

**SIXTH VOLUNTARY DEBT EXCHANGE OFFER AND NEW CASH ISSUANCE  
EUROBOND EXCHANGE (MATURING IN 2013) AND EUROBOND NEW CASH ISSUANCE  
(RE-OPENING USD 2018, NEW USD 2023, AND NEW USD 2027)**

*A Brief Note*

## **I. Background and Objectives**

In line with the Ministry of Finance's proactive debt management policy, MoF approached capital markets with a voluntary exchange transaction of market-issued Eurobonds maturing in 2013, specifically the US\$ 875,000,000 9.125 percent Notes due March 2013, US\$ 650,000,000 8.625 percent Notes due June 2013. Given record low UST interest rates, this exchange transaction aimed to:

- proactively refinance 2013 market-issued Eurobond maturities (amounting to US\$ 1.525 billion),
- increase the Republic's financial flexibility, and
- extend the redemption profile of maturing Eurobonds within the ceilings allowed under existing laws.

## **II. Transaction Summary**

On October 30<sup>th</sup>, 2012, the Ministry of Finance mandated BLOM Bank S.A.L, Byblos Bank S.A.L, and Credit Suisse Securities (Europe) Limited to act as lead managers in carrying out this voluntary debt exchange transaction conducted under the Republic's Global Medium Term Note Program established on March 8<sup>th</sup>, 1999 and updated on March 23, 2012, June 11, 2012 and on November 9, 2012. The mandate was announced on November 9<sup>th</sup>.

The transaction was launched on November 16<sup>th</sup>, 2012 and settled on November 29<sup>th</sup>, 2012.

The transaction size totaled US\$ 1.525 billion (exchange and new cash portion). The Ministry of Finance thus fully raised funding to cover the value of market-issued Eurobonds due in 2013, worth US\$ 1.525 billion.

## **III. Target Securities for Exchange**

In accordance with secondary market prices, the 2013 market Eurobonds offered for exchange were trading above par. As per past practice, the Ministry of Finance had to therefore buy back the bonds at a premium to par. MoF also paid the accrued interest on these bonds from the last paid coupon date to settlement date. Table 1 shows the Bid/Offer prices of the three bonds on November 15<sup>th</sup>, 2012 ahead of launching the transaction with exchange prices on November 19<sup>th</sup>, 2012.

**Table 1:** Exchange prices of the 2013 Eurobonds

Original Notes	Outstanding Amt (in original currency )	Bid/Offer Price*	Exchange Price	Exchange Price to Bid
US\$ 9.125% March 2013	US\$ 875,000,000	102.500- 102.750%	102.550	+5.00 bps
US\$ 8.625% June 2013	US\$ 650,000,000	104.300- 104.500%	104.375	+7.5 bps

\* On November 15<sup>th</sup>, 2012.

Source: BLOM Bank, Byblos Bank, Credit Suisse.

The settlement of the premium and the resulting accrued interest were paid in cash. The premium represents the difference between the exchange price and par for the exchange on each of the original notes maturing in 2013. In total, the premium amounted to US\$ 23.54 million for the USD Eurobonds. The accrued interest on the original notes amounted to US\$ 19.45 million. The accrued interest was calculated as per the 1,000 denominations and on the basis of 30/360.

The settlement of the premium and the accrued interest for the two USD bonds exchanged were made from the proceeds of the new cash issuance in USD. These payments are detailed in Table 2 below.

