

**EUROBOND TRANSACTION CONCLUDED IN NOVEMBER 2015:
EIGHTH VOLUNTARY DEBT EXCHANGE OFFER & NEW CASH ISSUANCE**
A Brief Note

EXECUTIVE SUMMARY

The Lebanese Ministry of Finance (MoF) conducted in November 2015 a US\$ 1.6 billion Eurobond Voluntary Exchange and New Cash Issuance.

The voluntary exchange portion of the November transaction registered a participation rate of 42.4 percent, or US\$ 318,336,000 of the US\$ 750 million 8.500 percent Notes due January 2016. The January 2016 notes were exchanged by holders for a combination of two newly issued Eurobonds (a 9-year tenor and a 13-year tenor), while the cash portion of the transaction included a third 20-year tenor, issued for the first time by the Lebanese Republic. Total new cash issued under the three tenors amounted to US\$ 1,281,664,000. Of the total new cash issuance, US\$ 600 million were allocated to Banque du Liban (BDL), of which US\$ 500 million were pre-apportioned as a repayment for a bridge loan from August 2015.

Table 1: Summary of Eurobond Transaction in November 2015

New Notes	Yield	Coupon	Amount issued via exchange	Amount of new notes issued	Total notes issued
US\$ due November 2024	6.25%	6.25%	US\$ 100,753,000	US\$ 399,247,000	US\$ 500,000,000
US\$ due November 2028	6.65%	6.65%	US\$ 217,583,000	US\$ 282,417,000	US\$ 500,000,000
US\$ due November 2035	7.05%	7.05%	US\$ 0	US\$ 600,000,000	US\$ 600,000,000
Total US\$			US\$ 318,336,000	US\$ 1,281,664,000	US\$ 1,600,000,000

Source: MoF

See Table 3 for details on cash proceeds

1. Background and Objectives of Transaction

In accordance with the Ministry of Finance's proactive debt management policy, MoF approached capital markets with a voluntary exchange transaction of market-issued Eurobonds, specifically the US\$ 750 million 8.500 percent Notes due January 2016, and a new cash issuance of an amount of US\$ 1.28 billion. The transaction aimed to:

- Proactively refinance a portion of 2016 Eurobond maturities and benefit from the international low interest rate environment.
- Increase the Republic's financial flexibility.
- Extend the redemption profile of maturing Eurobonds within the ceilings allowed under existing laws.

2. Transaction Summary

On October 21, 2015, the Ministry of Finance mandated Citigroup Global Markets Limited, Standard Chartered Bank, Fransabank S.A.L., and Société Générale de Banque au Liban S.A.L to act as lead managers in carrying out this transaction conducted under the Republic's Global Medium Term Note Program. The mandate was announced on October 22, 2015.

The transaction was launched on October 23, 2015 and settled on November 4, 2015.

3. Target Security for Exchange and Net Cash Proceeds

Given that the Eurobond offered for exchange was 75 days from maturity as per the then expected settlement date of November 4, 2015, the repurchase price of the bond was determined using a yield of 2.13 percent, representing an interpolation of the 2-month and 3-month Lebanese repo rates of 2.00 percent and 2.25 percent respectively. The final repurchase price was accordingly set at 101.31 percent. This compared to a secondary market ask-price of 101.36 percent on the January 2016 due Eurobond at the launch of the exchange.

MoF also paid the interest accrued on the exchanged bond from the last paid coupon date to settlement date.

Table 2: Exchange price of the 2016 Eurobond

Original Notes	Outstanding Amount (in original currency)	Bid/Offer Price*	Instrument Used for Pricing	Exchange Price
US\$ 8.500% January 2016	US\$ 750,000,000	101.31	Local market Repo rate	101.31

Source: MoF

The premium represents the difference between the exchange price and par on the exchanged note maturing in 2016. In total, the premium amounted to US\$ 4.17 million for the USD Eurobonds, and represented the fair price for investors on giving up a higher coupon bond, which is in line with MoF's strategy to reduce the amount of outstanding high-coupon bonds from the portfolio. The accrued interest on the original note amounted to US\$ 7.89 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 exchanged Eurobonds was made from the proceeds of the new cash issuance in USD. These payments are detailed in Table 3 below.

