



January 13, 2026

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I. Introduction

Six years have passed since the blow up of the financial crisis and is now in its seventh year, and still there is no resolution for the banking sector and depositors' money. Several plans were prepared and discussed without any result. In December 2025, the government adopted the law after at least eight plans were prepared but not adopted since late 2019.

As per the law adopted, the purpose is to put a deposit repayment schedule based on depositors' categories and needed liquidity, restoring balance and solvency to the banking system including the Central Bank (BDL). Additionally, cleansing of the irregularities (non-performing assets) at the level of banks operating in Lebanon, at the BDL, and at the level of depositors in these banks, and determining government's duties towards BDL and its restructuring.

This law will be implemented, if enacted, on Lebanese treasury, BDL, and commercial banks operating in Lebanon and listed on banks' list at BDL, in addition to all deposits at BDL and commercial banks prior to 17/10/2019 or after. However, in the prior draft that was discussed in the Council of Ministers (COM), only foreign currency deposits that were accumulated before 17/10/2019 only were the subject of this law. The new version also stated that there are no restrictions on fresh money deposited after 17/10/2019.

In this spotlight, we will be discussing the main points in the law, International Monetary Fund's (IMF) remarks on this law as well as BDL's response to these remarks, in addition to Association of Banks in Lebanon's point of view. Finally, we will present the pros and cons of this law.

II. Restoring Balance and Solvency to the Banking System

The fourth article of the law lists the steps to be applied to restore balance and solvency to the banking system. As such, the article in Banks Restructuring Law (passed in August 2025) related to these steps will be cancelled.

The steps that are incorporated in this law are:

- Within a period of one month after the issuance of this law, BDL should take the required procedures to reevaluate its financial securities to determine the amount of the financial gap through an independent international audit firm as per international standards. These procedures should be completed within a period of six months at most.
- As per the results of the revaluation of BDL, each bank, independently, is subject to Asset Quality Review (AQR) by an international audit firm as per international standards. This assessment aims to determine the extent of any decrease and losses incurred in the value of each bank's assets, and the corresponding reduction in its capital and, conversely, in its account balances at BDL.

When conducting the AQR, the principle of hierarchical responsibility and loss-bearing, enshrined in bank reform processes, is applied, starting with ordinary shareholders and proceeding to higher-ranking creditors, as outlined in Appendix 1 of Law No.23 /2025. This principle is adopted to distribute responsibilities and losses fairly and predictably, in line with the objectives of financial order and international standards.

In order to preserve the safety and resilience of the banking sector, and its ability to continue performing its tasks within the deposit repayment plan, the losses arising from the application of the principle of hierarchical distribution of responsibilities and bearing the aforementioned losses, shall be distributed within the limits of the total funds of each bank up to the creditors of the highest rank in the hierarchy of distribution of responsibilities.

Every bank is required, in all cases and circumstances, and regardless of the results of a comprehensive assessment of the quality of its assets, whether its capital is completely eroded or not, to recapitalize through Tier 1 instruments; in accordance with the systemic risk framework adopted in the Basel III requirements. This capitalization is carried out according to what is decided by BDL, taking into account the extent of banks'

compliance with the circulars issued by the latter, and based on the provisions and articles of the Banks' Restructuring Law (No. 23/2025). The period for completing the capitalization shall not exceed five years from the date of entry into force of this law. Banks whose capital has not been completely eroded as a result of the revaluation of the quality of their assets must include this uneroded portion of their capital in the Tier 2 category, which is not included in ordinary shares.

- Upon completion of the revaluation process, banks initiate implementing procedures of cleansing non-performing assets, within the period specified by the second chamber of the Higher Banking Commission.
- Any bank that has surplus in its assets that fully covers deposits, after performing needed investigations, can request to be exempted from this law and start repaying deposits directly to the clients, subject to BDL's approval and under its supervision.
- Any bank that fails to meet any of the requirements resulting from the provisions of this article, the second chamber of the Higher Banking Commission shall take the necessary legal actions against it, as per the Bank Restructuring Law (23/2025).
- The revised version of the law, which was sent from the COM to the Lebanese Parliament, included a clause stipulating that the provisions of this article, as well as all other provisions of this law, do not preclude the completion of any of the accounting and criminal audit procedures mandated by applicable laws, particularly Law No. 200/2020 dated 29/12/2020 and its amendments.

