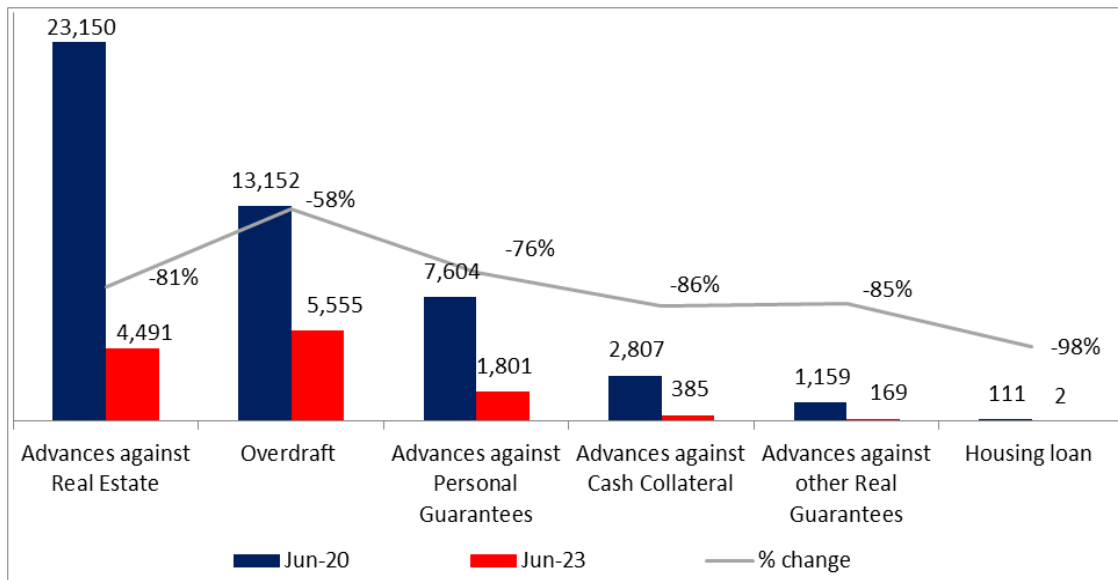
Also, claims on resident customers, representing 6.21% of banks' total assets in 2023, slumped by 59.88% YOY and by 83.71% since December 2019 to reach \$7.15B by December 2023. Moreover, claims on non-resident customers, representing 0.85% of 2023 total assets, went down by 51.96% YOY and by 82.39% since December 2019, to stand at \$980.94M in December 2023.

Sovereign Exposure and placements at Central Bank of Lebanese Banks from 2020 to 2023



Source: Banque du Liban (BDL), BlomInvest

Loans in June 2020 versus June 2023 (in Millions of USD)