Table 3: Net Cash Proceeds

USD New Notes	New Issue Proceeds	Amount Exchanged	Price Over Par	Accrued Interest	Total Fees (0.05%)	Net Cash Received
6.250% US\$ November 2024	500,000,000	(100,753,000)	(1,319,864)	(2,497,835)	(250,000)	395,179,301
6.650% US\$ November 2028	500,000,000	(217,583,000)	(2,850,337)	(5,394,245)	(250,000)	273,922,417
7.050% US\$ November 2035	600,000,000	-	-	-	(300,000)	599,700,000
Total US\$	1,600,000,000	(318,336,000)	(4,170,202)	(7,892,080)	(800,000)	1,268,801,718

Source: MoF

4. New Bonds

The Ministry of Finance issued three tenors. The choice for the new Eurobonds was based on the existing portfolio of the Lebanese Republic with the objective to spread out and extend the redemption profile under existing laws. The exchange transaction and the new issuances including the new 9-year, 13-year and 20-year notes extended the maturity profile of outstanding Eurobonds.

In addition to the new notes issued via the voluntary exchange offer, which amounted to US\$ 318,336,000, the Republic issued additional notes for cash amounting to US\$ 1,281,664,000. The total amounts issued under each series consisted of:

- US\$ 500 million 6.25 percent coupon Notes due November 2024 (Series 75, Tranches 1 and 2).
- US\$ 500 million 6.65 percent coupon Notes due November 2028 (Series 76, Tranches 1 and 2).
- US\$ 600 million 7.05 percent coupon Notes due November 2035 (Series 77).

Excluding the BDL allocated portion, new cash allocations to international investors were around 15 percent of the November 2024 tranche, 5 percent of the November 2028 tranche, and 3 percent of the November 2035 tranche.

i. Pricing Strategy and Success Ratios

The yields for the new issues were determined based on market conditions including the secondary market prices of comparable maturities of the Lebanese Republic and its sovereign ratings.

On October 27, 2015, the Lebanese Republic released the indicative New Notes Yield ranges, indicating the following yields:

- 6.20 – 6.35 percent for the USD November 2024 Eurobond
- 6.60 – 6.75 percent for the USD November 2028 Eurobond
- 7.00 – 7.20 percent for the USD November 2035 Eurobond

The aggregate participation rate in the exchange transaction reached an average of 42.44 percent, while MoF managed to price the new bonds closer to the lower end of the specified ranges by the closing of the transaction at 6.25 percent, 6.65 percent, and 7.05 percent for the 2024s, 2028s, and 2035s respectively. Detailed results of the exchange offer were as follows:

Table 4: Terms and Conditions of the Exchange

Original Notes	US\$ 750,000,000
Issue Date	October 18, 2005
Maturity	January 19, 2016
Coupon rate	8.500%
Coupon payment	Semi-annual
Principal payment	Bullet payment at maturity
ISIN	Reg S: US52238PAJ84
Repurchase Price	101.310% (plus accrued interest since July 20, 2015)
Exchanged Amount	US\$ 318,336,000
Participation Rate	42.44%

Source: MoF

ii. Final Terms of New Notes

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

Table 5: Detailed Terms and Conditions of the USD due November 2024

Series (tranche)	75 (1) – Exchange Portion	75 (2) – Cash Portion
Issue size (in USD)	US\$ 100,753,000	US\$ 399,247,000
Issue date	November 4, 2015	November 4, 2015
Maturity	November 4, 2024	November 4, 2024
Coupon rate	6.250%	6.250%
Coupon payment	Semi-annual	Semi-annual
Principal payment	Redemption at par at maturity	Redemption at par at maturity
Issue Price	100.00%	100.00%
ISIN code	XS1313647841	XS1313647841

Source: MoF

Table 6: Detailed Terms and Conditions of the New USD due November 2028

Series (tranche)	76 (1) – Exchange Portion	76 (2) – Cash Portion
Issue size (in USD)	US\$ 217,583,000	US\$ 282,417,000
Issue date	November 4, 2015	November 4, 2015
Maturity	November 3, 2028	November 3, 2028
Coupon rate	6.650%	6.650%
Coupon payment	Semi-annual	Semi-annual
Principal payment	Bullet payment at maturity	Bullet payment at maturity
Issue Price	100.00%	100.00%
ISIN code	XS1313675974	XS1313675974

Source: MoF

Table 7: Detailed Terms and Conditions of the New USD due November 2035

Series	77
Issue size (in USD)	US\$ 600,000,000
Issue date	November 4, 2015
Maturity	November 2, 2035
Coupon rate	7.050%
Coupon payment	Semi-annual
Principal payment	Bullet payment at maturity
Issue Price	100.00%
ISIN code	XS1313654623

Source: MoF



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