**Table 2:** Accrued interest and cash premium paid on the Exchange Notes

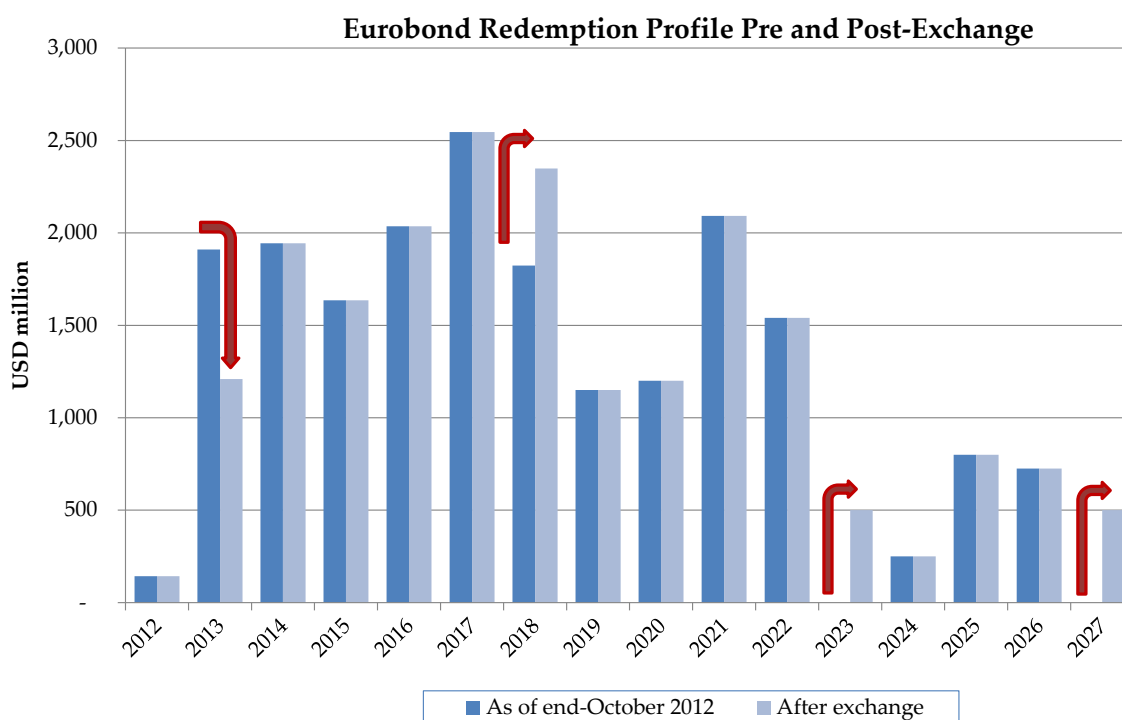
Original Notes	Accrued Interest	Cash Premium
US\$ 9.125% March 2013	US\$ 7,639,114.66	US\$ 9,980,725.50
US\$ 8.625% June 2013	US\$ 11,808,719.66	US\$ 13,562,106.25

#### IV. New Bonds

The Ministry of Finance issued three benchmark-size tenors, with one of these a re-opening of an existing bond. The choice for the new Eurobonds was based on the Eurobond profile of the Lebanese Republic with the objective to smoothen the curve and extend maturities to the extent possible under existing laws. The exchange transaction and the issuance of new notes with maturities of 6 years, a long-10 years and 15 years extended the maturity profile of the outstanding Eurobonds as detailed in Figure 1. By selecting a short, medium and longer term tenors, the Republic was able to extend the maturity profile to 2027 through the 15-year tranche in addition to keeping the weighted average cost of the issued Eurobonds down by re-opening a 6-year bond (the November 2018) and issuing a benchmark 10-year bond (January 2023).

Given that MoF re-opened the US\$ 500 million 5.15 percent Notes due November 2018, new bondholders owed MoF 17 days of accrued interest from the last coupon date of 12 November 2012 to the settlement date of 29 November 2012. The total amount of accrued interest on the tap of the USD 2018 amounted to \$1,276,770.83. This was netted out from the cash amounts owed by the Republic of Lebanon listed in Table 2.

**Figure 1:** Redemption profile of Outstanding Eurobonds as of end-October 2012 and 29 November 2012



## 1. Pricing Strategy and Success Ratios

The yields for the new issues were determined based on the secondary market prices of comparable maturities of the Lebanese Republic and its sovereign ratings, and in line with yields on the 5Y UST and 10Y UST benchmark yields.

On November 19<sup>th</sup>, 2012, the Lebanese Republic released the New Notes Minimum Yield Announcement, indicating the following minimum yields (the associated indicative yield ranges are in Table 3):

- 5.15 percent for the re-opening of the USD 2018
- 6.00 percent for USD 2023
- 6.75 percent for USD 2027

**Table 3: New Notes minimum yields**

New Notes	Min Yield 19 Nov 2012	Indicative Yield Range
USD due November 2018	5.150%	5.150% area
USD due January 2023	6.000%	6.000% - 6.250%
USD due November 2027	6.750%	6.625% - 6.875%

The aggregate participation rate in the exchange transaction reached an average of 46.0 percent.

**The detailed results of the exchange offer are as follows:**

**Table 4: Terms and Conditions of the Exchange**

<b>Original Notes</b>	US\$ 875,000, 000	US\$ 650,000, 000
<b>Issue Date</b>	March 12, 2008	June 20, 2005
<b>Maturity</b>	March 12, 2013	June 20, 2013
<b>Coupon rate</b>	9.125%	8.625%
<b>Coupon payment</b>	Semi-annual	Semi-annual
<b>Principal payment</b>	Bullet payment at maturity	Bullet payment at maturity
<b>ISIN</b>	XS0352629546	XS0222794249
<b>Issue Price</b>	102.550% (plus accrued interest since September 12, 2012)	104.375% (plus accrued interest since 20 June, 2012)
<b>Exchanged Amount</b>	US\$ 391,401,000	US\$ 309,991,000
<b>Participation Rate</b>	44.7%	47.7%
<b>Lead Managers</b>	BLOM Bank S.A.L, Byblos Bank S.A.L, and Credit Suisse Securities (Europe) Limited	

## 2. Final Terms of New Notes

In addition to the new notes issued via the voluntary exchange offer, which amounted to US\$ 701,392, the Republic issued additional notes for cash amounting to US\$ 823,608,000 resulting in benchmark sizes:

- The first series consisted of a US\$ 525 million 5.15 percent coupon Notes due November 2018 (a re-opening of Series 56).
- The second series was a US\$ 500 million 6.00 percent coupon Notes due January 2023 (Series 67)
- The third series consisted of a US\$ 500 million 6.75 percent Notes due November 2027 (Series 68).

