

# CONSUMER CONFIDENCE IN LEBANON

## THE BYBLOS BANK/AUB CONSUMER CONFIDENCE INDEX

*Second Half 2013 Results and Analysis*

### Consumer Confidence at Record Low in Second Half of 2013

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#### HIGHLIGHTS

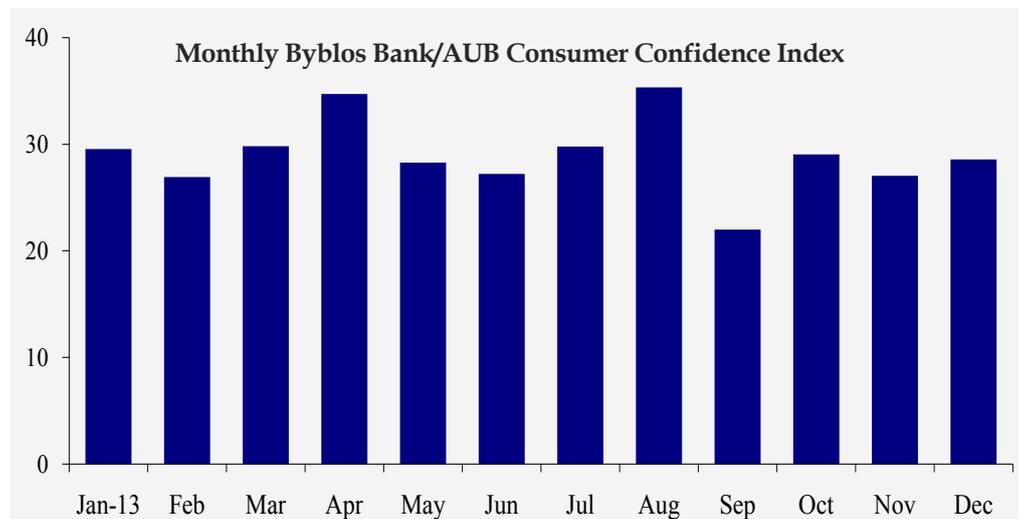
- The Byblos Bank/ AUB Consumer Confidence Index dropped to its lowest level ever in 2013, recording a monthly average of 29 during the year, down 10.7% from 32.5 in 2012 and 60.2% from 72.8 in 2010.
- The Byblos Bank/ AUB Consumer Confidence Index dropped to its lowest level ever on a calendar basis in the second half of 2013, recording an average monthly reading of 28.6, down 2.7% from the first half of 2013.
- The Byblos Bank/ AUB Consumer Confidence Index posted averages of 29 and 28.2, in the third and fourth quarters of 2013, respectively, constituting the fourth- and second-lowest results on a quarterly basis since the index's inception.
- On a monthly basis, the Byblos Bank/ AUB Consumer Confidence Index reached its lowest level ever in September 2013.
- 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 were the main factors for the record-low level of consumer confidence in the second half of 2013.
- The near-term expectations of consumers were generally lower or at the same level than their views of their current conditions during the second half of 2013.
- The Byblos Bank/ AUB Present Situation Index and Expectations Index reached their lowest monthly reading since the index's inception in September 2013.
- The vast majority of surveyed consumers do not have a life insurance policy and do not plan to buy one, but most of those who own such a policy intend to renew it.
- 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 the formation of a new Cabinet, 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 remained at very low levels during the third and fourth quarters of 2013 as reflected by the results of the Byblos Bank/ AUB Consumer Confidence Index. The index reached 29.8 in the July 2013 survey, up by 9.4% from 27.2 in June 2013 and increased to 35.3 in August 2013. This was followed by a decrease of 18.5% to 22 in September 2013 and a rise to 29.1 in October 2013. It then declined by 7.2% to 27 in November and increased by 5.9% to 28.6 in December 2013. The Byblos Bank/ AUB Consumer Confidence Index's outcome for September 2013 posted its lowest value since the start of the index's calculation in July 2007.

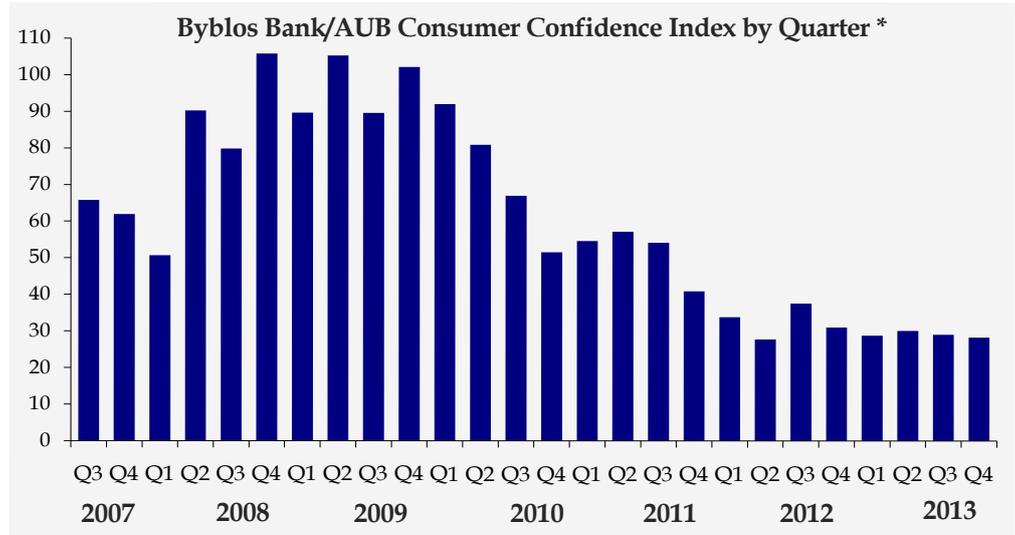
*Consumer sentiment reached its lowest level in September 2013*



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

The results of the second half of 2013 reflect the persisting trend of stagnating consumer confidence in the country. Indeed, the index averaged 29 in the third quarter of 2013, constituting its fourth-lowest reading in 26 quarters. It also averaged 28.2 in the fourth quarter of 2013, the second-lowest quarterly result since the start of the index's calculation. This follows declines in the first and second quarters of 2013. Overall, the results of the third and fourth quarters of 2013 are consistent with the ongoing trend of very low confidence since the first quarter of 2012. As a result, the Byblos Bank/ AUB Consumer Confidence Index posted an average monthly value of 28.6 during the second half of 2013, constituting the index's lowest level on a semi-annual basis. The index's average monthly value regressed by 2.7% in the second half of 2013 from an average monthly value of 29.4 in the first half of the year. It also fell by 16.4% from 34.2 in the second half of 2012, which reflects a steep decline in confidence levels from an already tumultuous and uncertain period.

Consumer confidence remained at very low levels in the third and fourth quarters of 2013



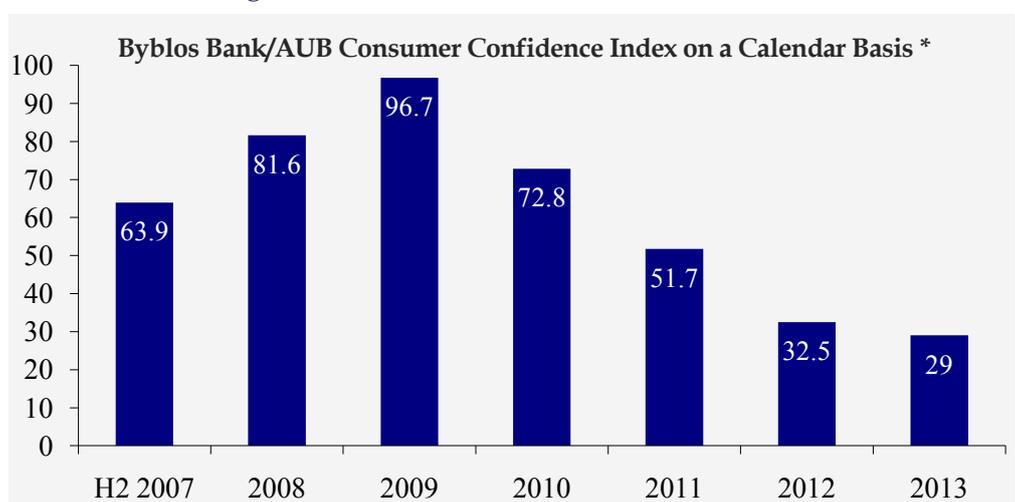
\* monthly average index by quarter

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

The results of the third and fourth quarters of 2013 extended the low confidence level that has prevailed since the fourth quarter of 2010 and that worsened since the fourth quarter of 2011, 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 index in the fourth quarter of 2013 constitutes a drop of 72.4% from the results of the fourth quarter of 2009 and a drop of 73.3% from the peak of 105.8 registered in the fourth quarter of 2008. The results of the second half of 2013 are alarming, given that consumer sentiment dropped from a record-low posted in the first half of the year.

