

**Sri Lanka reaches an agreement in principle with the ad hoc group of bondholders, the local consortium of Sri Lanka, and the China Development Bank.**

## BANKS SET TO BENEFIT FROM LOCAL BOND RESTRUCTURING OPTION

### *SECTOR LIKELY TO SEE SIGNIFICANT PROVISION REVERSALS*

- Sri Lanka successfully reached an agreement in principle with commercial bondholders to restructure its USD 12.5Bn bonds and USD 3.3Bn with China Development Bank today.
- Parties discussed and agreed the inclusion of governance-linked bond features in the terms of the plain vanilla bond instrument that forms part of the revised debt treatment. Coupon haircut of 27% and 11% haircut on past due interest ( PDI) have been agreed upon, with terms linked to GDP performance where minor adjustments were made compared to the original proposal.
- A new proposal for local stakeholders meanwhile suggest that local bondholders could exchange 70% of the face value of ISB holding with a 10% haircut into USD denominated securities. The remaining 30% to be exchanged to LKR denominated securities with a floating coupon rate ( SLFR+ 0.5%) and a maturity extension till 2043, with the first payment scheduled for 2036.
- We expect this to be a positive impact on the banking sector overall, particularly since all banks have already made provisions for a haircut exceeding 50%. As a result, we expect the net present value (NPV) losses to be considerably lower, leading to substantial impairment reversals within the industry.
- We also believe this to be a positive impact on Sri Lanka, specially given that the government has the option to at its sole discretion, to make debt service payments in LKR rather than USD, at the then prevailing exchange rate, thereby minimizing the impact on the foreign reserves.

BANKS WILL TAKE A HIGHER COUPON REDUCTION THAN THE BASE LINE SCENARIO. HAIR CUT HOWEVER IS AT ONLY 10%  
LKR DENOMINATED SECURITIES WILL MATURE ONLY IN 2043 WHERE FIRST AMORTIZATION WILL START IN 2036

Coupon payments for local stakeholders for USD denominated securities to be much lower due to lower haircut

|      | Amortization % | Coupon payments |
|------|----------------|-----------------|
| 2024 |                | 1.00%           |
| 2025 |                | 1.00%           |
| 2026 |                | 1.50%           |
| 2027 |                | 1.75%           |
| 2028 |                | 2.00%           |
| 2029 | 8%             | 2.25%           |
| 2030 | 8%             | 2.25%           |
| 2031 | 8%             | 2.75%           |
| 2032 | 8%             | 2.75%           |
| 2033 | 12%            | 3.00%           |
| 2034 | 12%            | 3.00%           |
| 2035 | 12%            | 3.00%           |
| 2036 | 12%            | 3.50%           |
| 2037 | 12%            | 3.50%           |
| 2038 | 8%             | 3.50%           |

Baseline scenario however offered a higher coupon rate for USD denominated securities

| Indicative terms on the Eurobonds – Baseline Scenario |                                   |                |                    |                              |                                  |
|---|-----------------------------------|----------------|--------------------|------------------------------|----------------------------------|
| Final maturity <sup>(1)</sup>                         |                                   | Nominal amount |                    | Coupon rate <sup>(2)</sup>   |                                  |
| Year  |                                   | In USDm        | Up to 2027 (incl.) | From 2028 until 2032 (incl.) | From 2033 until maturity (incl.) |
| PDI Bond  | 2024-2028                         |                |                    |                              |                                  |
|   | 30-Sep-2024 <sup>(3)</sup> : 7.0% |                |                    |                              |                                  |
|   | 31-Mar-2025: 20.0%                | 1,678          | 4.0%               | 4.0%                         |                                  |
|   | 31-Mar-2026: 20.0%                |                |                    |                              |                                  |
|   | 31-Mar-2027: 20.0%                |                |                    |                              |                                  |
|   | 31-Mar-2028: 33.0%                |                |                    |                              |                                  |
| MLB #1  | 31 March 2029                     | 650            | 3.10%              | 3.35%                        |                                  |
|   | 31 March 2030                     | 650            | 3.10%              | 3.35%                        |                                  |
| MLB #2  | 31 March 2031                     | 850            | 3.35%              | 3.60%                        |                                  |
|   | 31 March 2032                     | 850            | 3.35%              | 3.60%                        |                                  |
|   | 31 March 2033                     | 850            | 3.35%              | 3.60%                        | 8.75%                            |
| Plain Vanilla <sup>(5)</sup>                          | 31 March 2034                     | 861            | 3.60%              | 5.10%                        | 9.25%                            |
|   | 31 March 2035                     | 861            | 3.60%              | 5.10%                        | 9.25%                            |
| MLB #3  | 31 March 2036                     | 1,195          | 3.60%              | 3.85%                        | 9.50%                            |
| MLB #4  | 31 March 2037                     | 1,196          | 3.60%              | 3.85%                        | 9.75%                            |
|   | 31 March 2038                     | 1,196          | 3.60%              | 3.85%                        | 9.75%                            |
| TOTAL AMOUNT (excl. PDIs)                             |                                   | 9,158          |                    |                              |                                  |

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