In sum, the exchange offer and issuance of new notes have resulted in the following new issues:

**Table 5: Summary of New Notes**

New Notes	Yield	Coupon	Amount issued via exchange	Amount of new notes issued	Total notes issued
USD due November 2018	5.15%	5.15%	US\$ 185,318,000	US\$ 339,682,000	US\$ 525,000,000
USD due January 2023	6.00%	6.00%	US\$ 384,862,000	US\$ 115,138,000	US\$ 500,000,000
USD due November 2027	6.75%	6.75%	US\$ 131,212,000	US\$ 368,788,000	US\$ 500,000,000
		<b>Total US\$</b>	<b>US\$ 701,392,000</b>	<b>US\$ 823,608,000</b>	<b>US\$ 1,525,000,000</b>

The proceeds of the issues were utilized pursuant to applicable laws. The transaction is the second market transaction executed by the Lebanese Republic in 2012 to refinance foreign currency maturing debt, following the US\$ 950 million dual tranche transaction conducted on April 12<sup>th</sup>, 2012. On June 12<sup>th</sup>, 2012, the Ministry of Finance also conducted a “Debt Replacement Agreement” with Banque du Liban consisting of a US\$ 2 billion triple-tranche transaction redeeming an equivalent amount of LBP Treasury bonds from BdL’s TB portfolio.

**Table 6:** Detailed Terms and Conditions of the Re-opening of the USD due November 2018

Series (tranche)	56 (2)	56 (3)
Issue size (in USD)	US\$ 185,318,000	US\$ 339,682,000
Issue date	November 29, 2012	November 29, 2012
Maturity	November 12, 2018	November 12, 2018
Coupon rate	5.15%	5.15%
Coupon payment	Semi-annual	Semi-annual
Principal payment	Redemption at par at maturity	Redemption at par at maturity
Issue Price	Issued in connection with exchange offer	100.00%
Re-offer Yield	5.15%	5.15%
ISIN code	XS0559237952	XS0559237952
Benchmark Bond on November 21, 2012*	5Y UST	5YUST
Benchmark Yield on November 21, 2012*	0.677%	0.677%
Re-offer Spread vs. Benchmark	447.3bps	447.3bps
Lead Managers	BLOM Bank S.A.L, Byblos Bank S.A.L, and Credit Suisse Securities (Europe) Limited	

\*Pricing date.

**Table 7: Detailed Terms and Conditions of the New USD due January 2023**

Series (tranche)	67	67 (2)
Issue size (in USD)	US\$ 384,862,000	US\$ 115,138,000
Issue date	November 29, 2012	November 29, 2012
Maturity	January 27, 2023	January 27, 2023
Coupon rate	6.000%	6.000%
Coupon payment	Semi-annual	Semi-annual
Principal payment	Bullet payment at maturity	Bullet payment at maturity
Issue Price	Issued in connection with exchange offer	100.00%
Re-offer Yield	6.000%	6.000%
ISIN code	XS0859367194	XS0859367194
Benchmark Bond on November 24, 2011 *	10Y UST	10Y UST
Benchmark Yield on November 24, 2011 *	1.683%	1.683%
Re-offer Spread vs. Benchmark	431.7bps	431.7bps
Lead Managers	BLOM Bank S.A.L, Byblos Bank S.A.L, and Credit Suisse Securities (Europe) Limited	

\*Pricing date.

**Table 8: Detailed Terms and Conditions of the New USD due November 2027**

Series (tranche)	68	68 (2)
Issue size (in USD)	US\$ 131,212,000	US\$ 368,788,000
Issue date	November 29, 2012	November 29, 2012
Maturity	November 29, 2027	November 29, 2027
Coupon rate	6.750%	6.750%
Coupon payment	Semi-annual	Semi-annual
Principal payment	Bullet payment at maturity	Bullet payment at maturity
Issue Price	Issued in connection with exchange offer	100%
Re-offer Yield	6.750%	6.750%
ISIN code	XS0859366899	XS0859366899
Benchmark Bond on November, 2011*	10Y UST	10Y UST
Benchmark Yield on November, 2011*	1.683%	1.683%
Re-offer Spread vs. Benchmark	506.7bps	506.7bps
Lead Managers	BLOM Bank S.A.L, Byblos Bank S.A.L, and Credit Suisse Securities (Europe) Limited	

\*Pricing date.



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