Overall, the Byblos Bank/ AUB Consumer Confidence Index posted a monthly average of 29 in 2013, constituting a drop of 10.7% from 32.5 on average in 2012, a decline of 43.9% from an average 51.7 in 2011, and a decrease of 60.2% from an average 72.8 in 2010. The results of 2013 are disturbing, given that consumer sentiment dropped sharply during the year from an already record-low level in 2012, and due to the perception at the time that the confidence level of Lebanese consumers might have bottomed out. But the record-low outcome in 2013 is hardly surprising, given the prevailing sense of instability, uncertainty and caution among Lebanese consumers.

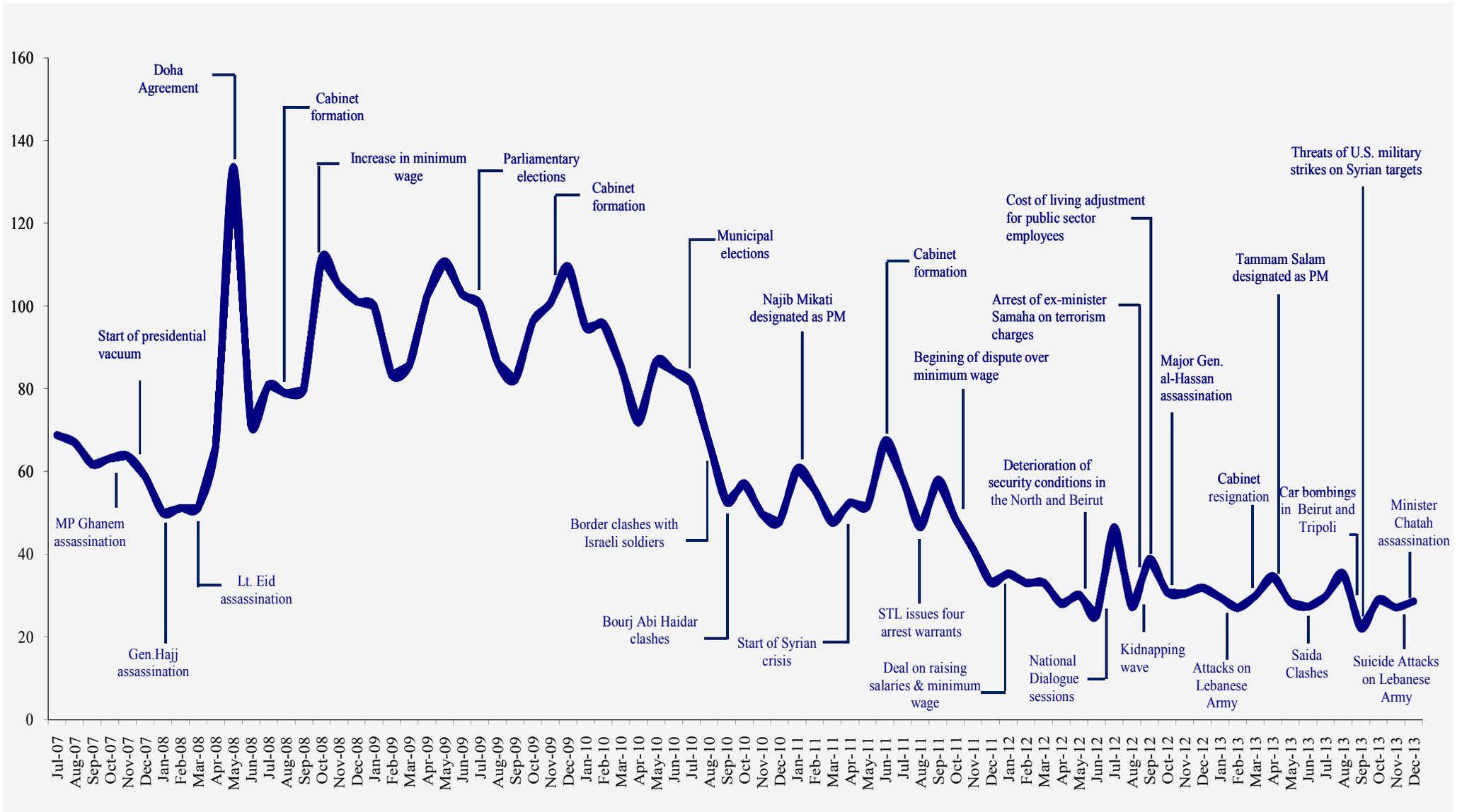
Consumer confidence in 2013 dropped to its lowest level since the start of the index's calculation



\* 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-December 2013)



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

**Fluctuations of the Byblos Bank/AUB Consumer Confidence Index,  
the Byblos Bank/AUB Present Situation Index  
and the Byblos Bank/AUB Expectations Index**

	Q3 2013			Q4 2013		
	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
<b>CCI*</b>	<b>29.8</b>	<b>35.3</b>	<b>22.0</b>	<b>29.1</b>	<b>27.0</b>	<b>28.6</b>
Month-on-month change (%)	9.4%	18.7%	-37.8%	32.2%	-6.9%	5.6%
Year-on-year change (%)	-36%	30%	-43.4%	-5.4%	-11%	-10.5%
<b>PSI**</b>	<b>25.9</b>	<b>37.4</b>	<b>20.4</b>	<b>31.0</b>	<b>32.2</b>	<b>31.3</b>
Month-on-month change (%)	-0.7%	44.3%	-45.3%	51.7%	4%	-2.8%
Year-on-year change (%)	-42.8%	26.4%	-49.8%	-4%	5%	-3%
<b>EI***</b>	<b>32.3</b>	<b>34.0</b>	<b>23.0</b>	<b>27.7</b>	<b>23.6</b>	<b>26.7</b>
Month-on-month change (%)	15.7%	5.1%	-32.3%	20.6%	-15%	13.3%
Year-on-year change (%)	-31.6%	32.8%	-38.6%	-6.4%	-21.9%	-15.6%

\* CCI: Byblos Bank/AUB Consumer Confidence Index

\*\* PSI: Byblos Bank/AUB Present Situation Index

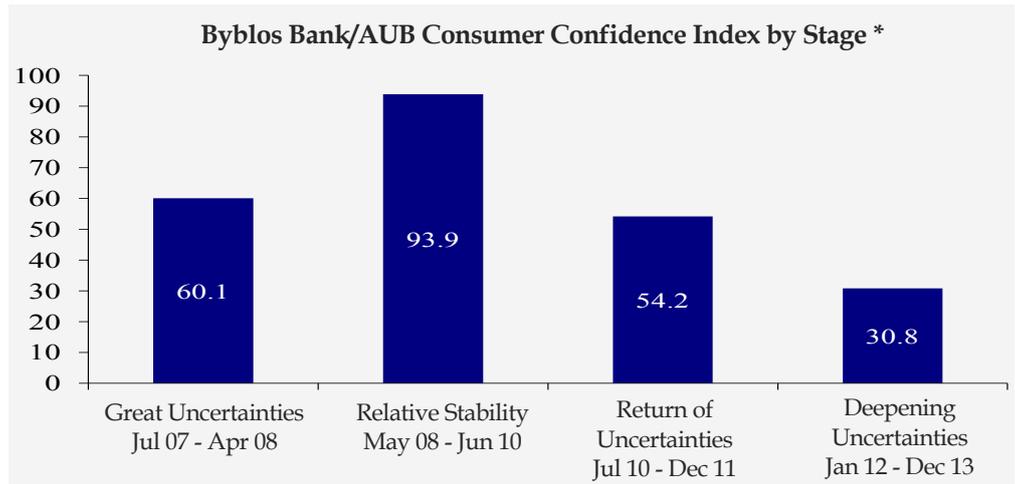
\*\*\* EI: Byblos Bank/AUB Expectations Index

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

## B -TIMELINE ANALYSIS

The results of the third and fourth quarters of 2013 upheld the trend in consumer confidence that started in January 2012. We have identified four distinct periods in the history of the Byblos Bank/AUB Consumer Confidence Index: a period of Great Uncertainties, one of Relative Stability, a Return of Uncertainties phase, and a fourth of Deepening Uncertainties. The first period started in July 2007 and ended in April 2008, with the index averaging 60.1 during this timeframe. It was a “high risk” period dominated by political and security uncertainties. The second period extended from May 2008 to June 2010 and was characterized by a significantly higher level of confidence, as the index averaged 94 during the 26-month span. This timeframe was a “low risk” period that saw several positive political events that helped revive consumer confidence. The third period, which stretched from July 2010 to December 2011, saw the return of uncertainties and an increase in political risks, as the index averaged 54.2 during the 18-month period. The fourth period started in January 2012, with the index averaging 31.5 during the 18-month ending in June 2013. It was a “very high risk” period that saw a rise in political paralysis and deteriorating security conditions, which helped worsen consumer sentiment. The results of the third and fourth quarters of 2013 extended and confirmed the Deepening Uncertainties period and dragged down the index to an average of 30.8 over the January 2012-December 2013 period, constituting the lowest level of consumer confidence over the four periods.

