General Report Board of Directors 2020

The political and economic situation witnessed a sharp deterioration since end of 2019, starting by the massive protests that have taken place since 17 October 2019, and following the delays in government formation & reforms, Covid 19 pandemic and August 4 blast, which had a major impact on the banking sector's financials.

The government withholding coupons on Eurobonds, loss on sale of Eurobonds and on discounts of CDs & placements to close the LBP overnight balance and to close FX position, in addition to the booking of regulatory ECLs on sovereign exposure, partially compensated by a drop in cost of funds and cost cutting measures, led to negative results in 2020.

BLC Bank 2020 net losses reached USD -18 million, mainly resulting from losses on sale of $44m Eurobonds ($9m losses), on discounts of CDs & placements to close the LBP overnight balance and to close FX position ($16m losses), from additional $37.5 million regulatory ECL on sovereign exposure in FCs in accordance with BDL circular 567 issued on 26 August 2020.

On the balance sheet side, and following the persistent politico-economic crisis, our total assets dropped by 11.2% in 2020 to reach USD 4.0 billion, mainly following a drop of 12.7% in Customers' Deposits.

In fact, BLC Bank customers' deposits reached USD 3.1 billion by end of December 2020, decreasing by 12.7% compared to 2019. Indeed, decreasing our deposits base, thus shrinking our liabilities and balance sheet size can be looked at positively on the short term, as it will most likely help us survive the crisis.

In parallel, total net loans to customers dropped by 34%, due to the ongoing mentioned crisis and large payoff. Yet, this decrease positively affected the regulatory ECL requirements on our loan portfolio.

On the other hand, and following the staff cost reduction plan initiated in October 2019 due to the shrinking size of the balance sheet and targeting a material reduction in employees' charges, our total expenses dropped by 10% during 2020; Staff headcount decreased by 247 since September 2019 or -29% to reach 603 by end of June 2021, coming from 850 by end of September 2019 while the number of branches dropped by 13 from a total of 43.

Nevertheless, the bank lost 59 employees (of which 43 in the first eight months of 2021) who submitted their resignation willingly in quest for better opportunities, which represents a serious operational risk that the bank is currently facing and we are researching ways and means to keep skeleton staff around.

Besides, our cost of fund dropped significantly as per BDL circulars #536 and #544 dictating cuts in interest rates, which compensated the drop in interest income following the withholding of coupons on Eurobonds and the discounts on CDs & placements in LBP.

As far as the foreign liquidity is concerned, BLC had $27 million liquidity in foreign banks and $355 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 31 December 2022 (extended recently under BDL circular #158 from the initial 28 February 2021) with its correspondents abroad, 3% of total FC deposits.

BLC bank will keep its effort in the repatriation of some of the transferred funds as per BDL circular 154, though it had proved to be difficult to apply as most clients were not cooperative.

BLC foreign liquidity ratio is expected to reach 2% by end of 2021, after the sale of its real estate portfolio in Cyprus expected in Q3 2021, amounting to around USD 14 million.

BLC Bank's Capital Adequacy Ratio reached 16.3% by end of 2020; Total CAR ratio is expected to reach 19.5% by end of 2021 after the second cash contribution, noting that RELs on sovereign exposure will be amortized over 10 years.

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.

BLC strives to leverage state-of-the-art technology in order to automate processes where needed, hence, making them efficient, fast, and streamlined in order to provide customers of the bank with quality 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 was 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 2.2% 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 the last two years, and due to the aforementioned politico-economic situations, the strategy was largely affected.

Within this harsh environment, assuming a political breakthrough and economic reforms, BLC will seek again specific growth targeting particular segments namely SME, personal and housing loans, to help boost the economy and the construction segment.

Also assuming political breakthrough and economic reforms, BLC will re-start building stable and sustainable relations, by acquiring small to medium depositors with cross selling potential.

Chairman General Manager

Nadim Kassar