

CONSUMER CONFIDENCE IN LEBANON

THE BYBLOS BANK/AUB CONSUMER CONFIDENCE INDEX

First Half 2013 Results and Analysis

Confidence Stagnates at Record Low in First Half of 2013

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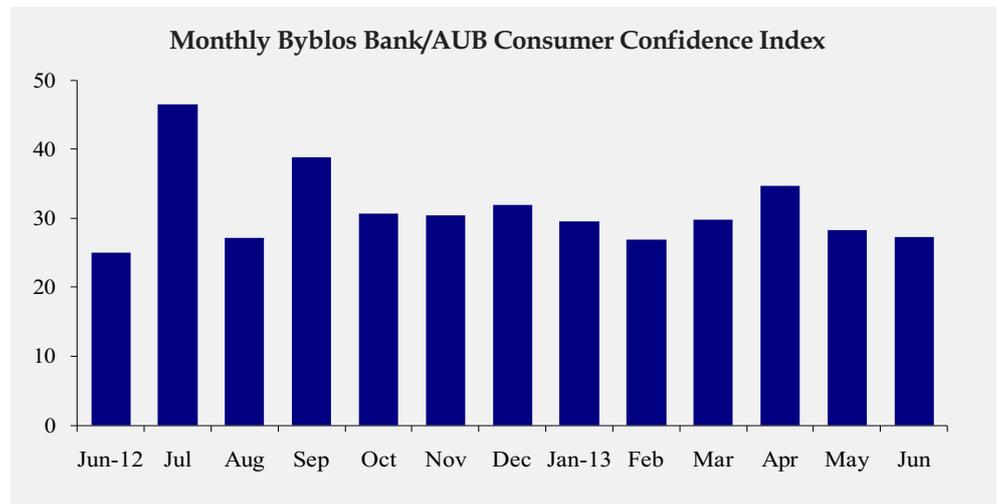
- The Byblos Bank/AUB Consumer Confidence Index dropped to its lowest level on a calendar basis in the first half of 2013, recording an average monthly reading of 29.4, down 14.1% from the second half of 2012.
- The Byblos Bank/AUB Consumer Confidence Index posted averages of 28.8 and 30.1, in the first and second quarters, respectively, constituting the second- and third-lowest results on a quarterly basis since the index's inception.
- On a monthly basis, the Byblos Bank/AUB Consumer Confidence Index reached its second-lowest level in almost six years in February 2013.
- Repeated security breaches, the high level of political polarization, the public policy stalemate, in addition to the growing spillovers from the crisis in Syria were the main factors for the record-low level of consumer confidence in the first half of 2013.
- The resignation of Prime Minister Najib Mikati and his Cabinet, and the unanimous selection of MP Tammam Salam as Prime Minister improved sentiment briefly in the second quarter of the year.
- The Byblos Bank/AUB Present Situation Index reached its lowest monthly reading since the index's inception in June 2013, and the Byblos Bank/AUB Expectations Index posted its lowest monthly reading ever in February 2013.
- The near-term expectations of consumers were generally lower or at the same level than their views of their current conditions during the first half of 2013.
- The vast majority of surveyed consumers considered that it was not a good time to save money over the near term in view of the general economic conditions.
- The level of consumer sentiment reached such low levels that consumers require a positive political shock of the magnitude of the Doha Accord, and not just a change in government, to restore their confidence to the levels of 2008, 2009 and 2010.

I - Analysis of Results

A - ANALYSIS ON A CALENDAR BASIS

The level of consumer confidence in Lebanon deteriorated during the first quarter of 2013 as the Index averaged 28.8, as reflected by the results of the Byblos Bank/AUB Consumer Confidence Index for January, February and March. The index reached 29.5 in the January 2013 survey, constituting a decrease of 7.5% from 31.9 in December 2012, and regressed further to 26.9 in February 2013. This was followed by an increase to 29.8 in March 2013. The index improved in relative terms in the second quarter of 2013, as it reached 34.7 in the April 2013 survey, constituting an increase of 16.4% from the previous month, then it declined by 18.5% to 28.3 in May and dropped by another 3.9% to 27.2 in June 2013. The Byblos Bank/AUB Consumer Confidence Index's outcome for February 2013 posted the second-lowest level since the start of the index's calculation in July 2007.

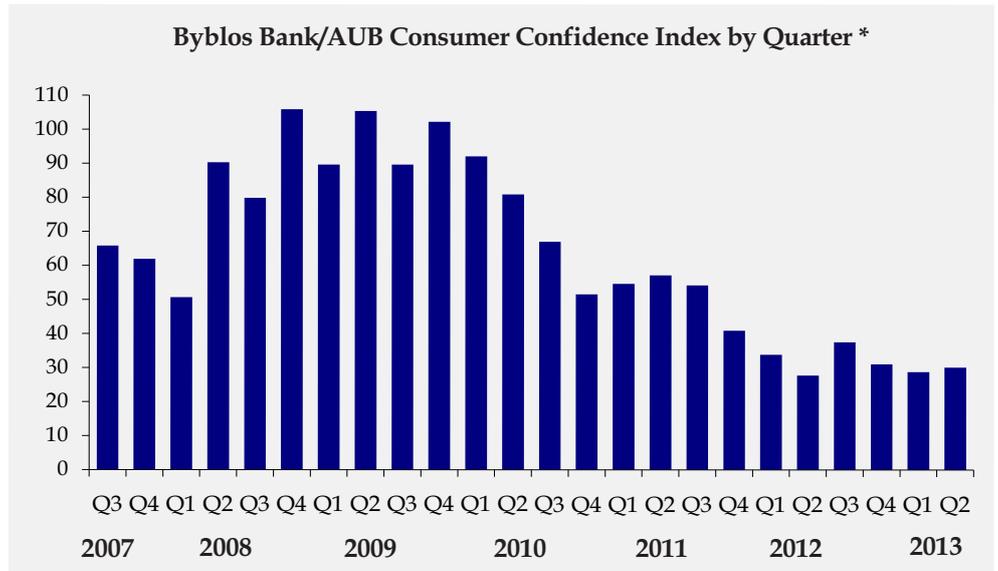
Consumer sentiment reached its second-lowest level in February 2013



Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

The results of the first two quarters of 2013 reflect the persisting trend of stagnating consumer confidence in the country. Indeed, the index averaged 28.8 in the first quarter of 2013, constituting its second-lowest reading in 24 quarters. It also averaged 30.1 in the second quarter of 2013, the third-lowest quarterly reading since the start of the index's calculation. This follows declines in the third and fourth quarters of 2012. Overall, the results of the first and second quarters of 2013 were consistent with the ongoing trend of low confidence since the fourth quarter of 2011. Also, the results of the first quarter reflect the index's tenth quarterly decline out of the previous 15 quarters; while the second quarter's outcome reflects the index's second rise since the second quarter of 2011. As a result, the Byblos Bank/AUB Consumer Confidence Index posted an average monthly value of 29.4 during the first half of 2013, constituting the index's lowest level on a semi-annual basis. The index's average monthly value in the first half of 2013 regressed by 14.1% from an average monthly value of 34.2 in the second half of 2012, and fell by 4.6% from 30.8 in the first half of 2012, reflecting a steep decline in confidence levels from an already tumultuous and uncertain period.