*The period of deepening uncertainties was more pronounced in the second half of 2013*



\* 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 the third quarter of 2013*

*The Expectations Index posted its lowest reading ever in September 2013*

The Byblos Bank/ AUB Present Situation Index and the Byblos Bank/ AUB Expectations Index moved in the same direction during the third quarter of 2013, except for the month of July. As such, the Present Situation Index decreased by 0.7% in July, increased by 44.3% in August and declined by 45.3% in September 2013; while the Expectations Index rose by 15.7% in July, increased by 5.1% in August and fell by 32.3% in September. In contrast, both indices did not move in parallel in the fourth quarter of 2013, except for the month of October. The Present Situation Index increased by 51.7% in October, rose by 4% in November and fell by 2.8% in December, while the Expectations Index improved by 20.6% in October, declined by 15% in November and increased by 13.3% in December 2013. Overall, both sub-indices posted their lowest semi-annual readings during the second half of 2013, which reflected the deterioration of confidence in current as well as in future conditions. The Present Situation Index averaged 27.9 in the third quarter of 2013, constituting its lowest reading in 26 quarters; while it reached 20.4 in September 2013, its lowest monthly reading in 78 months. In parallel, the Expectations Index posted an average of 29.8 in the third quarter of the year, constituting its fourth-lowest quarterly reading since the start of the index calculation; while the sub-index reached 23 in September 2013, its lowest monthly reading since the index's inception. The Expectations Index was higher than the Present Situation Index during the third quarter of 2013, which shows that Lebanese consumers were relatively less pessimistic about the future than they were about present circumstances. In contrast, the Expectations Index was lower than the Present Situation Index during the fourth quarter of 2013, which shows that Lebanese consumers were somewhat more pessimistic about the future than they were about present circumstances. The Expectations Index posted an average of 26 in the fourth quarter, constituting its lowest quarterly reading since the start of the index calculation. Generally, Lebanese consumers are more optimistic about future conditions over the near term than they are about their current situation. Indeed, there were only six quarters between July 2007 and December 2013 when Lebanese consumers were more, or equally, pessimistic about the future than they were about present circumstances.

During the second half of 2013, the Expectations Index recorded a lower value than the Present Situation Index in August, October, November and December. As a result, consumers displayed more pessimism about the future than about present conditions in seven out of 12 months during 2013. This trend, which was particularly visible in the second half of 2013, demonstrates consumers' negative and uncertain outlook, and raises alarms over the depth of consumers' pessimism.

## D - GENERAL TRENDS

Consumer confidence in Lebanon remained very sensitive to political and security developments during the second 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: car and suicide bombings, the recurrent deterioration of security conditions in the North and along the Lebanese-Syrian border, the wave of kidnappings and public threats of targeted abductions, attacks on the Lebanese Army, the high level of political polarization and tensions, as well as the deadlock over the formation of a Cabinet. In addition, the increasingly pervasive socio-economic impact of the Syrian conflict and the United States' threats of missile attacks against targets in Syria exacerbated tensions. The lone event that had a positive but muted impact on consumer sentiment was the United States' eventual cancellation of its planned military strikes against Syria.

*Spillovers from the Syrian crisis continued to negatively affect consumer confidence during the second half of 2013*

The Syrian conflict, with all its ramifications, remained the main factor affecting consumers' sentiment during the second half of the year. The crisis continued to dominate the political scene in Lebanon, as its escalation led to recurrent political, security and socio-economic spillovers into the country. Further, the raging conflict kept the level of political polarization in Lebanon elevated, therefore extending the political deadlock, which negatively affected sentiment and reflected growing consumers' concerns about political instability and uncertain social and economic conditions. Indeed, Lebanese consumers continued to increasingly feel the repercussions of the Syrian crisis in the second half of the year, as reflected by stagnating sentiment and record-low levels of the Byblos Bank/AUB Consumer Confidence Index.

*Security deterioration weighed heavily on consumer sentiment*

The most significant cause for the weakening of consumer sentiment during the second half of the year was the sharp deterioration of security conditions across the country, particularly through car and suicide bombings, which kept consumer sentiment at sobering levels. Indeed, on July 9 and August 15, car bombs exploded in crowded neighborhoods of the Southern suburbs of Beirut, leaving 24 dead and 300 injured citizens. Further, twin car bombs exploded simultaneously near two mosques in Tripoli on August 23, which led to 47 dead and more than 500 injured persons. The explosions exacerbated citizens' anxiousness and caused panic across the country, as fears of more car bombs targeting civilian areas swept Lebanon. This caused the Byblos Bank/AUB Present Situation Index to reach its lowest level in the third quarter of the year since the start of the time series. The various attacks were perceived as a direct spillover of the Syrian conflict onto Lebanese soil.

In addition, Lebanese citizens remained concerned about the recurrence of inter-factional clashes in Tripoli that resulted in more than 27 casualties and at least 100 injuries during the second half of 2013 despite numerous attempts by authorities to stop the bloodshed. Indeed, the festering problems in Tripoli have also been perceived to be linked to the conflict in Syria. Further, repeated incidents along the Lebanese-Syrian border stretching from the North to the Bekaa region, such as cross-border shelling, incursions and abductions were regular reminders that Lebanon is firmly embroiled in the Syrian conflict.

*The easing of regional tensions put a floor to the drop in consumer confidence*

The other factor that affected consumers' confidence in the second half of 2013 was the threat of a missile attack by the United States against military targets in Syria over the regime's alleged use of chemical weapons against opposition-held areas near Damascus in August 2013. Indeed, Lebanese consumers grew anxious over the negative repercussions of an American strike, as the escalating threats by the U.S., rising rhetoric on the issue among local parties and mounting uncertainties about domestic and regional repercussions of the strike caused further distress among citizens already weary of the prevailing insecurity in the country. As a result, the cumulative developments contributed to the decline of the Byblos Bank/AUB Consumer Confidence Index, along with the Byblos Bank/AUB Expectations and Present Situation sub-indices to their lowest level ever in September. But the Byblos Bank/AUB Consumer Confidence Index improved relatively in October 2013, as the threats of a U.S. strike receded following a diplomatic agreement reached between the U.S. and Russia on a draft U.N. Security Council resolution aimed at ridding Syria of its chemical weapons arsenal. The United States' cancellation of its planned missile attacks reduced regional and domestic tensions and put a temporary floor to the decline of consumer sentiment in Lebanon.

*Sentiment remained heavily affected by political and security events*

But consumers' relief was short-lived, given their prevailing lack of confidence in a material change in the country's overall security situation. Indeed, fears of additional security breaches materialized in the middle of November 2013 with a double suicide bombing attack in front of the Iranian embassy in Beirut that led to 23 dead and more than 160 injured; with attacks on two Lebanese Army checkpoints in the South in December; as well as with the car-bomb assassination of former Finance Minister Mohammad Chatah in the Beirut Central District on December 27th. As such, consumers' sentiment regressed substantially and, more importantly, their outlook became gloomier, as the Byblos Bank/AUB Expectations Index remained firmly lower than the Byblos Bank/AUB Present Situation Index during the fourth quarter of the year.

In case there was a need for more reasons to derail consumer sentiment in the second 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.

The repeated security breaches, volatile political atmosphere and the rise in consumers' anxiousness drove the Byblos Bank/ AUB Consumer Confidence Index to a record low in the second 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.

*Political neglect continued to hurt sentiment*

In parallel, structural factors such as the high cost of living, eroding purchasing power and the poor quality of day-to-day public services kept confidence at low levels, especially in view of the prevailing official neglect and the indifference towards citizens' basic needs. This was highlighted by a passive caretaker Cabinet, and by the prolonged political deadlock during the second half of the year that prevented Prime Minister designate Tammam Salam from forming a functional Cabinet that would address citizens' numerous concerns, starting with urgent security issues. Moreover, Parliament was unable to convene due to a boycott by several political factions.

