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MIDDLE EAST & AFRICA

Resilience sets the stage for M&A activity in Lebanon

by Ziad El-Khoury and Rasba Mortada \ El-Khoury & Partners in association with Squire Sanders & Dempsey

LEBANON BOASTS A dynamic emerging market, a free-enterprise economy, and a *laissez faire* commercial tradition providing a fertile environment for growth in mergers and acquisitions. Despite its reputation for political turmoil, Lebanon is economically stable, a key factor for foreign investment and inbound M&A activity. Indeed, throughout the years of strife, the country's financial leaders adapted to their environment, creating an economy capable of withstanding major crises.

The core of this system is Lebanon's banking sector and its conservative, if not omniscient, regulations. For example, in 2007 the governor of the Central Bank instructed commercial banks to divest all investments tied to international markets, required them to hold at least 30 percent of their assets in cash, prohibited speculation in risky packages of bundled securities, and forced weak banks to merge with larger ones. Thus, when the global financial crisis hit in the summer of 2008, Lebanon not only weathered the crisis but benefited from it.

While the banking sector remains stable, political tensions in Lebanon have not allowed the economy and banking sector to benefit from regional instability as it did during the global financial crisis. As such, 2011 GDP has dropped to 2.5 percent from 8.5 percent in 2009 and 7.5 percent for 2010. Further, according to the FFA Private Bank, Lebanese bank operations in Syria and Egypt were previously perceived as pockets of growth, though in the short term they will likely maintain a cautious approach in these countries.

The banking sector – a key M&A player: The Lebanese Central Bank has consistently endorsed the merging or acquisition of banks in the local and international market, with the exception of any merger between any of the top five Lebanese banks to maintain competition. Consequently, there have been numerous bank M&A transactions mirroring the banking sector's significant development and growth. These mergers set the stage to redefine banking in Lebanon, and began a shift from family ownership to the institutionalisation of banks. Notable M&A deals include the Bank of Beirut's acquisition of Beirut Riyad Bank in 1995, and Banque Audi's merger with Banque Saradar to form the Audi Saradar group. The development of a solid banking sector due to consolidation has, in turn, become the key driver of the growth of general M&A activity in

Lebanon.

Recent landmark deals include the successful acquisition of BNPI Lebanon by Bank of Sharjah, resulting in the subsidiary Emirates Bank Lebanon. This transaction is notable for involving the first UAE based bank to acquire a majority stake in a Lebanese bank. More recently, regional investment bank EFG Hermes Holding SAE acquired a 65 percent stake in Credit Libanais, after its failed attempt to merge with Bank Audi. This acquisition has transformed EFG Hermes from an investment company with an investment banking platform to a universal bank, and created a wider range of services for Credit Libanais' clients.

Developing sectors. Other sectors seeing recent M&A activity include the insurance, and information and communication technologies (ICT) industries.

One notable insurance acquisition, financed in April 2011 by Bank Audi with Deutsche Bank AG, was the Lutfi El-Zein Group's \$400m acquisition of Saudi Oger's shares in the Medgulf Insurance and Reinsurance Group. The insurance sector should expect to see more consolidation activity as Economy and Trade Minister Nicholas Nahas urges smaller firms to merge with more credible and financially stable firms. Lebanon's insurance market may be relatively small by world standards, but compared to regional peers, it is considered more developed offering an open and liberal market with low barriers to entry. Further, the Lebanese government has never operated any state owned insurance companies, leaving room for competition amongst private insurers. These factors make the sector a prime market for inbound M&A activity.

Lebanon's ICT sector is a growing industry attracting foreign investors. The Investment Development Authority of Lebanon reports that the sector is expected to grow 12 percent by the end of 2011, with a third of production being exported abroad, accounting for 2.9 percent of Lebanon's exports. Lebanon has a skilled and educated youth who have the ability to impress western companies with their innovation and relatively inexpensive labour. Western companies have taken note and in many cases have found it more cost effective to acquire Lebanese firms rather than seek their services. Lebanon has seen a wave of European companies acquiring Lebanese tech firms, and the practice has spread to the US.

What to expect. Lebanon has witnessed larger and more impressive M&A deals in recent years, a trend that is likely to continue as the Investment Development Authority of Lebanon continues to promote the investor friendly environment of Lebanon. Regional upheavals may have caused economic activity to plateau in 2011, but growth opportunities remain high and improved visibility will enable Lebanese banks and other sectors to resume their expansionary strategy. ■

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