Consumer confidence remained at low levels in the first and second quarters of 2013

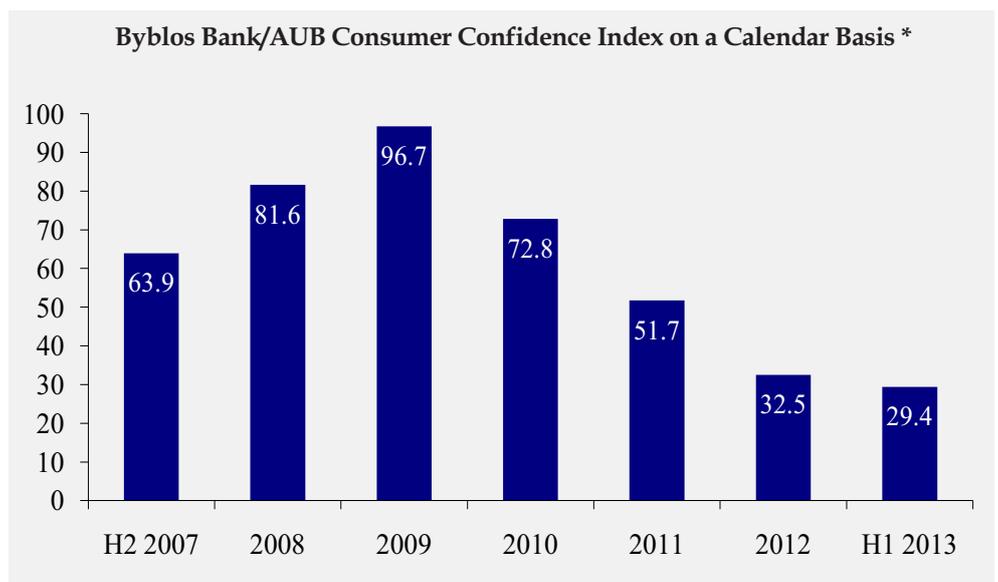


* monthly average index by quarter

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

The results of the first and second quarters of 2013 maintained the low confidence level that has prevailed since the fourth quarter of 2010, that worsened in the fourth quarter of 2011, and that accelerated since the first quarter of 2012; while it reinforced the broader trend of decline that started at the end of the fourth quarter of 2009. Indeed, the average score of the second quarter of 2013 constitutes a drop of 70.6% from the results of the fourth quarter of 2009 and a drop of 71.5% from the peak of 105.8 registered in the fourth quarter of 2008. The results of the first half of 2013 are alarming, given that consumer sentiment dropped from the record-low level in the first half of 2012. But the new record-low outcome in the first two quarters of 2013 is hardly surprising, given the prevailing feeling of instability, insecurity and caution among Lebanese consumers.

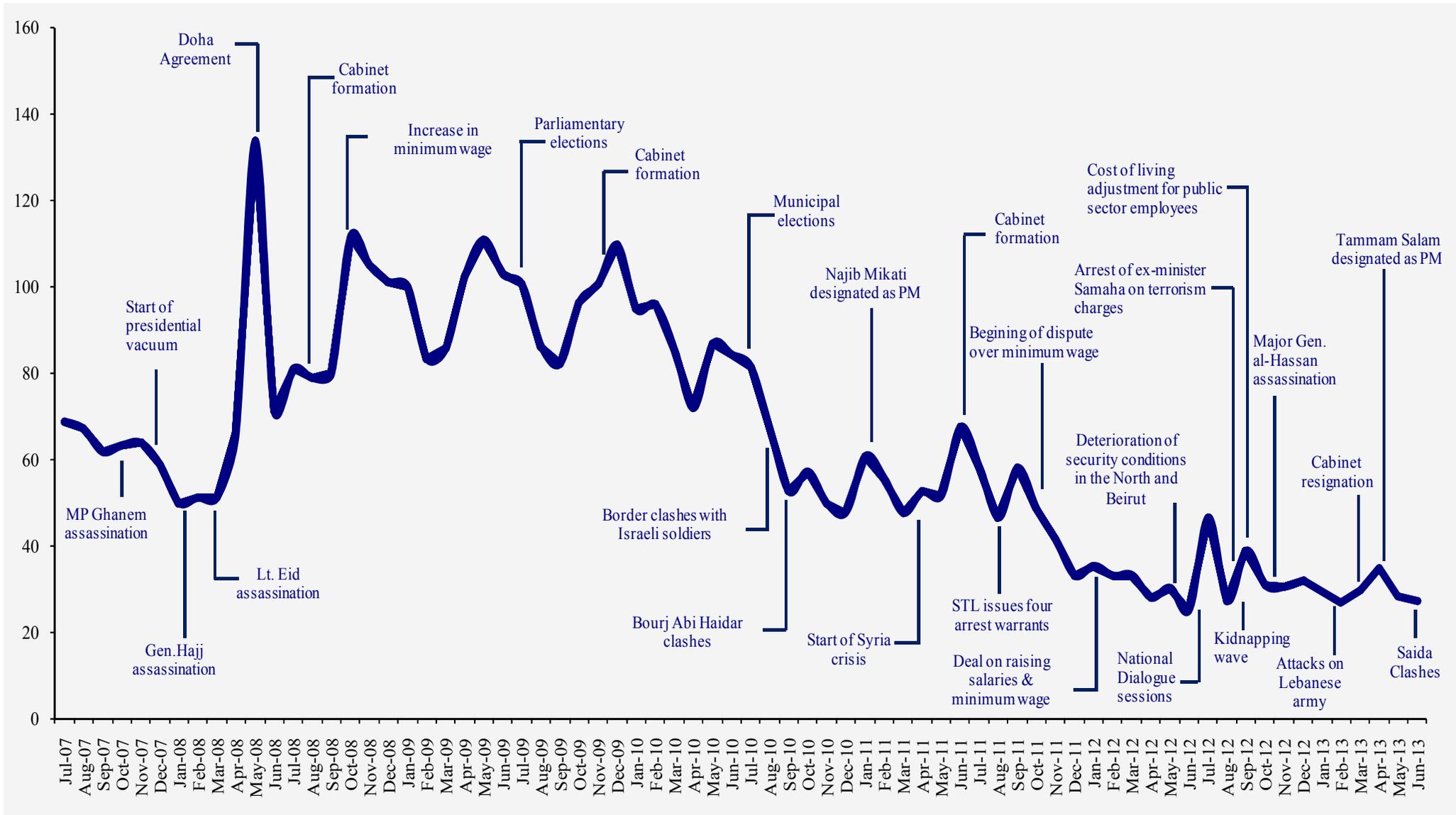
Consumer confidence in the first half of 2013 dropped to its lowest level since the start of the index's calculation



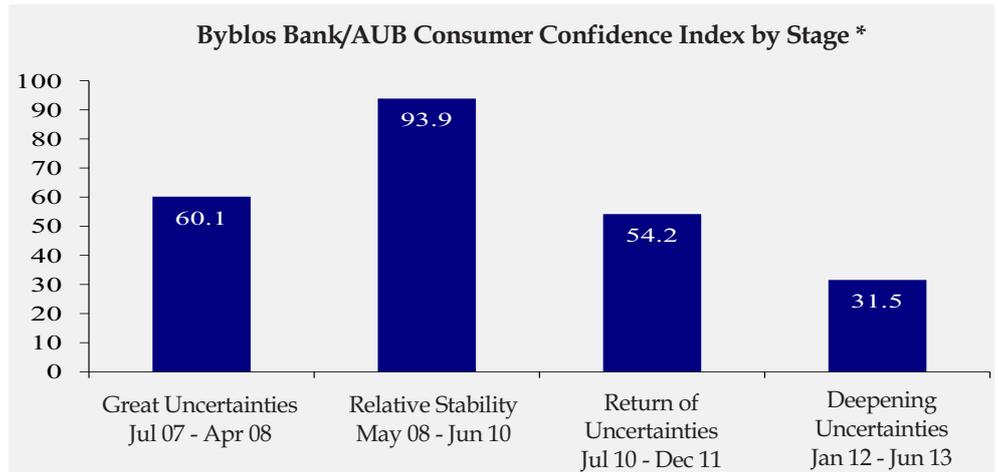
* monthly average index for the period

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

Evolution of the Byblos Bank/AUB Consumer Confidence Index (July 2007-June 2013)



Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon



* monthly average index for the period

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

C - ANALYSIS OF PRESENT SITUATION & EXPECTATIONS INDICES

The Present Situation Index posted its lowest reading ever in June 2013

The Byblos Bank/ AUB Present Situation Index and the Byblos Bank/ AUB Expectations Index did not move in parallel during the first quarter of 2013. As such, the Present Situation Index decreased by 3.7% in January, increased by 0.6% in February and declined by 0.6% in March 2013; while the Expectations Index fell by 9.8% in January, declined by 15.8% in February and rose by 20.8% in March. In contrast, both indices moved in the same direction in the second quarter of 2013. The Present Situation Index increased by 2.6% in April, decreased by 12.5% in May and fell by 6.5% in June, while the Expectations Index improved by 26.2% in April, declined by 22.1% in May and regressed by 2.1% in June 2013. Overall, both sub-indices posted their lowest semi-annual readings during the first half of 2013, which reflected the deterioration of confidence in current as well as in future conditions. The Present Situation Index averaged 28.6 in the second quarter of 2013, constituting its lowest reading in 24 quarters; while it reached 26.1 in June 2013, its lowest monthly reading since the index's inception. In parallel, the Expectations Index posted an average of 27.2 in the first quarter of the year, constituting its second-lowest quarterly reading since the start of the index calculation; while the sub-index reached 24 in February 2013, its lowest monthly reading since the index's inception. The Expectations Index was lower than the Present Situation Index during the first quarter of 2013, which shows that Lebanese consumers were more pessimistic about the future than they were about present circumstances. There were only four other quarters with a similar outcome since the index's inception. There were only 13 months between July 2007 and December 2012 when Lebanese consumers were more, or equally, pessimistic about the future than they were about present circumstances. This trend, which was particularly visible in the second half of 2012 and continued into the first quarter of 2013, which demonstrates consumers' negative and uncertain outlook and raises alarms over the depth of consumers' pessimism. But the perception of Lebanese consumers altered in the second quarter of 2013 as the Expectations Index was higher than the Present Situation Index, in line with the general trend since the start of the survey. The second-quarter's shift in consumers' attitude is mainly attributed to the resignation of the Cabinet, the designation of a new Prime Minister, and the expectations of a quick formation of a new and less polarizing Cabinet.

D - GENERAL TRENDS

Consumer confidence in Lebanon remained very sensitive to political developments during the first half of 2013, in line with trends since July 2007. Domestic political tensions, repeated security breaches, the political vacuum and paralyzed decision-making process within public institutions, in addition to the growing direct and indirect spillovers from the crisis in Syria, combined to keep confidence at very low levels. Indeed, several developments negatively impacted the confidence of Lebanese consumers during the covered period: the recurrent deterioration of security conditions in Beirut, the North, the South and along the Lebanese-Syrian border; the wave of kidnappings and public threats of targeted abductions; the high level of political polarization and tensions; as well as the increasingly pervasive impact of the Syrian conflict. In addition, the failure of political parties to agree on a new parliamentary electoral law and the escalating tactics of public sector employees and teachers to force a salary increase added to the mix.

The events that had a positive but brief impact on consumer sentiment were the resignation of Prime Minister Najib Mikati's Cabinet after 21 months in office, and the subsequent swift and near unanimous selection of MP Tammam Salam as Prime Minister-designate who pledged to form rapidly a functional Cabinet that would address citizens' concerns.

Heightened security risks had a direct impact on consumer confidence

The first main factor that affected consumer confidence during the first half of 2013 was the increasing repercussions of the Syrian conflict, with all its ramifications, on the domestic front. The crisis continued to dominate the political scene in Lebanon, as the crisis' escalation led to recurrent political and security spillovers into the country. Further, the raging conflict kept the political polarization in Lebanon elevated, therefore worsening the local political climate, which negatively affected sentiment and reflected growing consumers' concerns about political instability and uncertain economic conditions.

Repeated incidents along the Lebanese-Syrian border stretching from the North to the Bekaa region, such as cross-border shelling, incursions and abductions heightened fears that the conflict would spread to Lebanon. In addition, Lebanese citizens remained concerned about the recurrence of inter-factional clashes in Tripoli that resulted in about 56 casualties and over 270 injured in March, May and June 2013 despite numerous attempts by authorities to reduce tensions. Indeed, the festering problems in Tripoli have been perceived to be linked to the conflict in Syria.

Additional security breaches in various parts of the country increased consumers' anxiousness, especially when Lebanese Army checkpoints came under attack in the Bekaa in February and May. Moreover, simmering sectarian tensions evolved into attacks by extremist elements on the Lebanese Army in a suburb of Saida in June, which severely raised citizens' concerns across the country and not just in the city, until the army reestablished order after several days of clashes. Also, the increasing involvement of various Lebanese factions in Syria reflected the deepening linkages of the Lebanese political scene with the conflict.

The volatile political atmosphere and the rise in consumers' anxiousness drove the Byblos Bank/AUB Consumer Confidence Index to reach a new low in the first half of the year. This confirms the historical trend of the index, as its results have demonstrated that consumer sentiment in Lebanon is significantly affected by political and security events, whether they are negative or positive.

The Cabinet's resignation and the quick designation of a new Prime Minister helped improve sentiment

But the Byblos Bank/AUB Consumer Confidence Index recovered somewhat following the resignation of Prime Minister Najib Mikati and his Cabinet. Indeed, the second main factor that affected consumer sentiment during the first half of 2013 was the resignation of PM Mikati on March 22nd, which constitutionally implied the automatic resignation of his Cabinet. On April 6, 2013, the Lebanese Parliament unanimously designated MP Tammam Salam as Prime Minister and tasked him to form a new government. As such, consumers' sentiment improved somewhat and, more importantly, their outlook became modestly more optimistic, as the outcome of the Byblos Bank/AUB Expectations Index turned out to be higher than the Byblos Bank/AUB Present Situation Index in the second quarter of 2013. As a result, the Byblos Bank/AUB Consumer Confidence Index rose in March and extended its increase into April, but the bounce was short-lived as the index retreated once again in May.

The brief bounce was in line with previous trends, as the index's historical results demonstrate that Lebanese consumers are generally skeptical about the immediate concrete impact of a positive event or of a government decision. In fact, consumers need to feel concretely the impact of any announced economic policy or political decision in order for their confidence level to remain elevated beyond the immediate rise. Their reaction to the Cabinet's resignation and, especially, to the Parliament's designation of a new Prime Minister fits this pattern. They welcomed the resignation of PM Mikati and his Cabinet, and especially the subsequent designation of MP Salam. But they remained highly skeptical about the willingness of political factions to agree on the formation and composition of a new Cabinet and over the distribution of ministerial portfolios. So, in line with past trends, they reacted positively at the time of the announcements, but they did not get overly optimistic, given that they have been used to be eventually disappointed. In fact, consumers turned out to be correct in following a strategy of very low expectations towards political developments, as obstacles continued to mount towards the formation of a new Cabinet.