*The growing socio-economic impact of Syrian refugees raised anxiousness*

Also, the impact of the Syrian conflict's socio-economic component became more salient during the second half of 2013 with the rapid rise in the number of Syrian refugees entering the country, which, in turn, exacerbated the anxiousness of Lebanese consumers and negatively affected their level of confidence. Indeed, figures compiled by the United Nations show that the number of refugees registered, or waiting to be registered, with the UN Higher Commission for Refugees (UNHCR) increased from 175,042 at the end of 2012 to 858,641 at the end of 2013. This included 400,000 refugees who registered in the first half of the year and an additional 283,580 in the second half of 2013. As such, host communities have increasingly felt the socio-economic ramifications of the refugee inflows, especially, but not exclusively, in the North, the South and the Bekaa regions. Indeed, 47% of Syrian refugees in Lebanon are economically active and accept to work at wages that are about 50% lower than wages earned by Lebanese for doing the same job. For instance, the International Labor Organization estimated the average monthly income of a Syrian refugee in Lebanon at LBP 418,000 (\$277.3) compared to the official minimum wage in Lebanon of LBP 675,000 (\$448) per month. Therefore, the abundance of Syrian labor, particularly manual and low-skilled laborers who are increasingly competing with Lebanese workers in numerous sectors, has created resentment among host communities in a time of economic stagnation and a dearth of job opportunities. In addition, competition from the refugees for access to public services, as well as security and safety-related concerns, have had a persisting impact on the confidence level of Lebanese households, particularly in regions with a disproportionate number of refugees.

*Consumer confidence was severely tested throughout 2013*

Looking at the full year, consumer confidence was severely tested throughout 2013 for the second year in a row, as nine out of the 12 monthly readings of the Byblos Bank/ AUB Consumer Confidence Index posted their lowest level since the start of index's calculation in July 2007. Further, the Byblos Bank/ AUB Present Situation Index reached its lowest level-ever in seven out of 12 months last year; while, more alarmingly, the Byblos Bank/ AUB Expectations Index reached its lowest level ever in eight out of 12 monthly readings during 2013. Security and safety-related issues dominated consumers' concerns during the year. But other powerful issues such as rising political rhetoric and uncertain-

ties, the inability of authorities to satisfy citizens' basic needs, the rising cost of living, decaying public services, the weak rule of law, rising job insecurity, and economic stagnation resonated strongly among consumers. Consequently, the results of the Byblos Bank/ AUB Consumer Confidence Index clearly reflect citizens' declining confidence in the seriousness of the government, of public authorities and of political parties to improve security conditions and bring about real stability and change, to meet their basic needs, as well as to improve their living standards and to provide a credible framework for economic opportunities.

*Economic activity is expected to stagnate in the absence of positive shocks*

The drop in the Byblos Bank/ AUB Consumers Confidence Index in 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 last 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 subdued in the absence of any lasting positive political or economic shocks. As such, we expect further economic output losses in the first half of 2014, following losses of about \$5.2 billion during 2013.

## 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 third quarter of 2013, the level of consumer confidence decreased in 14 out of the 26 sub-categories of the Byblos Bank/ AUB Consumer Confidence Index. However, consumer sentiment rose across 13 sub-categories of the index during the fourth quarter of 2013. On a semi-annual basis, the level of consumer confidence declined in 16 out of 26 sub-categories in the second half of 2013 from the first half of the same year, while it regressed across 22 out of 26 sub-categories relative to the second half of 2012.

*Males had 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 second half of 2013, as the average monthly reading of the Expectations Index for males was 32.8 compared to 26.8 for females in the third quarter of 2013; and reached 28.8 for males relative to 23.2 for females in the fourth quarter of 2013.

*Consumer confidence continues to be positively correlated to income levels*

Also, consumers aged between 21 and 29 years were less pessimistic over the near term than consumers in older age brackets in the third and fourth quarters of 2013. In contrast, consumers who are 60 years or older were the most pessimistic among age groups during the third and fourth quarters of 2013. During the third quarter of 2013, students were the least pessimistic about economic prospects among occupational sub-categories, as the Expectations Index for this segment averaged 44.4 during the covered quarter. They were followed by public sector employees and freelancers with Expectations Index readings of 32.7 and 30.9, respectively. In the fourth quarter of 2013, freelancers were the least pessimistic with an average Expectations Index of 29.8, followed by private sector employees and students with readings of 29.31 and 29.29, respectively. Housewives were the most pessimistic among all occupational categories, with Expectations Index scores of 23.7 and 15.9 during the third and fourth quarters of 2013, respectively.

In parallel, consumers with a monthly household income higher than \$2,000 were less pessimistic relative to other income brackets during the second half of 2013, as the Expectations Index for this segment averaged 32.9 and 35.9 during the third and fourth quarters of 2013, respectively.

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

*Sunni consumers had the least pessimistic outlook in the third quarter of 2013*

In terms of religious affiliations, Sunni consumers had the least pessimistic outlook for the coming six months in the third quarter of 2013; while Christian consumers were the most pessimistic about their future prospects among all religious affiliations during the same quarter. In parallel, Druze consumers were the least pessimistic about the near-term economic outlook during the fourth quarter of 2013, while Sunni consumers were the most pessimistic about future prospects during the covered quarter.

## II- Demand for Life Insurance

The overall muted outlook of Lebanese consumers during the second half of 2013 was reflected in their answers to questions about obtaining a life insurance policy. The survey's results show that, on average, 86.7% of Lebanese consumers polled in the third quarter of 2013 did not possess a life insurance policy, while 86.1% of participants in the fourth quarter did not have life coverage. In parallel, 88.8% of life insurance subscribers in the third quarter of 2013 expected to renew their policy upon expiration, while 92% of respondents in the fourth quarter intended to renew their life insurance scheme.

*Consumers are consistently unwilling to purchase life insurance*

In parallel, 95.4% of Lebanese consumers polled in the third quarter of 2013 did not plan to purchase a life insurance policy. Consumers' decision was almost unchanged during the fourth quarter of the year, as 96.1% of respondents indicated that they did not intend to enroll in a life insurance plan. Moreover, 97% of respondents who were surveyed in October 2013 did not intend to subscribe to a life insurance scheme, constituting the highest such proportion in 78 months.

The survey's results demonstrate that there is a lack of willingness by respondents to purchase life insurance products. On an annual basis, 95.3% of Lebanese consumers polled in 2013 indicated that they did not intend to enroll in a life insurance scheme, constituting the highest such percentage compared to previous years.

*Consumers' low disposable income limit in part their willingness to invest in life insurance*

The high percentage of respondents who do not have a life insurance policy reflects the lack of a strong insurance culture in the country and the still relatively low level of awareness about the importance of life insurance products. People have traditionally looked at insurance as a luxury rather than as a necessity, with this perception becoming more prevalent in the current climate of economic slowdown, elevated cost of living and declining disposable income. Also, religious considerations are an important factor in the elevated percentage of citizens who do not have and do not intend to buy a life insurance plan.

Therefore, at 0.9% of GDP in 2013, the country's relatively high life insurance penetration rate by Arab standards is caused by necessity rather than due to attitude or a high level of awareness. Indeed, the inadequacies of the social security system and the low level of retirement and benefits provided by the National Social Security Fund (NSSF) have led people to increasingly rely on private life insurance and savings policies as retirement alternatives. Lebanon's ageing population, the rise in pension and compensation packages of state employees, and the persistent fiscal deficits are putting pressure on the state provision of end-of-service indemnities and pensions for public sector employees. Also, the inadequacies of the social security system and the low level of retirement and benefits provided by the NSSF to private-sector individuals has led certain segments of the population to rely increasingly on private life insurance and savings policies as retirement alternatives. As a result, individuals and households have bought long-term

savings products linked to life insurance policies so they can receive a lump sum or pension when they reach retirement age. This trend is set to continue, as reflected by the high proportion of respondents who intend to renew their life insurance policy. Indeed, between 86.2% and 96.1% of consumers surveyed throughout 2013 planned to renew their life insurance policy. The tendency to renew life insurance policies is also driven by mandatory coverage when consumers take out mortgages or other retail loans. Further, the traditional reliance on family members for funds whether for higher education or for buying a house has decreased, which has encouraged people to look for alternative savings vehicles. More specifically, the high cost of private education at all stages has encouraged families and individuals to seek insurance savings plans for the future.