III. Cleansing Irregularities

Additionally, the law divides the irregularities into seven categories as follows:

- Cash withdrawals and bank transfers abroad exceeding half the value of account balances, made between 17/04/2019 and 17/10/2019, by ministers serving during that period, the Governor of BDL, his deputies, its senior managers, the Chairman and members of the Banking Control Commission, the Central Council, and major shareholders in banks (as per the first article of Bank Restructuring Law), CEOs and board members, general managers, assistant general managers, executive managers and their spouses and children or any legal entity directly or

indirectly controlled by the aforementioned persons, with the exception of companies in the ordinary course of their business. However, the previous draft mentioned only bank shareholders and managers and transfers exceeding \$100,000.

- All outward transfers and cash withdrawals exceeding \$100,000 executed after 17/10/2019 including politically exposed persons as per Financial Action Task Force “FATF” definition, without any trading, manufacturing, education, or health reasons.
- Depositary accounts that benefited from prior paid interest resulted from financial engineering operations and / or any interest paid starting 2016. This criterion is applied only on the portion of the account that exceeds \$100,000 from the original outstanding balance, on condition that the returned interest do not exceed the outstanding balance at the date of law implementation.
- Accounts that exceeded \$100,000 and experienced increase in its balance between 17/10/2019 and 30/09/2025, either through transfers from LBP at exchange rates lower than parallel market rate or through depositing checks in Lollar. The period in the previous draft was from 17/10/2019 till the date of implementation of the law.
- Loans and facilities exceeded \$750,000 that were settled in LBP at exchange rates lower than parallel market rate at the date of settlement, between 17/10/2019 and the date of law implementation. The previous draft included loans above \$500k.
- Significantly high bonuses and dividends distributed to shareholders and high level employees at banks as per independent evaluators. And were withdrawn or transferred abroad.
- Accounts suspected of having a legitimate beneficiary and/or accounts suspected of having questionable funds, if any, especially those that have illicit funds, in accordance with the provisions of article 1 from Anti Money Laundering and Terrorist Financing law issued on 24/11/2015. In this case, the highest balance since account opening is applied. Additionally, banks are responsible for reporting suspicious accounts, after an enhanced review of their accounts records, to the Special Investigation Commission established at BDL. Banking Control Commission (BCCL) will audit banks’ proper implementation and report suspicious accounts that were not reported by banks to the Special Investigation Commission.

As for non-performing assets cleansing procedures, they are applied as follows:

- For outward transfers done by bank's major shareholders and high level employees in addition to politically exposed persons, they will be exposed to a special compensation of 30% of the total amount transferred, for the portion exceeding \$100,000 and to be transferred to the account at BDL used for deposits repayment.
- In case the compensation is not paid within three months, the Ministry of Finance (MoF) issue collection order in the amount of penalty as per Tax Procedures Law #44/2008. The previous draft didn't include a deadline. In addition, those who complied with BDL circular 154 are exempted from this procedure. However, in the previous draft, it stipulated that mentioned parties will pay a 30% penalty in case they didn't return the transferred amount within a period of three months.
- Payment of the compensation stipulated in this paragraph does not preclude the possibility of claiming the return of the amounts subject to those transfers, in whole or in part, by virtue of a decision issued by the competent court for reasons other than those stipulated in this law.
- Concerning the accounts that benefitted from high interest rates, these interests will be deducted. As such, banks' accounts at BDL will be lowered by the same amount.
- Regarding the accounts that increased in balance since 17/10/2019, it will be recalculated at the following rates:
 - 50,000 for the period between 17/10/2019 and 31/12/2020
 - 35,000 in 2021
 - 30,000 in 2022
 - 18,000 since 01/01/2023 till the law enforcement date
- When it comes to loans settled in LBP at rates lower than the parallel market rate at the date of settlement, debtors will have to pay a special compensation of 30% of the USD loan within a period of five years after the implementation of the law. In case the debtor didn't pay the compensation, MoF will issue a collection order in the amount of compensation as per Tax Procedures Law # 44/2008.

- For significantly high bonuses and dividends distributed, a special compensation of 30% must be paid within a period of five years. If the beneficiaries of bonuses and profits didn't pay the mentioned penalty, the MoF will issue collection orders for the amount of imposed penalty, to be paid in the deposits' recovery account at BDL. Payment of this penalty doesn't preclude the possibility of requesting the return of the amounts subject to such compensation, in whole or in part, by virtue of a decision issued by the competent court.
- Regarding accounts suspected of having a legitimate beneficiary and/or accounts suspected of having questionable funds, these accounts are transferred from the banks and/or the Banking Control Commission to the Special Investigation Committee for freezing and monitoring in accordance with Anti Money Laundering and Terrorist Financing Law No. 44/2015. These accounts are then transferred to a temporary off-balance sheet account as long as it is frozen by the Special Investigation Commission. The concerned banks fully cover its accounts at BDL and transferring these accounts outside BDL's balance sheet throughout the freeze period.