Political bickering held back confidence

The third factor to dent consumer sentiment was the saga of the parliamentary electoral law and the postponement of parliamentary elections scheduled to take place in June 2013, which justified consumers' deep skepticism about any promises or plans by political parties. As the date of the parliamentary elections approached, politicians from various sides refused to hold the elections under the existing law and insisted on having a new law that is supposed to be more representative, even though they had nearly four years to discuss and agree on such a law.

However, the incessant back-and-forth negotiations among political rivals ended up producing a lot of political noise, rhetoric and uncertainties, instead of reaching an agreement on a new law. As such, the eventual failure of the political class to agree on a new electoral law, and the decision by members of Par-

liament to extend their expiring term by 17 months, rather than hold the elections based on the current law, drove consumers' skepticism to new heights. In turn, this contributed to the decline of the Byblos Bank/ AUB Consumer Confidence Index in May and June, and especially to the drop in the Byblos Bank/ AUB Expectations Index during the two months.

The fourth factor to affect consumer sentiment in the first half of the year was the continuous absence of a clear resolution to the increasingly controversial issue of the public sector's salary scale. The socio-economic issue of the public sector's salary scale adjustment started in 2011 but remained unresolved in the first half of 2013. Indeed, throughout the first quarter of the year, school teachers and public sector unions demonstrated in the streets, went repeatedly on strike, organized sit-ins and threatened further escalation in case the Cabinet continued to procrastinate in referring the salary adjustment draft law to Parliament. The strikes disrupted public services across Lebanon as most public-sector employees refrained from carrying out their duties, while the warnings of further escalation through a campaign of civil disobedience threatened to paralyze the public sector. PM Mikati referred the proposal to Parliament one day before his resignation. However, the Parliament's ratification of the draft law was indefinitely postponed given the need to have a functioning Cabinet in place in order to debate the proposal in the legislature. As a result, the hundreds of thousands of consumers in the public sector were left without a ratified salary scale by the end of the first half of 2013, which gave way to their renewed skepticism. Simultaneously, private-sector employees and employers remained concerned about the potential repercussions of the new salary scale, when implemented, on their business.

The Cabinet's fixation on the salary scale took precedent over a much-needed plan to stimulate growth

In case there was a need for more reasons to negatively affect consumer sentiment in the first half of 2013, a wave of kidnappings of Lebanese, this time in exchange for ransoms, raised citizens' fears about their personal safety and kept their outlook gloomy, given that personal physical security is a key determinant of confidence.

Decay in public service delivery continues to frustrate consumers

In parallel, structural factors such as the high cost of living, eroding purchasing power and the poor quality of day-to-day public services continued to hold back consumer confidence in general. The lack of any concrete perspective to improve the quality of basic infrastructure was on display, once again, in the first half of the year. Indeed, heavy rains in January turned into the annual ritual of flooded streets and avenues, with citizens strained in their cars for hours. In addition, the promised reduction in electricity shortages turned into rolling electricity blackouts amid repeated delays in the arrival of the much-hyped power barges that were supposed to come to the rescue. These cases reflect the perceived indifference of authorities and the political class to the plight of ordinary citizens, which inevitably has an impact on consumer sentiment.

In addition, an ill-advised billboard campaign that promised citizens billions of dollars in spending from oil and gas receipts on public health, education, telecommunications, infrastructure and the Armed Forces, among others, fell flat and failed to improve consumer sentiment. By all indications, wary citizens remained highly skeptical of repeated public promises of tens of billions of dollars in hypothetical oil and gas revenues. Further, they seemed more

aware than the campaign's sponsors that such revenues remain highly hypothetical at this stage. Therefore, consumers' indifference to this campaign reflected their ongoing deep mistrust of the political class and their suspicions about the latter's ability and willingness to properly manage such receipts, in case they ever materialize. So, in line with past trends, citizens' skepticism prevailed and consumers' confidence did not improve, given that they have been used to get eventually disappointed.

Economic activity is expected to remain stagnant in the absence of positive shocks

In the absence of confidence-building measures, the above trends combined to hit at the core of citizens' outlook, which inevitably led to a negative impact on their confidence level in the first half of 2013. As such, the drop in the Byblos Bank/AUB Expectations Index during the first half of 2013, due to the cumulative impact of the above trends, does not bode well for a substantial resurgence of economic activity in the near term. In fact, consumer sentiment remained at such low levels in the first six months of the year, that we reiterate that Lebanese consumers require a positive political shock of the magnitude of the Doha Accord, and not just the formation of a new government, in order to restore their confidence to levels reached in 2008, 2009 and 2010. Therefore, we expect economic growth to remain stagnant in the absence of any lasting positive political or economic shocks.

METHODOLOGY

The Byblos Bank/AUB Consumer Confidence Index is based on a nationally representative survey of 1,200 face-to-face interviews with adult males and females living throughout Lebanon, whereby residents are asked a number of questions about current and future economic conditions, their personal financial situation, and their intention regarding major purchases. The index is calculated on a monthly basis, with January 2009 as its base month. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The first sub-index covers the current economic and financial conditions of Lebanese consumers, and the second one addresses their outlook over the coming six months. In addition, the data segregates the index based on age, gender, income, profession, region, and religious affiliation. The index calculation started in July 2007. The monthly field survey is conducted by Statistics Lebanon sarl, one of the leading market research and opinion polling firms in the country. The firm draws a random sample of the population for each monthly survey.

E - CONSUMERS' NEAR-TERM OUTLOOK

During the first quarter of 2013, the level of consumer confidence decreased in 16 out of the 26 sub-categories of the Byblos Bank/ AUB Consumer Confidence Index. However, consumer confidence rose across 16 out of all sub-categories of the index during the second quarter of 2013. On a semi-annual basis, the level of consumer confidence declined across 25 out of 26 sub-categories in the first half of 2013 relative to the second half of 2012.

Males continue to have a less pessimistic outlook than females

Male consumers had a relatively less pessimistic outlook for the coming six months than their female counterparts in the first half of 2013, as the average monthly reading of the Expectations Index for males was 29.1 relative to 26.9 for females in the first quarter of 2013; and reached 33.6 for males relative to 28.5 for females in the second quarter of 2013.

Consumers with a monthly income over \$2000 were relatively more optimistic than their counterparts in other income brackets

Also, consumers aged between 21 and 29 years were less pessimistic over the near term relative to consumers in older age brackets in the first and second quarters of 2013. In contrast, consumers who are between 50 and 59 years old were the most pessimistic among age groups during the first quarter of 2013; while consumers aged between 30 and 39 years were most pessimistic over the second quarter of this year. During the first quarter of 2013, freelancers were the least pessimistic about economic prospects among occupational sub-categories, as the Expectations Index for this segment averaged 33.34 during the covered quarter. They were followed by students and private sector employees with Expectations Index readings of 33.28 and 29.2, respectively. In addition, public sector employees were the most pessimistic about economic prospects during the quarter with an Expectations Index score of 12.3. In the second quarter of 2013, students were the least pessimistic with an average Expectations Index of 38.3, followed by freelancers and private sector employees with readings of 35.7 and 35.1, respectively. Housewives were the most pessimistic among all occupational categories, with an Expectations Index score of 16.9 during the second quarter of 2013.

In parallel, consumers with a monthly household income higher than \$2,000 were less pessimistic relative to other income brackets during the first half of 2013, as the Expectations Index for this segment averaged 44.1 and 46.5 during the first and second quarters of 2013, respectively.

