

General Report Board of Directors 2019

The continuous politico-economic crisis, especially after the massive protests that have taken place since 17 October 2019, had a major impact on the banking sector's financials in 2019.

The high cost of funds for the first 11 months of 2019, shrinking margins, the government withholding coupons on Eurobonds (reversal of 2019 accruals), and the impact of the new tax law, all led to a major decrease in the banks' profits in 2019.

As far as BLC Bank is concerned, 2019 net losses reached USD -32 million, resulting from additional \$32 M ECL on loans and securities in anticipation of BDL circular 567 that was issued in August 2020.

On the balance sheet side, and following the persistent crisis, banks have been restricted from accessing their FC liquidity at BDL, which increased customers' anxiety. Thus, cash outflow increased and funds inflows became extremely limited.

Accordingly, BLC Bank customers' deposits reached USD 3.5 billion as at December 2019, decreasing by 9.9% compared to 2018. However, concentration risk was minimized as customers' deposits below USD 0.5 million (considered the stable and sustainable deposit base), increased by 2.8% on a yearly basis.

Furthermore, and due to the shrinking size of the balance sheet, a staff cost reduction plan has started since October 2019 targeting a material reduction in employees' charges during 2020 of around 15%

On the other hand, loans to customers decreased by 14.5%, due to the ongoing mentioned crisis, and the resulting decision to freeze loans following the increase in liquidity cost and the embedded risk. In addition, the drop was due to the large pay offs resulting from the depositors' fear of a rumored haircut on large deposits. Yet, this decrease positively affected the ECL requirement on our loan portfolio.

Furthermore, BLC Bank's total assets decreased by 9.5%, to reach USD 4.49 billion as at end at December 2019.

As far as liquidity is concerned and same as other Lebanese banks, liquidity was affected following the political and economic crisis; yet, BLC Bank regulatory liquidity ratio reached 18.6% as at 31 December 2019, which is above the 10% required by the regulator.

As far as foreign liquidity, as at 31.12.2019, BLC had \$25 M liquidity in foreign banks and \$70 M with BDL, but, by its Basic Circular n° 154 dated 27 August 2020, and in order to facilitate external operations that stimulate the national economy, banks should secure before 28 February 2021 with its correspondents abroad, 3% of total FC deposits as at 31 July 2020.

BLC Bank's Capital Adequacy Ratio reached 10.1% compared to a regulatory requirement of 10.5% as at end of December 2019. On 26 August 2020, BDL issued its intermediate Circular n° 567 that sets New ECL levels on BDL Placements in FCs (1.89%) and on Lebanese Eurobonds (45%). The full implementation of the circular .and once the 10% cash contribution is finalized. will increase the CAR to 15.5% by end 2020 while settling at 11.79% as at June 2020 (before the first 10% cash contribution).

In an unsteady financial landscape, with consumer behaviors and expectations challenging the banking sector, BLC Bank tried at its best to preserve its customer centric strategy, offering support and service to customer's financial and non-financial services.

On the non-financial services level, the Bank's historical strategy was always to invest in the economy. Its corporate image was well associated with SME banking, which is considered as a key axis in the Bank. Worth noting, that before the crisis, BLC Bank was a leading bank in SME banking and namely Kafalat, where its market share was above 10% compared to a size of 2.25% for BLC in the market.

In addition to the above, the bank was a leader in promoting the women in Business as well as the retail banking, namely, the personal loans.

During 2019, and due to the previously mentioned politico-economic situation, and mainly after October 2019 protests, the strategy was largely affected as loans disbursement was freezed in anticipation of an economic optimistic transformation and a political breakthrough

Chairman General Manager

Nadim Kassar