BDL also performs the required procedures and audit to cleanse its assets through adjusting the irregularities.

IV. Deposits Settlement

After cleansing irregularities, the settlement of deposits will be done through different ways depending on the amount of the deposit. The law divides deposits into four categories, small deposits (less than \$100,000), medium deposits (between \$100,000 and \$1,000,000), large deposits (between \$1,000,000 and \$5,000,000), and very large deposits (more than \$5,000,000). It is worth mentioning also that the deposits repaid can be used through debit cards, checks, transfers, online payments, or ATMs as per circulars to be issued by BDL (notice no mention of full cash payments).

Deposit Category	Account Balances	Repayment Method	Repayment Period
Small Deposits	Less than \$100,000	Monthly or quarterly payments as per client's preference	4 years
Medium Deposits	Between \$100,000 and \$1,000,000	First \$100,000 monthly or quarterly payments as per client's preference	4 years
		Remaining Balance through Asset Backed Securities - Category A	10 years
Large Deposits	Between \$1,000,000 and \$5,000,000	First \$100,000 monthly or quarterly payments as per client's preference	4 years
		Remaining Balance through Asset Backed Securities - Category B	15 years
Very Large Deposits	More than \$5,000,000	First \$100,000 monthly or quarterly payments as per client's preference	4 years
		Remaining Balance through Asset Backed Securities - Category C	20 years

The new draft law that was sent to the Lebanese Parliament included a clause stating that the minimum monthly payment is \$1,500 which will allow depositors who have very small deposits to get their deposits at a faster pace.

As per article 70 of Code of Money and Credit, increasing payments or pace of settlement, as well as in special cases, rescheduling of payments are determined by the Council of Ministers, in line with the development of the financial and economic conditions.

Under this draft law, it is considered as a single deposit the sum of the depositor's personal accounts as well as his share of his joint accounts in all banks operating in Lebanon. Each inheritance and each joint account, regardless of the number of owners, is considered a single account. For joint accounts, they are distributed among the joint account holders according to the terms of the agreement signed between them and the relevant bank; otherwise, distributed equally among joint account holders. If a joint account holder doesn't have a personal account, the sum of his shares in various joint accounts is considered a single account. The details of implementing this law will be determined by BDL.

The cost of cash settlements of deposits is funded jointly by the BDL and the banks, according to standards and rules set by BDL, taking into consideration the liquidity conditions of the aforementioned banks and banks' required reserves, provided that BDL's share does not exceed 60% of the cash payments due to depositors.

As per the economic journalist Mr. Mounir Younes, 84.37% of depositors are considered small depositors (their account balances less than \$100,000). It is interesting to note that 262,128 depositors (28% of depositors) have balances

less than \$3,000 (as of September 30,2025) who will be fully paid through circulars 158 and 166 when issuing the law. Below table shows some figures related to outstanding deposits.

Categories	Nmbr of Depositors	% of Nmbr of Depositors	Total Deposits	% of Total Deposits
Less than \$100k	782,462	84.37%	14,871	18.08%
Between \$100k and \$1M	134,872	14.54%	36,368	44.20%
Between \$1M and \$5M	8,911	0.96%	16,654	20.24%
More than \$5M	1,118	0.12%	14,379	17.48%
Total	927,363	100.00%	82,272	100.00%

V. State's Liabilities Towards BDL

The principle of the existence of debt and its outstanding balance owed by the Lebanese State to the Central Bank of Lebanon is determined by the Lebanese government and BDL, taking into account the principle of public debt sustainability.

The COM decide the debt payment mechanism to BDL and provide an additional contribution to the capital of BDL, when necessary, in order to strengthen its solvency, in accordance with the provisions of Article 113 of the Monetary and Credit Law and the establishment of the BDL.

It is to be noted that the previous draft mentioned the following "The Lebanese State debt agreed upon in the first paragraph above is converted into a bond whose term and annual interest are determined by agreement between the MoF and BDL".

VI. Deposits and Asset Backed Securities Settlement Account

BDL opens a special account in the name of "Deposit Repayment Account" for the purpose of settling Asset Backed Securities and its repurchase in secondary markets. The policies adopted for managing this special account, its related operations, risk assessment mechanisms, and controls will be defined in a circular issued by the Central Council of BDL. It is to be noted that the clause that states that requirement of Minister of Finance's approval was removed.