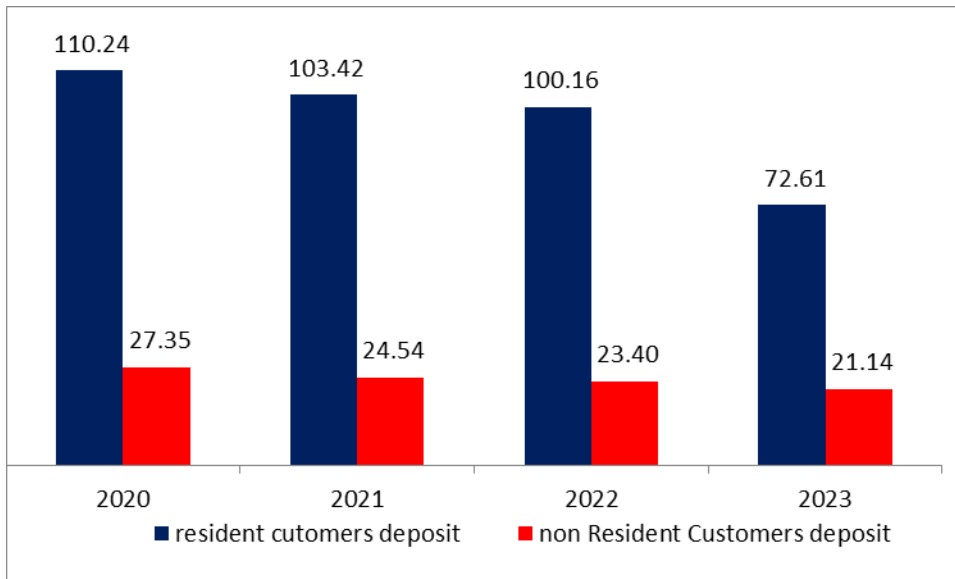


Source: Banque du Liban (BDL), BlomInvest

According to the quarterly report from BDL for the third quarter of 2023, loans fell dramatically since June 2023. In more details, advances against cash

collateral dropped the most by 86%, to reach \$385M by June 2023. In contrast, overdraft facilities fell the least by 58% to reach \$5,555M by June 2023 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. Note that, since the financial crisis in 2019, banks have stopped granting new loans to individuals and businesses.

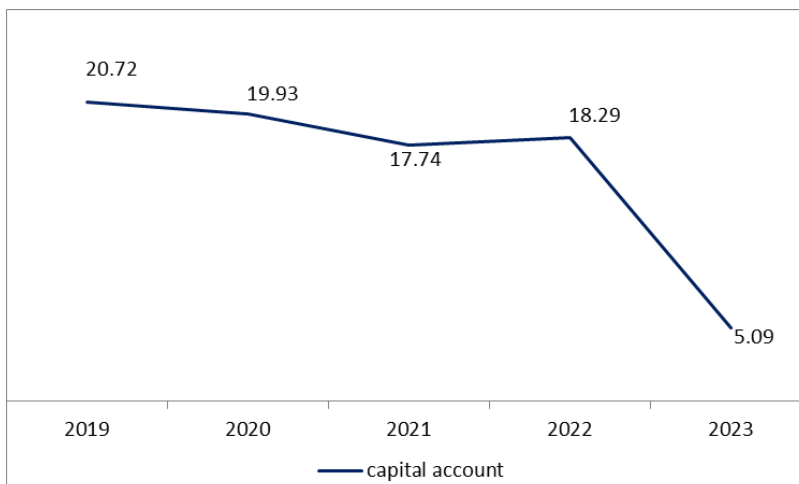
Banking sector deposits for 2020-2023 (in Billions USD)



Source: Banque du Liban (BDL), BlomInvest

Resident customers deposits dropped significantly by 27.51% yearly and by 34.13% since December 2020, to reach \$72.61B by December 2023. Moreover, non-resident customers deposit fell by 9.66% YOY and by 22.72% since December 2020, to reach \$21.14B by the end of the period, amid adopting the new official rate of LBP 15,000 per USD.

Capital Accounts for 2019-2023 (in Billions USD)



Source: Banque du Liban (BDL), BlomInvest

The Banks' capital declined substantially by 72.16% yearly and by 75.43% since December 2019 to reach \$5.09B by the end of the period. Although, in 2021, banks managed to reinforce their position by complying with the Central Bank circular 154, thus increasing their capital by 20%; the significant fall in 2023 is mainly due to the adoption of new official rate LBP 15,000 per USD compared to LBP 1507.5 per USD prior.

Conclusion

The banking sector in Lebanon faced unprecedented challenges throughout the year 2023, stemming from a combination of economic turmoil, political instability, and external pressures. These challenges have significantly strained the sector, leading to liquidity shortages, capital outflows, and a decline in investor confidence.

Amidst these difficulties, it has become increasingly evident that urgent reforms are needed to address the systemic issues plaguing Lebanon's banking sector. Failure to implement timely and effective reforms not only jeopardizes the stability of the banking sector but also undermines Lebanon's broader economic prospects. Therefore, concerted efforts from policymakers, regulators, and industry stakeholders are imperative to enact meaningful reforms that pave the way for a more sustainable and prosperous future.

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