Consumers in Beirut had the least pessimistic outlook among the country's five administrative districts during the first quarter of 2013; while those in Mount Lebanon were less pessimistic relative to other administrative districts over the second quarter of 2013. Consumers in the Bekaa were the most pessimistic about future prospects during the first half of 2013.

Christian consumers had the least pessimistic outlook in the first quarter of 2013

In terms of religious affiliations, Christian consumers had the least pessimistic outlook for the coming six months in the first quarter of 2013; while Druze consumers were the least pessimistic about the near-term economic outlook during the second quarter of the year. Shiite consumers were the most pessimistic about their future prospects among all religious affiliations over the first half of 2013.

II- Savings Trends

The overall muted outlook of Lebanese consumers during the first half of 2013 was reflected in their answers to questions about their present and near-term intentions to save money. The survey's results show that, on average, 81.1% of Lebanese consumers interviewed in the first quarter of 2013 did not believe that it is a good time to save money in view of general economic conditions, while 16.2% of respondents indicated that it was a good time to put money aside. Consumers' attitude slightly deteriorated during the second quarter, as 82.6% of respondents who were polled indicated that they would not save money, while 14.4% of consumers planned to save money at this time.

High cost of living is weighing on consumers' ability to save

Further, 91.6% of Lebanese consumers interviewed in the first quarter of 2013 did not intend on saving money over the coming six months. Consumers' outlook deteriorated further during the second quarter of 2013, as 92.8% of respondents who were polled during the period indicated that they would not set money aside in the near term. More specifically, 93.3% of respondents who were surveyed in May 2013 did not have plans to save in the following six-month period, constituting the highest such proportion in the first half of 2013 and the sixth-highest percentage since the survey's inception in July 2007. This concurred with the month that produced the sixth-lowest level of consumer confidence and expectations since the start of the Byblos Bank/ AUB Consumer Confidence Index's calculation.

The results reflect the inability of Lebanese households to put money aside consistently, rather than their unwillingness to save, in light of the elevated cost of living that is reducing their disposable income. This perception has been reinforced by the high prices of basic food items, as well as by the elevated cost of electricity, transportation, healthcare, education and telecommunication services, among others. For instance, the lengthy back-and-forth between the Cabinet and unions on the salary-scale adjustment to public sector employees led to a jump in consumer prices on the mere anticipation of the salary adjustments. Also, the positive impact of the advance on the high cost-of-living for public sector employees, which was disbursed in September 2012, evaporated soon after its implementation under the weight of inflationary pressure. Further, the decay in public-service delivery is ending up compounding citizens' expenditures, with households having to revert to parallel providers, such as subscribing to onerous private electricity generators, buying water from private providers and paying high fees for poor telecom services.

III - Results by Category

A - CONSUMER CONFIDENCE BY GENDER

The results of the Byblos Bank/ AUB Consumer Confidence Index show that male consumers recorded a relatively higher level of confidence than their female counterparts during the first half of 2013. The latter results are in line with a trend that started in the first half of 2011. Also, male and female consumers posted lower confidence levels of 31.3 and 28, respectively, in the first half of 2013 compared to confidence levels of 38 and 30.5, respectively, in the second half of 2012.

The confidence level of males was higher than that of females in the first half of 2013

In parallel, male consumers posted higher levels of confidence in the second quarter of 2013 compared to the first quarter of the year, while the confidence level for female consumers remained nearly unchanged in the first and second quarters of 2013. As such, male and female consumers posted average confidence levels of 30.5 and 28.1, respectively, during the first three months of 2013 and confidence levels of 32.1 and 28, respectively, in the second quarter of the year. The first quarter results represent males' lowest level of confidence in 24 quarters, while females' confidence level posted the third-lowest score ever in the second quarter of 2013. On average, female consumers had a higher confidence level than their male counterparts in seven out of the first eight quarters since the index's inception in July 2007, but the trend was reversed with males having a higher confidence level than females in 15 out of the following 16 quarters.

On a monthly basis, the confidence level of males reached 28.9 in May 2013, constituting its lowest level since the start of the index's calculation; while that of females reached its third-lowest level of 24.5 in June 2013. On average, male consumers had higher confidence levels than female consumers in 46 out of 72 months, representing a 63.9% frequency of occurrence since the index's inception in July 2007.

| Byblos Bank/AUB Consumer Confidence Index by Gender | | | |
|---|------|--------|--|
| Month | Male | Female | |
| Jan-13 | 31.3 | 27.8 | |
| Feb-13 | 29.6 | 27.2 | |
| Mar-13 | 30.5 | 29.2 | |
| Av. Index Q1 2013* | 30.5 | 28.1 | |
| Apr-13 | 37.5 | 31.9 | |
| May-13 | 28.9 | 27.7 | |
| Jun-13 | 29.9 | 24.5 | |
| Av. Index Q2 2013* | 32.1 | 28.0 | |

* average monthly index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

B - CONSUMER CONFIDENCE BY AGE

Consumers between 21 and 29 years old displayed a higher level of confidence in the first half of 2013 than other age groups. This is consistent with the general trend observed since the index's inception, where consumers in this bracket consistently posted the highest confidence level on a semi-annual basis, with the exception of the semi-annual figures of 2012.

Consumers in the 21 to 29 year-old bracket posted the highest confidence level during the first half of 2013

As such, consumers in the 21 to 29 year-old bracket posted the highest confidence level during the first and second quarters of 2013, as the index for this age segment averaged 34.8 and 35.3, respectively. This is in line with results of the July 2007-December 2012 period, with the exception of the first, second and fourth quarters of 2012. On a quarterly basis, the consumer confidence of three out of the five age-groups reached an all-time low in the first quarter of 2013.

Further, consumers in the 21 to 29 year-old bracket registered a confidence level of 36.8 in January, 34.5 in February, 39.4 in April and 34 in June, constituting the highest readings among age segments in the first half of 2013; while citizens aged between 40 years and 49 years old posted the highest level of confidence in March (36.9) and May (35). On a monthly basis, consumers between 21 and 29 years old held their highest level of consumer confidence in 47 out of 72 months, representing a 65.3% frequency of occurrence.

| Byblos Bank/AUB Consumer Confidence Index by Age | | | | | |
|--|-----------|-----------|-----------|-----------|---------|
| Month | 21-29 yrs | 30-39 yrs | 40-49 yrs | 50-59 yrs | ≥60 yrs |
| Jan-13 | 36.8 | 25.3 | 32.0 | 23.5 | 26.4 |
| Feb-13 | 34.5 | 19.9 | 33.7 | 26.5 | 28.1 |
| Mar-13 | 32.9 | 23.8 | 36.9 | 23.8 | 32.0 |
| Av. Index Q1 2013* | 34.8 | 23.0 | 34.2 | 24.6 | 28.8 |
| Apr-13 | 39.4 | 32.9 | 33.6 | 32.5 | 32.5 |
| May-13 | 32.5 | 22.0 | 35.0 | 22.4 | 31.2 |
| Jun-13 | 34.0 | 20.1 | 26.9 | 26.1 | 30.7 |
| Av. Index Q2 2013* | 35.3 | 25.0 | 31.8 | 27.0 | 31.5 |

* average monthly index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

C - CONSUMER CONFIDENCE BY OCCUPATION

Students recorded a better level of confidence relative to other occupational categories in the first half of 2013 with an average monthly reading of 35.2, constituting the ninth occurrence out of 12 semi-annual periods since the index's inception.