BDL issues these assets backed securities and commercial banks bear 20% of the responsibility for paying for the amount of assets backed securities. These securities are backed by the revenues of the assets owned by BDL in addition

to the proceeds of liquidation of these assets in case of liquidation. For example, but not limited to:

- Revenues from commodities and precious metals
- Real estate portfolio
- Various shares in companies
- Sovereign and private debt revenues owed to BDL
- Available cash balances and reserves

At least 75% of the revenues from the operation or liquidation of the aforementioned assets will be deposited in the “Deposit Repayment Account”.

Starting year 5, BDL starts paying at least 2% of the nominal value of these securities and the remaining balance will be paid upon maturity of the security (10th year for category A security, 15th year for category B security, and 20th year for category C security).

The law states also that the maturity of these securities could be reduced by a decision from the Central Council of BDL and after the approval of Minister of Finance, as per the development of the financial and economic situation in Lebanon. Additionally, these securities will be registered at Medclear company and will be tradeable in Beirut Stock exchange, or outside it, or through secondary market.

VII. IMF Remarks on Financial Regulation and Deposit Recovery Draft Law

IMF had several remarks on the draft law proposed by the Council of Ministers. These remarks are mainly related to procedures for restoring balance and solvency to the banking system and deposit payment.

Procedures for Restoring Balance and Solvency to the Banking System

IMF believes that audits and asset quality reviews for BDL and commercial banks should be done according to international standards, then determine the capital deficit in a steady manner. They consider that it is unclear to which standards will audit and asset quality review will be done. They also asked whether it is possible to add a provision that suspends automatic application of Article 113 in Code of Money and Credit. They believe that it forces the government to recapitalize BDL when it is not in a position to do so.

In addition, IMF stipulated that banks should realize their losses from BDL exposure before any irregularity is cleansed. IMF thinks that cleansing irregularities before determining the gap will prevent respecting the hierarchy of claims as depositors will incur the losses before banks' shareholders. As such, IMF considers that the law needs to be adjusted as follows:

- Banks be evaluated based on BDL audit report and AQR results only, and banks will have to recognize their losses consistent with BDL capital deficit until it is brought back to zero, and insolvent but viable banks would enter into resolution.
- The amount of irregularities would be senior to shareholder equity. There should be also a specific definition of irregular transactions such as defining the "excess" or "abnormal" or "exceptional" returns.
- The amount of irregularities should be absorbed from shareholder capital.
- Depositors in banks that have positive AQR would be entitled to all their deposits without any reduction.
- There is a need for a reference that states that junior creditors will be treated as per the hierarchy of claims specified in Bank Restructuring Law.

Deposit Payment Mechanism:

IMF stipulated that the proposed system-wide definition of depositors instead of bank-by-bank prevents a vital higher share of repayment for medium size depositors. In addition, IMF believes that pace of repayment should be within the ability of BDL to pay. Finally, IMF asks about the mechanism that would ensure that BDL remains liquid for the 20-year period and whether banks are able to pay the 20% share of the securities.

We believe that after the performing the AQR, most banks' Tier 1 capital will be wiped out and banks will have to recapitalize. Therefore, the first main objection of IMF on this law will be met. As for the other main objection related to the aggregation of deposits of each depositor at all banks and considering it one deposit, we think that IMF would finally agree on aggregating accounts in case AQR resulted in wiping all banks' shareholders' capital.

VIII. BDL's Response to IMF Remarks

BDL, through a press release published in "Annahar Newspaper" on December 18th, 2025, replied to the IMF's remarks. BDL describes the IMF's observations as serious and questions whether they truly conform to accounting and financial standards.

Specifically, its response to the IMF, as obtained by Annahar, states:

1. Accounting and auditing standards: Diagnosis must precede treatment under applicable International Accounting Standards – particularly IFRS 9 and IAS 36; impairment tests and fair value re-measurement must be carried out before imposing any equity adjustments on the beneficiary entities. Thus:

- Re-evaluating the balance sheet of BDL constitutes the cornerstone and starting point
- The true status of each bank's equity cannot be determined until this assessment is approved
- This is followed by an AQR in accordance with the requirements of International Financial Reporting Standards (IFRS)
- Irregular claims are removed as part of this process
- Then the hierarchy of claims is applied, starting with shareholders' equity

This sequence reflects the restructuring frameworks implemented in Greece, Cyprus, and Iceland, where revaluations of state or Central Banks assets preceded – and conditioned – any reduction in commercial banks' equity.

2. In all approved settlement systems – whether under:

- European Union directive on banking recovery and reconciliation (BRRD)
- The practice of the US Federal Deposit Insurance Corporation (FDIC)
- Lebanese banking law number 23 dated August 14, 2025.

Losses may only be distributed after any irregular or non-performing claims have been identified and eliminated.