## III - Results by Category

### A - CONSUMER CONFIDENCE BY GENDER

*The confidence level of female consumers reached its lowest level ever in the second half of 2013*

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 second half of 2013. The results are in line with a trend that started in the first half of 2011. On a semi-annual basis, female consumers posted their lowest confidence level ever of 25.8 in the second half of 2013 relative to a level of 28 in the first half of the year; while male consumers reached their second-lowest level of 31.5 during the covered period.

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

In parallel, male and female consumers posted lower levels of confidence in the fourth quarter of 2013 compared to the third quarter of the year. As such, male and female consumers posted average confidence levels of 31.7 and 26.4, respectively, during the third quarter of 2013 and confidence levels of 31.3 and 25.1, respectively, in the last three months of the year. The third quarter results represent males' third-lowest level of confidence in 26 quarters, while females' confidence level posted the second-lowest score ever in the fourth 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 reversed with males having a higher confidence level than females in 17 out of the following 18 quarters. On a monthly basis, the confidence level of males reached 25 and that of females reached 19 in September 2013, constituting their lowest levels since the start of the index's calculation. On average, male consumers had higher confidence levels than female consumers in 52 out of 78 months, representing a 66.7% frequency of occurrence since the index's inception in July 2007.

Overall, male consumers displayed a higher level of confidence than their female counterparts in 2013, in line with a general trend that started in 2009. Both genders posted in 2013 their lowest annual confidence levels of 31.4 and 26.9, respectively.

Byblos Bank/AUB Consumer Confidence Index by Gender			
Month	Male	Female	
Jul-13	31.5	28.1	
Aug-13	38.6	32.1	
Sep-13	25.0	19.0	
Av. Index Q3 2013*	31.7	26.4	
Oct-13	31.8	26.3	
Nov-13	28.5	25.5	
Dec-13	33.5	23.6	
Av. Index Q4 2013*	31.3	25.1	

\* 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 second 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.

*Younger consumers tend to be less pessimistic*

As such, consumers in the 21 to 29 year-old bracket posted the highest confidence level during the third and fourth quarters of 2013, as the index for this age segment averaged 38.4 and 31, respectively. This is in line with the results of the July 2007-June 2013 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 third quarter of 2013.

Further, consumers in the 21 to 29 year-old bracket registered a confidence level of 45.9 in July, 39.7 in August, 29.8 in September, 35.3 in October and 30.8 in December, constituting the highest readings among age segments in the second half of 2013; while citizens aged between 50 years and 59 years posted the highest level of confidence in November (32.2). On a monthly basis, consumers between 21 and 29 years old had their highest confidence level in 52 out of 78 months, representing a 66.7% frequency of occurrence.

Overall, consumers in the 21 to 29 year-old bracket posted the highest level of confidence in 2013 among age groups, in line with the 2008, 2009, 2010 and 2011 results. The only exception was in 2012 when consumers aged 60 years and older posted the highest level of confidence among all age groups.

Byblos Bank/AUB Consumer Confidence Index by Age					
Month	21-29 yrs	30-39 yrs	40-49 yrs	50-59 yrs	≥60 yrs
Jul-13	45.9	30.0	23.2	16.0	19.9
Aug-13	39.7	29.9	39.6	35.4	31.2
Sep-13	29.8	18.1	19.5	20.6	19.1
Av. Index Q3 2013*	38.4	26.0	27.4	24.0	23.4
Oct-13	35.3	26.7	29.2	22.8	27.9
Nov-13	26.9	22.8	29.2	32.2	27.7
Dec-13	30.8	26.7	29.8	25.9	29.0
Av. Index Q4 2013*	31.0	25.4	29.4	27.0	28.2

*\* 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 second half of 2013 with an average monthly reading of 37.6, constituting the 10th occurrence out of 13 semi-annual periods since the index's inception.

Moreover, students were relatively more confident during the third quarter of 2013, as the index for this segment averaged 43.2 in the covered period. They were followed by public sector employees with an average confidence level of 31.6, private sector employees with an average outcome of 30.5, the self-employed with an average reading of 29.6, the unemployed with an average of 26.6 and housewives with an average level of 22.6. Also, students and the unemployed were the least pessimistic during the fourth quarter of 2013, with an index reading of 32.1 for each category. They were followed by private sector employees with an average of 31.1, the self-employed with an average of 30.7 and public sector employees with an average of 24.7. On a quarterly basis, the consumer confidence of the unemployed and the self-employed reached all-time lows in the third quarter of 2013 with confidence levels of 26.6 and 29.6, respectively. On a monthly basis, students were less pessimistic than other occupational groups as they registered higher confidence levels in the July (45.5), August (48.9), September (35.1) and October (36) polls; while the unemployed recorded the highest level of confidence in the November poll at 36 and housewives in the December poll at 39.8. Overall, students' consumer sentiment was highest in 45 out of 78 months, representing a 57.7% frequency of occurrence.

*Unemployed and self-employed consumers posted their lowest confidence level ever during the third quarter of the year*

On an annual basis, students posted the highest level of confidence among occupational categories in 2013, in line with the prevailing trend since 2008. In parallel, housewives posted their lowest level of confidence among occupational categories in 2013, constituting the second such instance since the index's inception. Also, five out of six occupational categories posted their lowest level of confidence in 2013 when compared to previous years.

Byblos Bank/AUB Consumer Confidence Index by Occupation						
Month	Private Sector Employee	Public Sector Employee	Self-employed	Student	Housewife	Unemployed
Jul-13	30.8	36.0	30.3	45.5	21.1	28.8
Aug-13	36.9	28.8	37.5	48.9	31.2	25.3
Sep-13	23.8	29.9	21.0	35.1	15.5	25.6
Av. Index						
Q3 2013*	30.5	31.6	29.6	43.2	22.6	26.6
Oct-13	33.6	26.2	31.8	36.0	16.7	31.0
Nov-13	29.8	28.7	27.5	29.9	15.8	36.0
Dec-13	29.9	19.3	32.9	30.5	39.8	29.3
Av. Index						
Q4 2013*	31.1	24.7	30.7	32.1	24.1	32.1

\* 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 second half of 2013 with an average reading of 39.2, in line with the results of the July 2007-June 2013 period. But the results constituted the lowest semi-annual reading for this segment since the start of the index's calculation.

*Consumers across all income categories reached their lowest confidence level in 2013 since the start of the index's calculation*

The results of the index show that consumers with a household income above \$2,000 per month had a higher confidence level in the fourth quarter than in the third quarter of 2013, with averages of 41.8 and 36.7, respectively. Moreover, consumers with a household income of \$1,001 to \$2,000 per month had the second-highest level of confidence among all income brackets in the last two quarters of the year, with an average index reading of 30.8 during the third quarter and 31.7 during the fourth quarter of 2013. Also, on a quarterly basis, two out of four income sub-categories posted their lowest results ever during the third quarter.

The second-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 last six months of 2013. Consumers at this income level held the highest level of confidence in 72 out of 78 months, representing a 92.3% frequency of occurrence.

In parallel, consumers with a household income below \$500 per month held the lowest confidence level by income bracket in July, August, September and December 2013; while consumers with a household income between \$501 and \$1,000 per month posted the lowest confidence level by income bracket in October and November 2013. Moreover, consumers with a monthly household income below \$500 per month and those with a household income above \$2,000 per month posted their lowest monthly confidence level ever in September 2013.

Overall, consumers with a household income above \$2,000 per month held higher confidence level than other income brackets in 2013, in line with the annual general trend since the index's inception. Also, all income categories posted their lowest level of confidence in 2013 when compared to prior years.

Byblos Bank/AUB Consumer Confidence Index by Income*				
Month	≤\$500	\$501-\$1,000	\$1,001-\$2,000	≥\$2,001
Jul-13	26.5	29.8	30.7	39.7
Aug-13	29.0	37.4	38.4	39.4
Sep-13	20.5	20.6	23.2	31.0
Av. Index Q3 2013**	25.3	29.3	30.8	36.7
Oct-13	30.5	26.4	30.2	34.3
Nov-13	26.3	21.6	33.3	40.2
Dec-13	24.9	25.3	31.5	50.8
Av. Index Q4 2013**	27.2	24.4	31.7	41.8

\* 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 the South posted the highest level of confidence among administrative districts in the second half of 2013 with an average reading of 32.8, constituting the fourth time since the index's inception that the district posts the highest level of confidence on a semi-annual basis.

