

September 1, 2026

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The Banque du Liban (BDL) recapitalization and deposit repayment proposal, **based on articles published in (leaked to!) the media on 31 July 2026**, outlines a broad framework for restructuring Lebanon's banking sector and addressing the large stock of deposits that has remained effectively trapped since the financial crisis. Based on the preliminary Asset Quality Review (AQR) of 56 licensed banks, BDL estimates that the sector would require approximately \$2.268 billion in fresh capital. Of the banks reviewed, 41 would first have to absorb part of their accumulated losses and reduce their existing capital before receiving new injections. The recapitalization requirement is heavily concentrated among the 14 Alpha banks, which would need approximately \$1.818 billion, while 25 smaller banks would require around \$450 million. Meanwhile, 15 mostly small, specialized or foreign-owned institutions, collectively accounting for less than 0.2% of deposits, would require no additional capital.

Importantly, BDL proposes that new capital be provided exclusively in fresh cash, reinforcing the objective of restoring genuine liquidity and solvency rather than relying on assets whose values may be difficult to realize. Real estate, local checks and "local dollars" would only receive recognition following market revaluation and at a reduced weight. At the same time, capital injections already undertaken under Circular 567, equivalent to 20% of banks' own funds, would be recognized as Tier 1 capital. The adjustment would also be gradual: Alpha banks would have up to six years to meet the new prudential requirements, compared with four years for other banks. This extended timetable indicates that the proposal envisages banking-sector restructuring as a multi-year process rather than an immediate restoration of pre-crisis balance sheets.

A much more significant component of the proposal concerns the treatment of deposits. Deposits currently recorded on banks' balance sheets amount to approximately \$80 billion, but only around \$57 billion would ultimately remain eligible for repayment following exclusions and a proposed bail-in. BDL would exclude approximately \$15.5 billion classified as irregular deposits, including excessive interest earnings, Lebanese pound deposits converted into dollars after October 17, 2019, and accounts potentially associated with money laundering or illicit funds. A further \$7.0-\$7.1 billion would be subject to a bail-in rather than direct repayment. These deposits would be converted into non-voting convertible preferred shares classified as Tier 2 capital. Taken together, the exclusions and bail-in would remove roughly \$23 billion from the pool requiring conventional repayment, substantially reducing the financial burden of the restructuring but simultaneously making the legal and valuation treatment of these deposits one of the plan's most consequential issues.

The proposed terms of the bail-in are particularly important for depositors. According to the additional information incorporated into the executive summary, conversion would take place at LBP 15,000 per dollar, compared with a market rate close to LBP 89,500. The resulting instruments would therefore be valued at only \$0.1676 for every \$1 converted, carry a 20-year maturity and pay no interest. Banks would subsequently allocate 6.66% of their annual net profits to a sinking fund intended to finance future repurchases of these instruments. Consequently, although bail-in deposits would formally be transformed into financial claims rather than eliminated, their economic value and very long maturity would represent a substantial reduction in the immediate recoverability of the original deposits.

For deposits remaining eligible for repayment, BDL proposes differentiated treatment according to size. Under its alternative scenario, the first \$100,000 belonging to each depositor would be repaid in cash over seven years, with BDL financing 60% and banks covering the remaining 40%. Amounts above \$100,000 would instead be converted into asset backed securities (ABS) with maturities ranging from 20 to 30 years depending on the amount, with BDL guaranteeing 80% and banks 20%. This represents a considerably longer repayment horizon than the Government's draft Financial Stabilization and Deposit Recovery (FSDR) law, which envisaged repayment of the first \$100,000 over four years and bonds with maturities of 10, 15 and 20 years. BDL reportedly regarded the Government timetable as unrealistic, suggesting that its alternative prioritizes financial feasibility over faster depositor recovery.

Under this architecture, the estimated direct burden on banks would eventually reach around \$11.35 billion, equivalent to approximately 14% of current deposits and roughly 20% of deposits remaining after exclusions and bail-in. This burden must also be viewed in light of the sector's high concentration: the 14 largest banks hold more than 85% of deposits, while 27 banks account for less than 15% and the 15 smallest institutions represent only 0.2%. The deposit base itself has already undergone a major contraction. Foreign currency deposits stood at approximately \$124 billion before the crisis and subsequently reached around \$146 billion following nearly \$20 billion of conversions from Lebanese pounds into dollars, whereas the residual stock now stands at roughly \$80 billion. Withdrawals conducted through Circulars 158 and 166 had meanwhile reached approximately \$6 billion by end-May.

Perhaps the most critical – and unresolved – element of the proposal concerns the relationship between BDL and the Lebanese State. BDL conditions its plan on State recognition of a receivable exceeding \$25 billion, comprising approximately \$16.5 billion in Treasury advances and \$8.4 billion in subsidies that BDL says were financed through foreign currency reserves. It also seeks 25% of the proceeds generated by any future privatization of State-owned assets or enterprises. Recognition of this claim would therefore have major implications for how accumulated financial sector losses are distributed between the State, BDL, commercial banks and ultimately depositors. It would also affect the assessment of Lebanon's public debt sustainability, explaining why this issue represents the principal obstacle to advancing the proposal.

The framework also establishes consequences for banks that cannot meet their recapitalization requirements. Institutions whose shareholders refuse to provide the necessary capital would be directed toward merger or liquidation. For banks considered viable but unable to secure private investors, BDL could intervene directly by injecting capital, temporarily taking control, appointing new management and receiving super preferred shares. Such intervention would not be intended as permanent public ownership: BDL envisages exiting the institution within a maximum of five years following restructuring. This mechanism effectively creates a pathway for consolidating the banking sector while allowing potentially viable institutions to continue operating where private recapitalization is temporarily unavailable.

Nevertheless, the proposal remains preliminary rather than an agreed restructuring framework. The IMF has received BDL's proposal but has suspended its examination pending progress on the relevant legislation and possible alignment between BDL and the Government. The plan still

requires Government approval and further discussions with the IMF, while BDL itself reportedly has reservations concerning some IMF conditions. Its eventual implementation therefore depends not only on the financial calculations presented but also on reaching legal and institutional agreement over how losses and liabilities will ultimately be recognized and distributed.

Overall, BDL's proposal provides a more detailed framework for simultaneously recapitalizing banks and restructuring depositor claims, but its feasibility remains dependent on several unresolved issues. Most importantly, these include the legal treatment of the \$15.5 billion in excluded deposits and the \$7 billion plus bail-in, recognition or rejection of BDL's more than \$25 billion claim against the State, and the treatment of mandatory reserves – specifically whether they constitute part of BDL's contribution to repayment or remain funds belonging to banks and indirectly to depositors. Until these issues are resolved among BDL, the Government and the IMF, the proposed capital requirements, repayment schedules and allocation of the ultimate banking-sector burden should be viewed as preliminary rather than final.

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