Deviating from this principle would:

- Impose losses based on uncertain, inflated, or disputed information
- Violate the private law rule governing bank settlements, which requires clean and verified balance sheets before claims hierarchy can be activated

3. International Precedents

To our knowledge, there is no historical precedent in a systematic crisis where a state first declared the erosion of equity in all banks and then imposed a comprehensive recapitalization. In all the cases reviewed, the sequence begins with an assessment of the institutions' conditions, followed by the dissolution or recapitalization of the institutions – sometimes with the erasure of equity in individual banks – but without generalizing this to the entire sector.

Several examples were given such Sweden (1991- 1993), Korea (1997 – 1998), Iceland (2008), USA (2008 – 2009), and Cyprus (2013).

IX. Association of Banks in Lebanon Point of View:

ABL expressed solid opposition to the law proposed by the COM in December 2025 for several reasons. First, ABL argues that the law includes provisions and measures that are fundamentally flawed in both substance and methodology and deviate from internationally recognized legal and financial standards implemented in the resolution of banking crises in other countries. Also, ABL claims that any credible legal and financial approach to resolving the crisis must start with an accurate and transparent assessment of the financial gap attributed to BDL. Additionally, the Association states that the proposed solutions and measures do not take into consideration the actual capacity of banks to meet their obligations. Moreover, it emphasizes that sustainable economic recovery and banks' restructuring needs rebuilding trust in the financial system. The trust is regained based on the state's commitment to its legal and contractual obligations and its willingness to repay its debts, rather than continuing to default on them.

X. Conclusion:

The financial regulation and deposit recovery law discussed in this spotlight took several ideas from previous plans and added others – and was somehow courageous. However, it still has several drawbacks in addition to some issues that were not clearly mentioned.

Starting with the positive points:

- The law states that small depositors (having outstanding deposits less than \$100,000) will receive their deposits within 4 years compared to longer periods by earlier plans prepared by previous governments (11 years). However, it didn't mention clearly whether this \$100,000 includes the \$50,000 withdrawn through BDL 158 and 166 circular or not. In this regard, Prime Minister Mr. Nawwaf Salam stated in a TV interview last week that amounts paid before the implementation of this law will not be included in the \$100,000 amount that will be repaid within four years.
- It incorporates compensations to be paid related the funds transferred abroad during the crisis or six months before the blow up of the financial crisis, in addition to the big loans (greater than \$750,000) paid back at undervalued exchange rates. These things were not part of earlier plans.

In our opinion, the law has several drawbacks:

- The law didn't mention clearly the amount that the government will be responsible of, except for recapitalizing BDL and returning part of the amount owed by Lebanese State to BDL. The only explanation for not mentioning the government's contribution – assuming its good intentions – is that it doesn't want to explicitly commit money to depositors so as to avoid any legal issues from Eurobond holders.
- The new amended threshold of \$750,000 is considered high and should not have been amended as the \$500,000 threshold was better and even should have been lower. If a compensation to be collected on the portion exceeding \$200,000 of the amounts settled with flexibility in payment up to 10 years to match with the maturity of the Class A ABS, it will guarantee more sources of money to settle these ABS.
- There is some ambiguity in this law as several issues are not clearly mentioned in the law. This ambiguity could be used in the future when implementing it similar to many laws in Lebanon. Different parties will

analyze the law to their favor and end up with conflicts in applying it, unless a clear and detailed implementation procedure is put in place.

- This law didn't mention anything about NSSF and syndicates' deposits. These deposits are related to thousands of retirees and need special treatment.
- The law could imply a big haircut to large depositors, perhaps as large as 85% in present terms.

The implementation procedures for this law must nullify all lawsuits filed by bank customers against the bank regarding withdrawals of deposits or debt repayments in Lebanese lira at the previous official exchange rate (1507.5). Regarding lawsuits concerning transfers of deposits abroad from accounts formed before October 17, 2019, BDL's Circular No. 169 issued on July 1st, 2025 should solve this issue.

Lastly, to be realistic, it is hard to have a law that could allow depositors to have their money in full in a couple of years as the gap between the deposits (around \$83 billion) and foreign reserves in BDL (\$12 billion) is very huge, though its foreign currency assets could be in excess of \$80 billion. Also, if the law allowed all those who transferred their money to abroad to return it, these amounts will not cover this huge gap, since there are tens of billions of dollars that were used to peg the domestic currency to US Dollar and were wasted on subsidies and the electricity sector. As such, all eyes are now on Lebanese Parliament that we hope will fine tune the law by, most important, assigning due responsibility to the government in closing the financial gap. And, as such, enact the law as soon as possible in order to put Lebanon on the recovery track after six tough years.

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