*Consumers in the South were the most confident during the second half of 2013*

Further, consumers in the South were the least pessimistic among all administrative districts in the third quarter of 2013, while their counterparts in Mount Lebanon were the least pessimistic in the fourth quarter of the same year. There were only eight other instances where Mount Lebanon recorded the highest quarterly confidence level among administrative districts and six other occurrences where the South registered the highest quarterly confidence level during the July 2007-June 2013 period. Moreover, consumers in Beirut and in the North posted their lowest quarterly confidence levels in the fourth quarter of 2013, while consumers in Mount Lebanon registered their lowest level in the third quarter of the year over the 26-quarter period.

On a monthly basis, the results of the second half of 2013 show that consumers from Mount Lebanon registered the highest level of confidence among administrative districts in the October, November and December polls, with index readings of 41.6, 34.1 and 39.8, respectively; while residents in the South posted the highest confidence level in July and September at 40.1 and 35.8, respectively. Also, Beirut residents registered the highest level of confidence among administrative districts in August at 66.3. In parallel, consumers in Beirut and in Mount Lebanon posted their lowest monthly confidence levels in September 2013 since the start of the index's calculation in July 2007, while those from the North posted their lowest confidence level in October 2013.

Consumers in Mount Lebanon displayed the highest annual level of confidence among administrative districts in 2013, constituting the first such instance since 2008. Also, three out of five administrative districts posted their lowest confidence level in 2013 when compared to previous years.

Byblos Bank/AUB Consumer Confidence Index by Administrative District						
Month	Beirut	Mount Lebanon	North	Bekaa	South	
Jul-13	15.8	29.2	36.6	24.8	40.1	
Aug-13	66.3	28.2	35.0	19.8	39.7	
Sep-13	14.0	20.4	24.3	16.3	35.8	
Av. Index Q3 2013*	32.1	25.9	31.9	20.3	38.5	
Oct-13	16.6	41.6	21.5	17.5	32.0	
Nov-13	21.4	34.1	26.2	16.3	27.2	
Dec-13	23.8	39.8	25.0	17.2	22.2	
Av. Index Q4 2013*	20.6	38.5	24.3	17.0	27.1	

\* average monthly index

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

## F - CONSUMER CONFIDENCE BY RELIGIOUS AFFILIATION

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

In parallel, Sunni consumers were the least pessimistic among all religious affiliations during the third quarter of 2013 with an average reading of 31.8. They were followed by Shiite, Druze and Christian consumers. The confidence level of Christian consumers posted its lowest result in 26-quarters during the third quarter of 2013. Moreover, Druze consumers were the least pessimistic among all religious affiliations during the fourth quarter of 2013 with an average reading of 43.7. It was followed by Christian, Shiite and Sunni consumers. The confidence level of Sunni consumers posted its lowest level in 26-quarters during the fourth quarter of 2013.

On a monthly basis, Druze consumers had the highest confidence level among religious affiliations in October, November and December 2013. Further, the Shiites were the most confident consumers in July and September, while Sunnis had the highest confidence level among religious affiliations in August 2013.

Christian consumers held the highest level of confidence in 31 out of 78 months, representing a 39.7% frequency of occurrence, followed by Druze consumers with an incidence of 26.9%, Sunni consumers with 17.9% and Shiite consumers with a frequency of 15.4%. Christian and Sunni consumers posted their lowest levels of confidence in September 2013 since the start of the index's calculation in July 2007.

*Christian and Sunni consumers posted their lowest level of confidence ever in September 2013*

Overall, Druze consumers displayed the highest level of confidence among all religious affiliations in 2013, constituting the second such instance since 2008. Also, on an annual basis, three out of four religious affiliations posted their lowest level of confidence in 2013 when compared to previous years.

Byblos Bank/AUB Consumer Confidence Index by Religious Affiliation				
Month	Christians	Sunnis	Shiites	Druze
Jul-13	25.6	29.9	36.1	31.9
Aug-13	31.7	49.4	30.2	29.1
Sep-13	21.3	16.0	27.8	25.4
Av. Index Q3 2013*	26.2	31.8	31.4	28.8
Oct-13	34.0	21.3	24.7	38.7
Nov-13	31.2	22.6	20.3	38.7
Dec-13	35.2	17.7	19.4	53.7
Av. Index Q4 2013*	33.5	20.5	21.4	43.7

\* average monthly index

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

# IV - Consumers' Responses to Select Survey Questions

## A - LIFE INSURANCE

The 78 monthly surveys conducted from July 2007 to December 2013 show that the majority of polled consumers did not possess a life insurance policy.

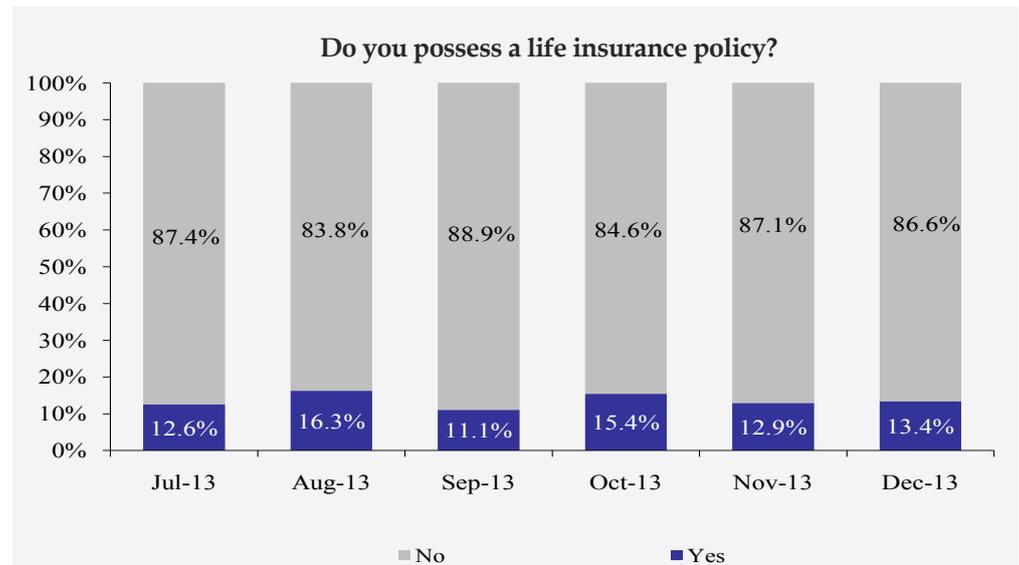
On a quarterly basis, 86.7% of respondents polled during the third quarter and 86.1% of those asked in the fourth quarter of 2013 did not own a life insurance policy.

*Nearly 87% of respondents did not have a life insurance plan in the third quarter of 2013*

The fourth quarter of 2009 posted the lowest quarterly percentage of respondents (81.3%) who did not own a life insurance scheme, while the first quarter of 2011 had the highest such percentage (87.9%) since the survey's inception.