Housewives posted their lowest confidence level ever during the second quarter of 2013

Moreover, students were relatively more confident during the first quarter of 2013, as the index for this segment averaged 34.7 during the covered period. They were followed by the unemployed with an average confidence level of 32.9, the self-employed with an average reading of 32.6, private sector employees with an average outcome of 31.7, housewives with an average level of 21.1, and public sector employees with an average of 14.8. Also, students had the highest level of confidence during the second quarter of 2013 as the index averaged 35.8 for this segment. They were followed by private sector employees with an average of 34.9 and the self-employed with an average of 32.9. On a quarterly basis, the consumer confidence of housewives reached an all-time low in the second quarter of 2013 with a confidence level of 18.6 during the covered quarter.

On a monthly basis, students were more confident than all other occupational groups as they registered the highest confidence levels in the February (32.2), March (37.2), April (43.5) and June (35.8) polls; while the unemployed recorded the highest level of confidence in the January and May polls at 37.6 and 33.9, respectively. Overall, students had a better level of consumer confidence in 41 out of 72 months, representing a 56.9% frequency of occurrence.

| Byblos Bank/AUB Consumer Confidence Index by Occupation | | | | | | |
|---|-------------------------|------------------------|---------------|---------|-----------|------------|
| Month | Private Sector Employee | Public Sector Employee | Self-employed | Student | Housewife | Unemployed |
| Jan-13 | 31.4 | 16.9 | 33.1 | 34.6 | 19.3 | 37.6 |
| Feb-13 | 31.7 | 11.9 | 31.7 | 32.2 | 21.9 | 29.6 |
| Mar-13 | 32.0 | 15.7 | 32.9 | 37.2 | 22.1 | 31.3 |
| Av. Index | | | | | | |
| Q1 2013* | 31.7 | 14.8 | 32.6 | 34.7 | 21.1 | 32.9 |
| Apr-13 | 41.4 | 24.1 | 37.4 | 43.5 | 20.5 | 26.5 |
| May-13 | 33.4 | 22.0 | 30.9 | 28.0 | 17.2 | 33.9 |
| Jun-13 | 29.8 | 17.1 | 30.3 | 35.8 | 18.0 | 29.8 |
| Av. Index | | | | | | |
| Q2 2013* | 34.9 | 21.1 | 32.9 | 35.8 | 18.6 | 30.1 |

* average monthly index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

D - CONSUMER CONFIDENCE BY INCOME

Consumers with a household income above \$2,000 per month recorded the highest level of confidence among income brackets in the first half of 2013 with an average reading of 51.8, in line with the results of the July 2007-December 2012 period. But the results constituted the lowest semi-annual reading for this segment since the start of the index's calculation.

Consumers with household income above \$2,000 per month posted the highest level of confidence during the first half of 2013

The results of the index show that consumers with household income above \$2,000 per month had a higher confidence level in the first quarter than in the second quarter of 2013, with averages of 53 and 50.6, respectively. Moreover, consumers with a household income of \$1,001 to \$2,000 had the second-highest level of confidence among all income brackets in the first two quarters of the year, with an average index reading of 35.6 during the first quarter and 41.2 during the second quarter of 2013. Also, on a quarterly basis, two out of four income sub-categories posted their lowest results ever during the second quarter.

The first-half results indicate that consumers with a household income above \$2,000 per month held the highest confidence level by income bracket in each of the first six months of 2013. Consumers at this income level held the highest level of confidence in 66 out of 72 months, representing a 91.7% frequency of occurrence.

In parallel, consumers with a household income between \$501 and \$1,000 per month held the lowest confidence level by income bracket in each of January, February, March, April, May and June 2013. Moreover, consumers with a monthly household income below \$500 per month and those with a household income between \$501 and \$1,000 posted their lowest monthly confidence level ever in June and January 2013, respectively.

| Byblos Bank/AUB Consumer Confidence Index by Income* | | | | |
|--|--------|---------------|-----------------|----------|
| Month | ≤\$500 | \$501-\$1,000 | \$1,001-\$2,000 | ≥\$2,001 |
| Jan-13 | 32.7 | 17.5 | 40.2 | 52.9 |
| Feb-13 | 27.6 | 22.1 | 31.7 | 57.4 |
| Mar-13 | 29.9 | 23.9 | 35.0 | 48.8 |
| Av. Index Q1 2013** | 30.1 | 21.1 | 35.6 | 53.0 |
| Apr-13 | 36.2 | 20.9 | 50.1 | 54.4 |
| May-13 | 27.5 | 21.9 | 33.5 | 53.6 |
| Jun-13 | 23.3 | 19.9 | 39.9 | 43.7 |
| Av. Index Q2 2013** | 29.0 | 20.9 | 41.2 | 50.6 |

* monthly household income

** average monthly index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

E - CONSUMER CONFIDENCE BY ADMINISTRATIVE DISTRICT

Consumers in Mount Lebanon displayed the highest level of confidence among administrative districts in the first half of 2013 with an average reading of 39.6, constituting the third time since the index's inception that the district posts the highest level of confidence on a semi-annual basis.

Consumers in Mount Lebanon were the most confident during the first half of 2013

Further, consumers in Mount Lebanon had the highest confidence level among all administrative districts in the first and second quarters of 2013, as the index averaged 38.2 and 40.9, respectively. There were only six other instances where Mount Lebanon recorded the highest quarterly confidence level among administrative districts during the July 2007-December 2012 period. North Lebanon posted the second-highest confidence level among administrative districts during the first two quarters of 2013, followed by Beirut. Moreover, consumers in Beirut posted their lowest quarterly confidence level in the second quarter of 2013; while consumers in the South registered their lowest level in the first quarter of the year over the 24-quarter period.

On a monthly basis, the results of the first half of 2013 show that consumers from Mount Lebanon registered the highest level of confidence among administrative districts in the January, February, April, May and June polls, with index readings of 41.1, 36, 48.4, 36.8 and 37.6, respectively; while Beirut residents posted the highest confidence level in March at 38.1. In parallel, consumers in Beirut posted their lowest monthly confidence level in June 2013 since the start of the index's calculation in July 2007, while those from the North posted their second-lowest confidence level in May 2013 since the index's inception.

| Byblos Bank/AUB Consumer Confidence Index by Administrative District | | | | | |
|--|--------|---------------|-------|-------|-------|
| Month | Beirut | Mount Lebanon | North | Bekaa | South |
| Jan-13 | 26.9 | 41.1 | 35.2 | 6.7 | 19.4 |
| Feb-13 | 34.1 | 36.6 | 33.3 | 10.7 | 16.0 |
| Mar-13 | 38.1 | 37.5 | 31.9 | 9.8 | 21.0 |
| Av. Index Q1 2013* | 33.0 | 38.2 | 33.5 | 9.1 | 18.8 |
| Apr-13 | 39.6 | 48.4 | 34.6 | 10.0 | 22.0 |
| May-13 | 31.3 | 36.8 | 29.5 | 12.9 | 18.7 |
| Jun-13 | 22.5 | 37.6 | 31.5 | 11.9 | 16.3 |
| Av. Index Q2 2013* | 31.1 | 40.9 | 31.9 | 11.6 | 19.0 |

* average monthly index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

F - CONSUMER CONFIDENCE BY RELIGIOUS AFFILIATION

Christian consumers posted the highest level of confidence among all religious affiliations in the first half of 2013, constituting the fifth such semi-annual occurrence since the start of the survey's calculation.

In parallel, Christian consumers registered the highest confidence level among all religious affiliations during the first and second quarters of 2013 with average readings of 39.2 and 40.3, respectively. They were followed by Druze, Sunni and Shiite consumers. The confidence level of Christian consumers posted its lowest result in 24-quarters during the first quarter of 2013.