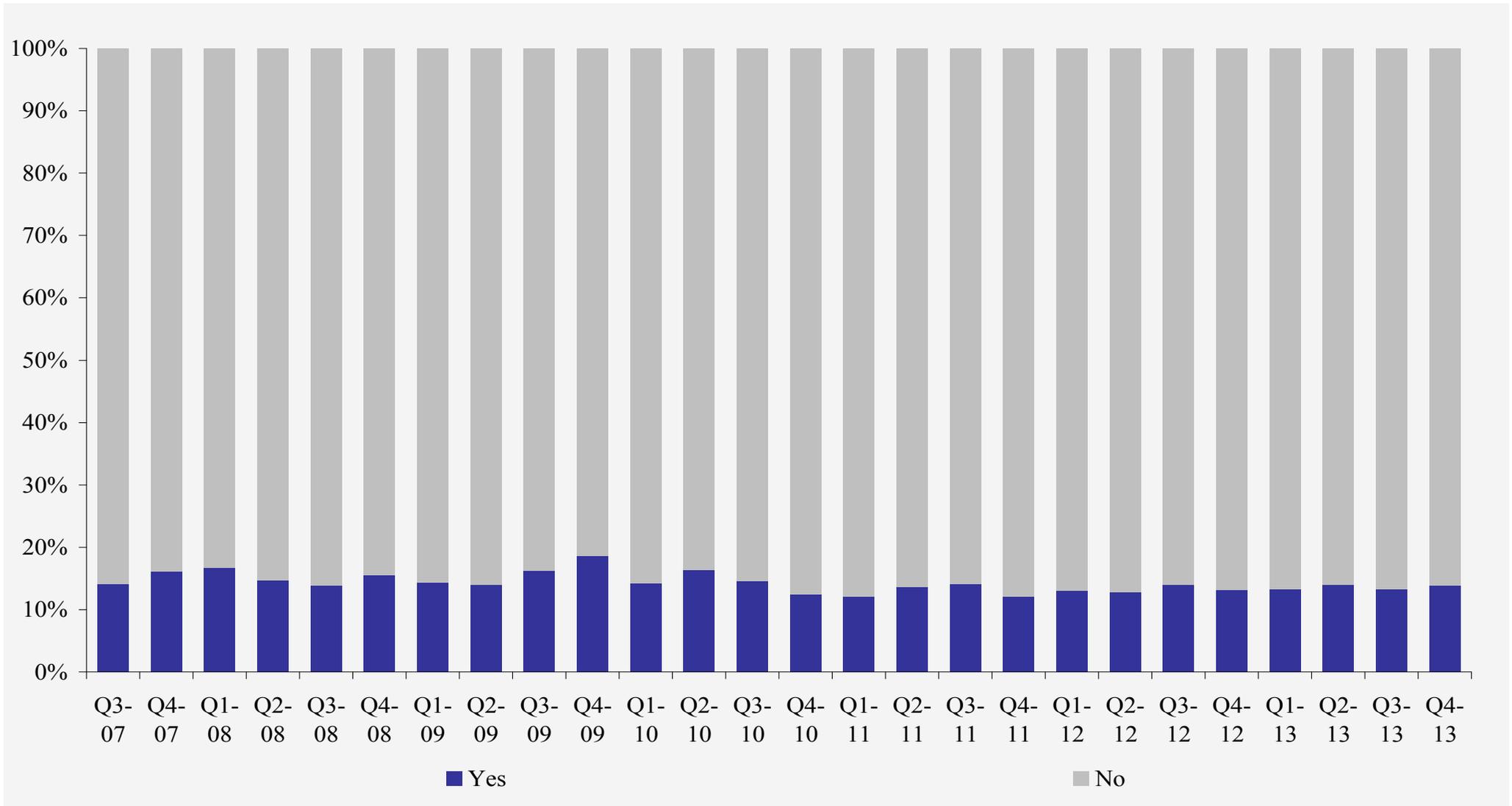
The September 2013 survey revealed that nearly 89% of respondents did not have a life insurance policy, constituting the highest such monthly percentage since the survey's inception.

On an annual basis, only 13.6% of consumers polled in 2013 had life insurance compared to 15.8% of respondents in 2009, 14.4% in 2010, 13% in 2011 and 13.2% in 2012.



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

### Do you possess a life insurance policy?



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

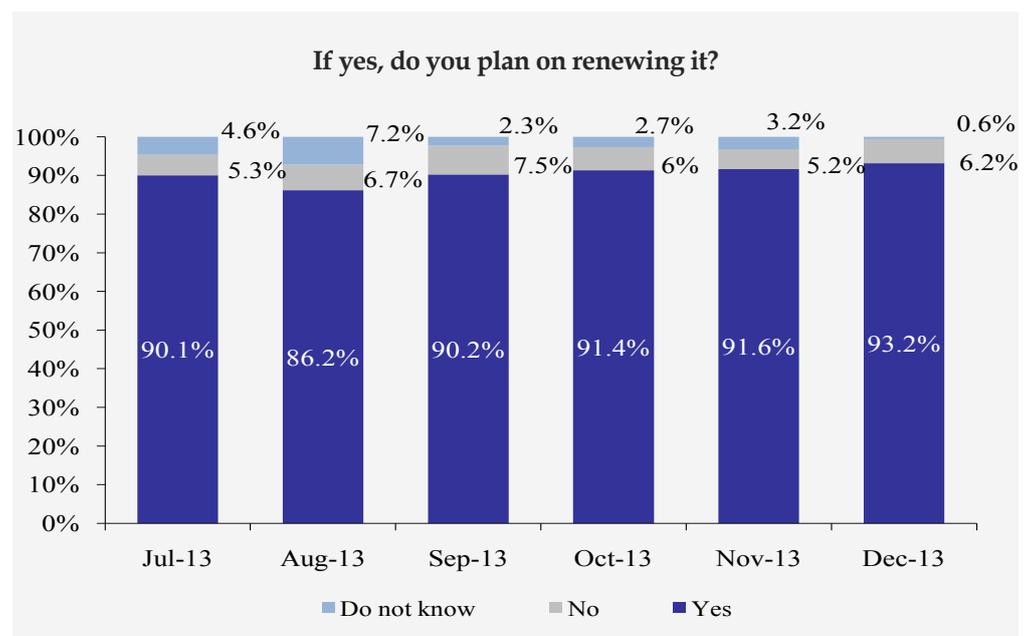
In parallel, the 78 monthly surveys conducted from July 2007 to December 2013 show consistently that the majority of consumers who are currently enrolled in a life insurance plan expect to renew it upon expiration.

*Most holders of life insurance policies plan to renew them upon expiration*

On a quarterly basis, 88.8% of respondents polled during the third quarter and 92% of interviewed participants during the fourth quarter of 2013 had plans to renew their life insurance policy once it expires. Also, 94.4% of respondents polled during the first quarter of 2013 intended to renew their life insurance policy upon expiration, constituting the highest proportion of respondents in 26 quarters. The first quarter of 2012 posted the second-highest proportion of respondents (94.3%) in 26 quarters who intend to renew their life insurance plan. In contrast, the third quarter of 2008 posted the highest share of respondents (20%) in 26 quarters who did not plan to renew their life insurance policy.

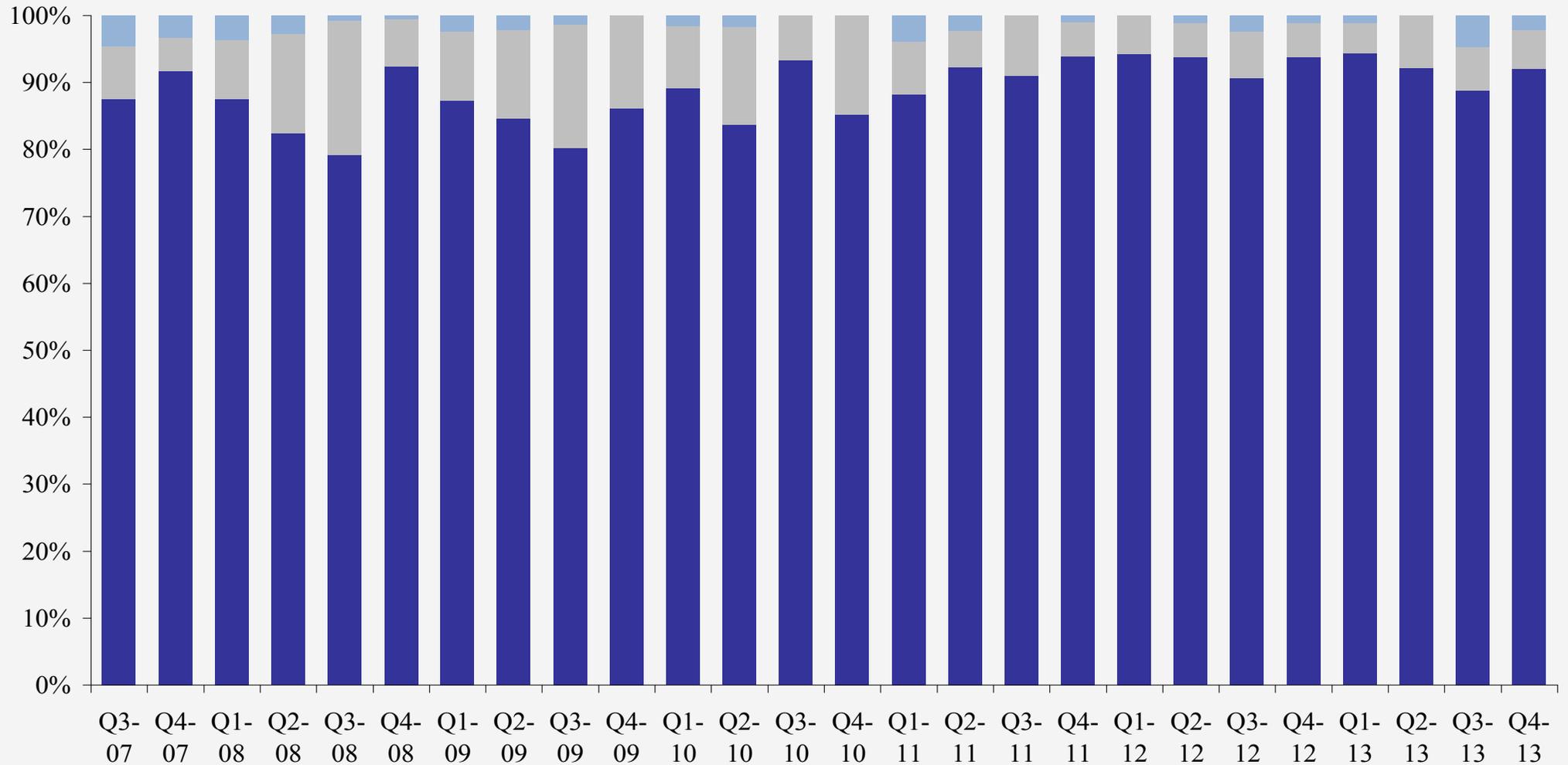
The December 2011 survey revealed that 98.7% of respondents planned to renew their life insurance plan upon expiration, which was the highest monthly percentage since the survey's inception. In contrast, 23.1% of respondents in October 2010 indicated at the time that they did not expect to renew their life insurance policy, constituting the highest monthly percentage since the start of the survey's calculation in July 2007.

On an annual basis, consumers' plans to renew their life insurance policy in 2013 were relatively high, as the share of respondents who intended to renew their policy fluctuated between 86.2% and 96.1%. Consumers' intentions to renew their life insurance policy upon expiration were the second-highest in 2013 compared to previous years.



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

### If yes, do you plan on renewing it?



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

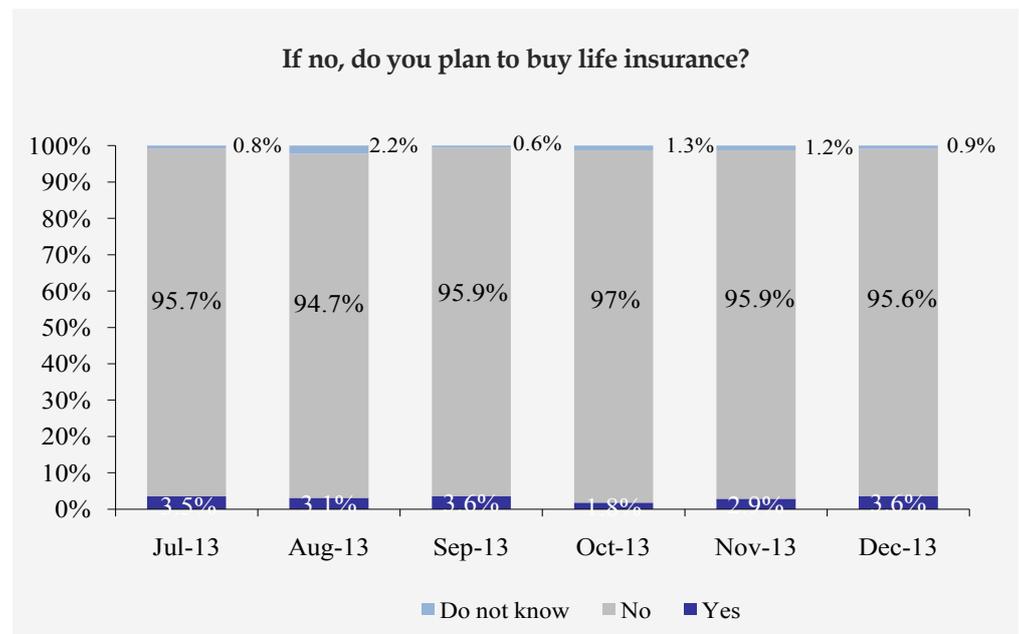
In parallel, the 78 monthly surveys conducted from July 2007 to December 2013 consistently show that the majority of consumers did not plan to purchase a life insurance policy.

*Appetite for life insurance products remains subdued*

On a quarterly basis, 95.4% of respondents did not plan to subscribe to a life insurance scheme during the third quarter of 2013, constituting the second-highest such proportion since the index's inception. In parallel, 96.1% of respondents who were polled during the fourth quarter did not intend to own a life insurance plan, constituting the highest such proportion since the start of the index's calculation. Further, the first quarter of 2013 posted the third-highest proportion of respondents in 26 quarters who did not plan to enroll in a life insurance plan. Conversely, 10.1% of participants expected to buy a life insurance policy during the fourth quarter of 2009, constituting the highest proportion in 26 quarters.

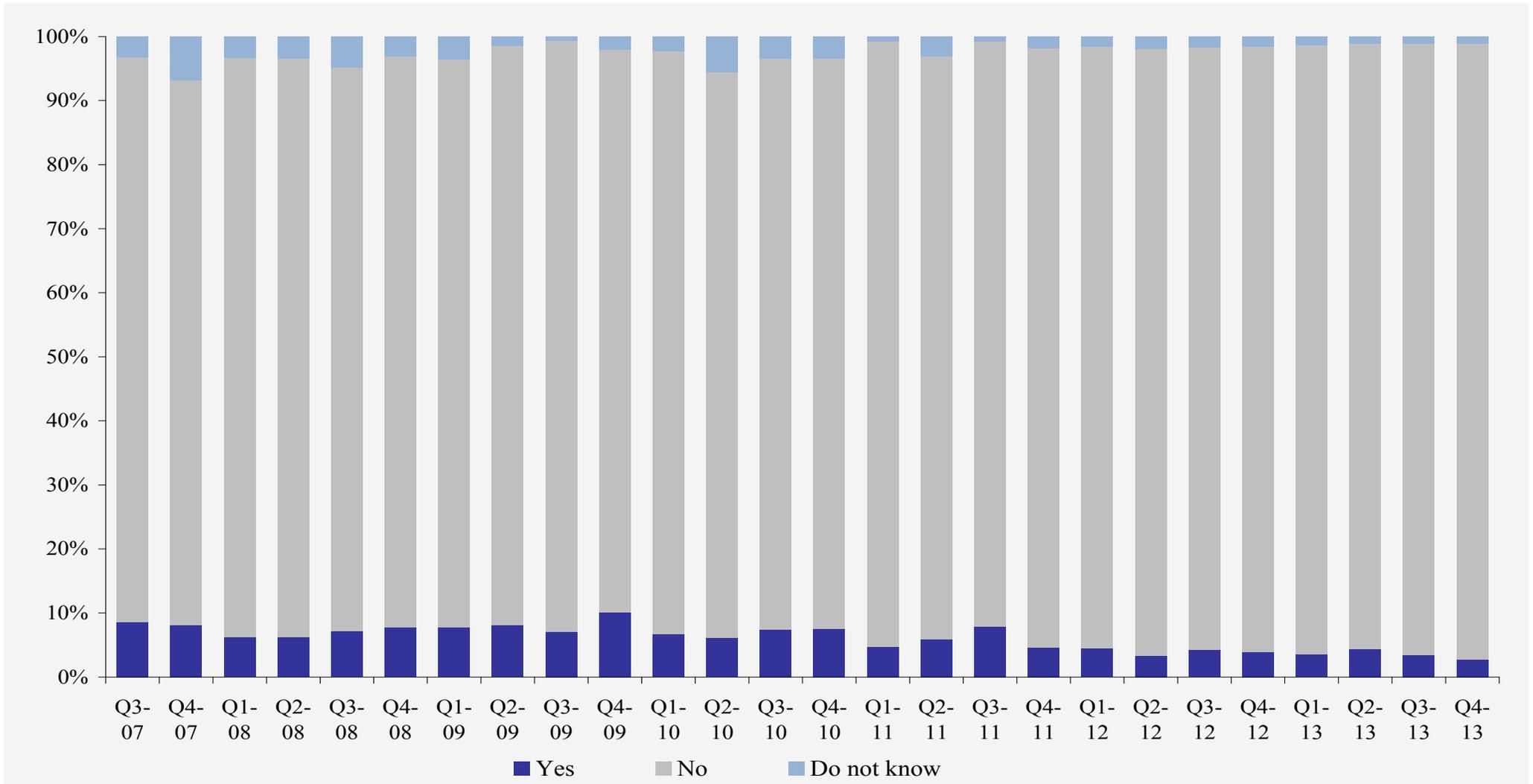
On a monthly basis, 97% of respondents did not intend to purchase a life insurance policy in October 2013, constituting the highest monthly percentage since the survey's inception in July 2007. In contrast, 10.7% of respondents in October 2009 indicated that they intend to own a life insurance plan, constituting the highest such monthly percentage since the start of the survey's calculation.

On an annual basis, only 3.5% of consumers polled in 2013 expect to buy a life insurance policy, constituting the lowest annual percentage when compared to previous years.



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

### If no, do you plan to buy life insurance?



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

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