On a monthly basis, Christian consumers had the highest confidence level among religious affiliations in January, February, March, April, May and June 2013. Conversely, the Shiites were the least confident consumers in each of the first six months of 2013, in line with the general trend since the start of the survey. Christian consumers held the highest level of confidence in 31 out of 72 months, representing a 43% frequency of occurrence, followed by Druze consumers with an incidence of 25%, Sunni consumers with 18.1% and Shiite consumers with a frequency of 13.9%. Christian consumers posted their second-lowest level of confidence in May 2013 since July 2007, while Sunni consumers posted their second-lowest level in June and Shiite consumers displayed their second-lowest level in January 2013.

| Byblos Bank/AUB Consumer Confidence Index by Religious Affiliation | | | | |
|--|------------|--------|---------|-------|
| Month | Christians | Sunnis | Shiites | Druze |
| Jan-13 | 39.5 | 29.8 | 10.1 | 35.4 |
| Feb-13 | 38.1 | 27.4 | 12.1 | 30.3 |
| Mar-13 | 39.9 | 27.6 | 14.0 | 32.2 |
| Av. Index Q1 2013* | 39.2 | 28.3 | 12.1 | 32.6 |
| Apr-13 | 44.9 | 34.0 | 14.6 | 44.4 |
| May-13 | 36.5 | 25.6 | 14.5 | 34.9 |
| Jun-13 | 39.6 | 19.8 | 13.6 | 26.3 |
| Av. Index Q2 2013* | 40.3 | 26.5 | 14.2 | 35.2 |

* average monthly index

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

IV - Consumers' Responses to Select Survey Questions

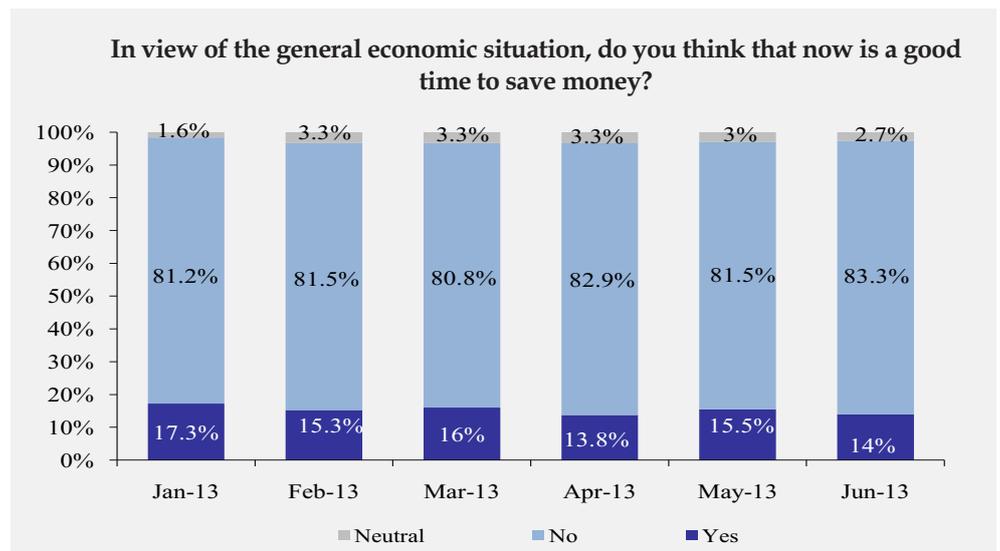
A - SAVING MONEY

The 72 monthly surveys conducted from July 2007 to June 2013 show that the majority of consumers believe that it is a bad time to save money in view of the general economic condition.

During the first quarter of 2013, 81.1% of respondents indicated that it is a bad time to save money. Conversely, only 16.2% of respondents polled over the same quarter considered that it was a good time to save money, while 2.7% of consumers were not sure whether it is a proper time to save. This perception worsened during the following quarter, as 82.6% of respondents interviewed over the second quarter of 2013 indicated that it was a bad time to save money, while 14.4% of respondents considered that it was a good time to put funds away.

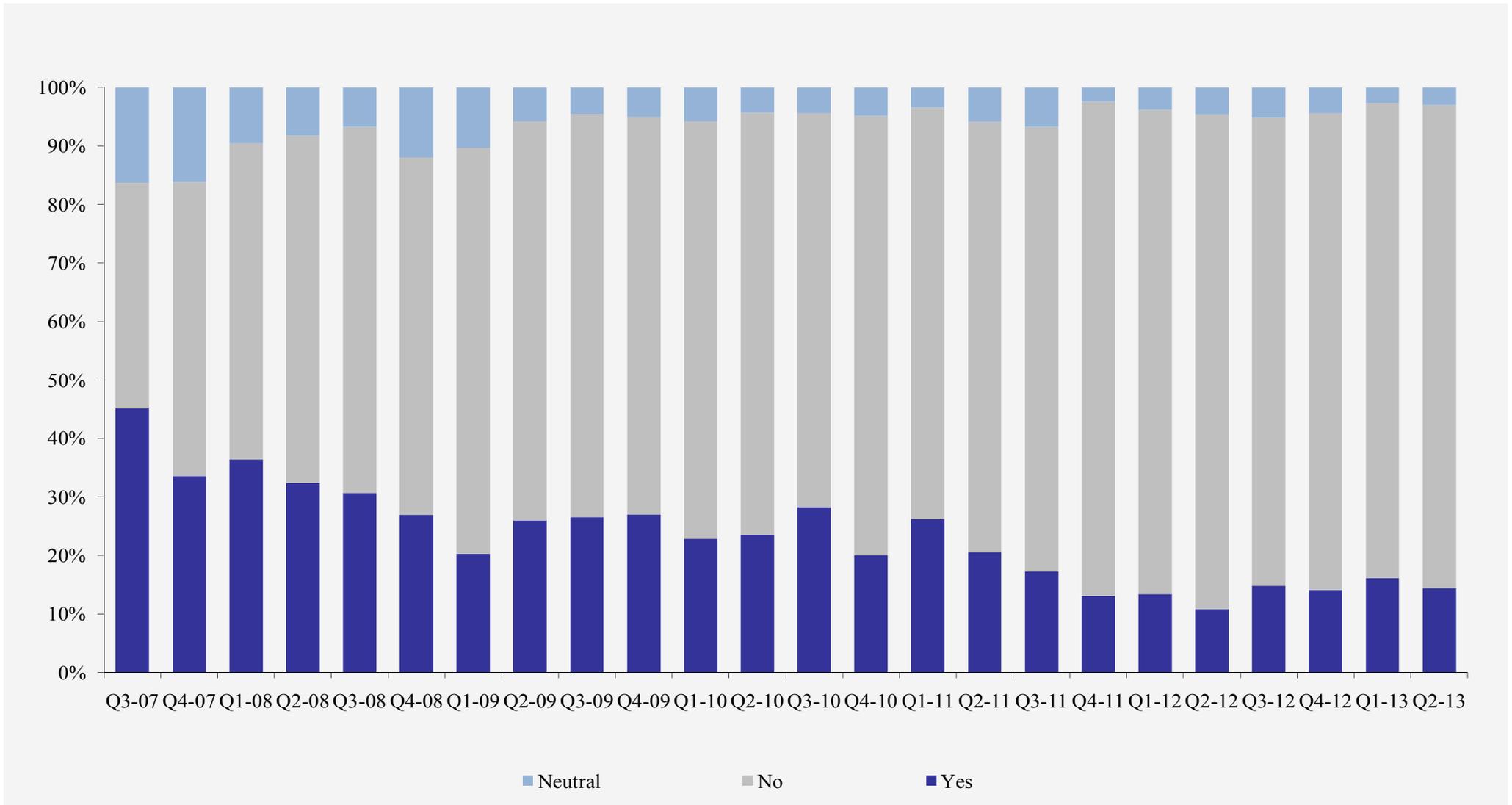
Nearly 83% of respondents considered that it was a bad time to save money in the second quarter of 2013

In parallel, the second quarter of 2012 had the highest percentage of respondents (84.6%) in 24 quarters who claimed that it was a bad time to save money. Further, the third quarter of 2007 posted the highest proportion of respondents (45%) in 24 quarters who indicated that it was a good time to save money. The May 2012 survey posted the highest proportion of respondents (86.9%) over the July 2007-June 2013 period who stated that it was not an appropriate time to save money.



Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

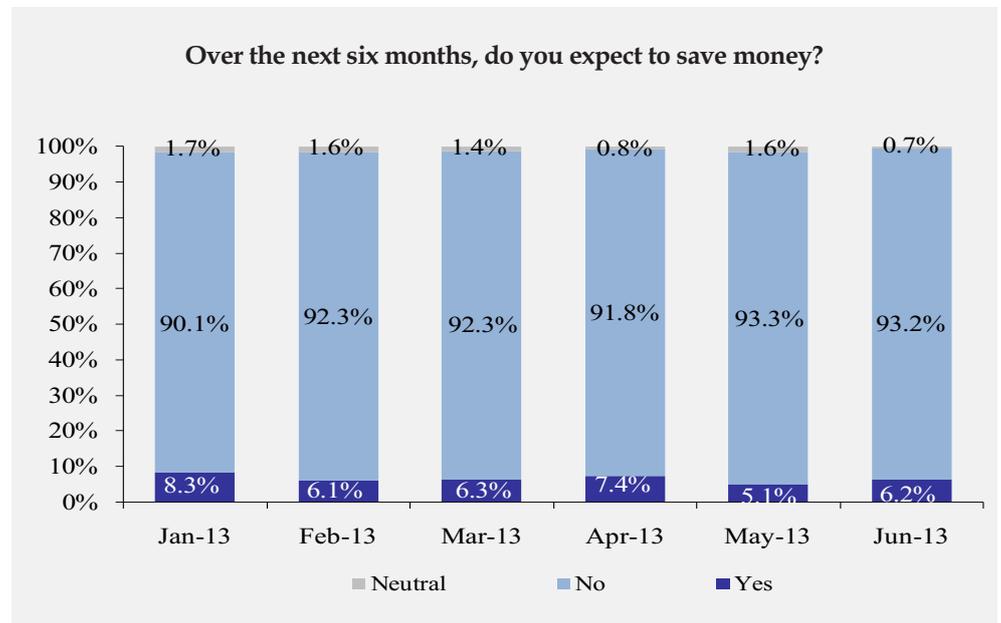
In view of general economic situation, do you think that now is a good time to save money?



Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

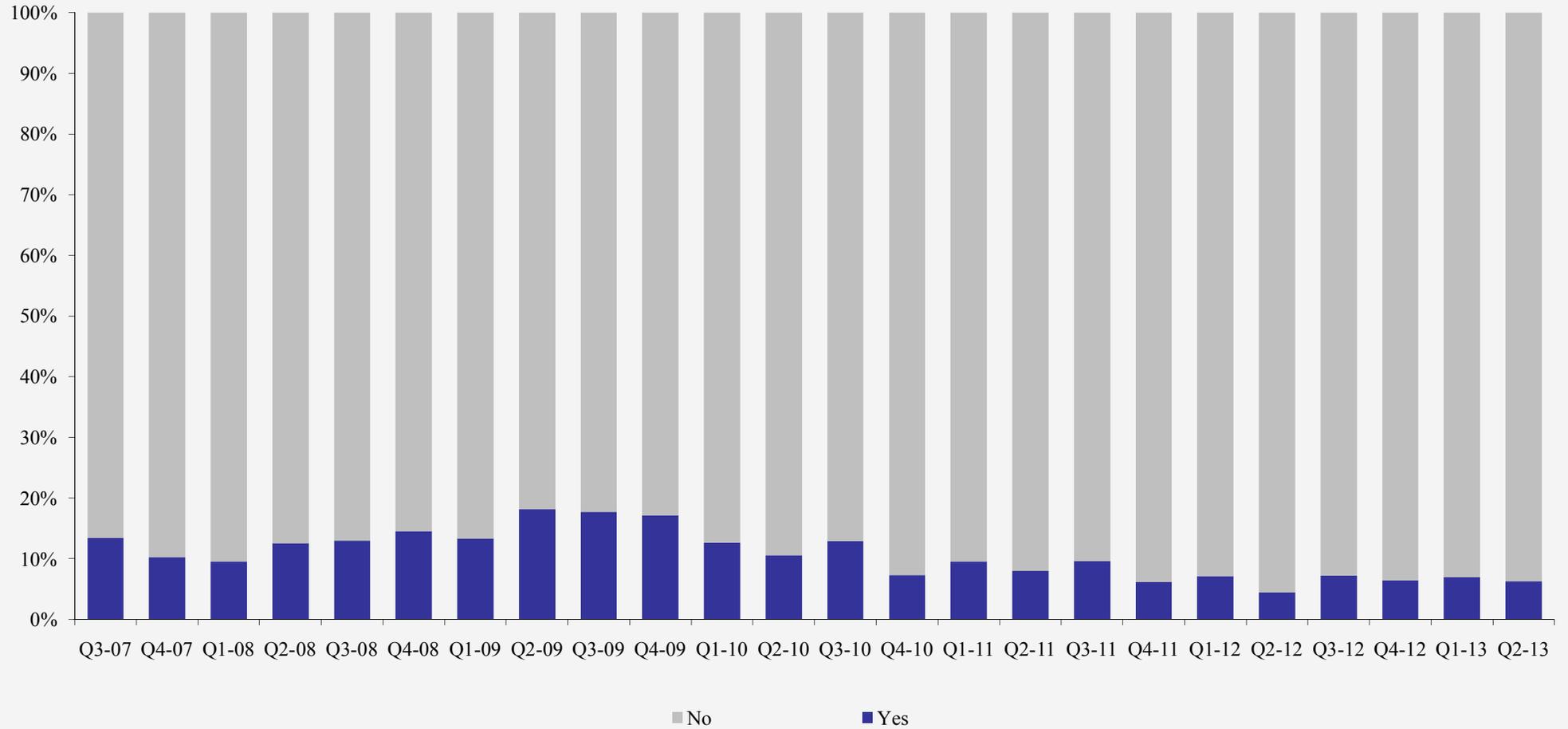
In parallel, the 72 monthly surveys conducted from July 2007 to June 2013 show consistently that the majority of consumers did not expect to save money in the near term. On a quarterly basis, 91.6% of respondents polled during the first quarter of 2013 did not expect to save money in the coming six months. Also, 92.8% of respondents in the second quarter of 2013 indicated that they did not intend to save money in the near term. In parallel, the second quarter of 2012 posted the highest proportion of respondents (93.7%) in 24 quarters who did not have plans to save money over the following six months.

On a monthly basis, 94.3% of respondents in April 2012 indicated that they did not expect to save money in the coming six months, constituting the highest such monthly percentage since the survey's inception.



Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

Over the next six months, do you expect to save money?



Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

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