



ISB Recommendation

ISB Restructuring

Instrument Type	Bond Installments	Notional amount at exchange date (US\$m)	Notional at end 2027 (US\$m)	Coupon Rate		
				Up to 2027 (cash)	2028-2032 (cash)	2033 onwards (cash)
Past Due Interest 1,678						
Plain Vanilla #1	2024	291	n.a.	4.00%	n.a.	n.a.
	2025	336	n.a.	4.00%	n.a.	n.a.
	2026	336	n.a.	4.00%	n.a.	n.a.
	2027	336	n.a.	4.00%	n.a.	n.a.
	2028	380	n.a.	4.00%	n.a.	n.a.
New bonds instalments 9,036						
MLB #1	2029	650	650	3.50%	3.75%	-
	2030	650	650	3.50%	3.75%	-
MLB # 2	2031	900	900	3.75%	4.00%	-
	2032	900	900	3.75%	4.00%	-
	2033	750	750	3.75%	4.00%	8.75%
Plain Vanilla #2	2034	800	800	4.00%	5.50%	9.25%
	2035	800	800	4.00%	5.50%	9.25%
MLB #3	2036	1,195	1,195	4.00%	4.25%	9.50%
MLB #4	2037	1,196	1,196	4.00%	4.25%	9.75%
	2038	1,196	1,196	4.00%	4.25%	9.75%

- Accrual start date on 31 March 2024, with first coupon payments due on 30 September 2024 and principal instalments due in March of the relevant year
- 28% haircut on the nominal amount of existing bonds
- 11% haircut on PDIs (calculated as of end March 2024)
- Consent fee representing c.1.8% of original principal claim (excl. PDIs, US\$ 225m) to be paid upfront

Key evolutions of the MLB structure

- Adjustment of 2024 payouts (consent fee, PDI, first half coupon)
- Reduction of MLB upper bound
- Calibration of GDP thresholds
- Introduction of a control variable

Macro linked adjustments

Baseline	US\$ nominal GDP (avg. 2025-2027, billion)	Adjustments			Control Variable (real GDP cumulative growth in %, 2024-2027)	
		Weighted incremental principal reinstatement	2028 principal (as a % of original claim excluding PDIs)	Weighted average coupon post 2028	Observed cumulative growth greater than 11.1% (IMF projections)	Observed cumulative growth lower than 11.1% (IMF projections)
GDP threshold #1	100.0	18.10%	85.00%	8.20%	Adjustment activated	No adjustment activated
GDP threshold #2	96.0	18.10%	85.00%	7.20%	Adjustment activated	No adjustment activated
GDP threshold #3	92.0	10.70%	79.70%	6.60%	Adjustment activated	No adjustment activated
IMF baseline	88.6	-	72.00%	6.30%	N/R	N/R
Threshold below IMF baseline #1	86.7	-9.10%	65.50%	6.30%	No adjustment activated	Adjustment activated
Threshold below IMF baseline #2	84.7	-17.30%	59.60%	6.30%	No adjustment activated	Adjustment activated

Additional protection for the authorities with a control variable activating or not the adjustments based on the observed cumulative real GDP growth

Country Risk Premium is targeted at 13.08%

Calculated Risk Premium based on Ratings

Rating	
AAA	5.00%
AA+	5.25%
AA	5.50%
AA-	5.75%
A+	6.00%
A	6.25%
A-	6.50%
BBB+	6.75%
BBB	7.00%
BBB-	7.25%
BB+	7.75%
BB	8.25%
BB-	8.75%
B+	9.25%
B	9.75%
B-	10.25%
CCC+	10.75%
CCC	11.25%
Potential Premium for Default Status / Uncertainty	1.00%
Rate after Premium	12.25%

Damodaran Risk Premium based on Ratings

SL may move into Caa2 category post EDR

Caa3	Country Risk Premium
Ecuador	14.63%
El Salvador	14.63%
Ghana	14.63%
Laos	14.63%
Pakistan	14.63%
Suriname	14.63%
Zambia	14.63%
Caa2	Country Risk Premium
Belize	13.17%
Congo (Republic of)	13.17%
Ethiopia	13.17%
Mali	13.17%
Mozambique	13.17%
Niger	13.17%
Tunisia	13.17%

Average Country Premium: **13.08%**

(Average of 12.25% and 13.17%)

We believe it is reasonable to attach a country risk premium of 13.08%.



Potential Bond Prices post EDR

MLB #1

2029 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-29
Cashflows 2024-27	3.50
Cashflows 2028-29	3.75
Discount Rate	13.08%
NPV	70.16

2030 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-30
Cashflows 2024-27	3.50
Cashflows 2028-30	3.75
Discount Rate	13.08%
NPV	65.70

MLB #2

2031 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-31
Cashflows 2024-27	3.75
Cashflows 2028-31	4.00
Discount Rate	13.08%
NPV	63.10

2032 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-32
Cashflows 2024-27	3.75
Cashflows 2028-32	4.00
Discount Rate	13.08%
NPV	59.71

2033 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-33
Cashflows 2024-27	3.75
Cashflows 2028-32	4.00
Cashflows 2033	8.75
Discount Rate	13.08%
NPV	58.27

Plain Vanilla #2

Since there is no dependency attached to the plain vanilla bond a significantly lower discount factor of 11.5% has been attached to these 2 bonds

2034 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-34
Cashflows 2024-27	4.00
Cashflows 2028-32	5.50
Cashflows 2033-34	9.25
Discount Rate	11.50%
NPV	68.43

2035 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-35
Cashflows 2024-27	4.00
Cashflows 2028-32	5.50
Cashflows 2033-35	9.25
Discount Rate	11.50%
NPV	67.75

MLB #3

2036 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-36
Cashflows 2024-27	4.00
Cashflows 2028-32	4.25
Cashflows 2033-36	9.50
Discount Rate	13.08%
NPV	57.18

MLB #4

2037 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-37
Cashflows 2024-27	4.00
Cashflows 2028-32	4.25
Cashflows 2033-37	9.75
Discount Rate	13.08%
NPV	56.78

2038 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-37
Cashflows 2024-27	4.00
Cashflows 2028-32	4.25
Cashflows 2033-38	9.75
Discount Rate	13.08%
NPV	56.19

Bonds provided for Past Due Interest

Since there is no dependency attached to the plain vanilla bond a significantly lower discount factor of 11.5% has been attached to these 5 bonds

2024 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-24
Cashflows 2024	4.00
Discount Rate	11.50%
NPV	104.00

2025 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-25
Cashflows 2024-25	4.00
Discount Rate	11.50%
NPV	97.27

2026 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-26
Cashflows 2024-26	4.00
Discount Rate	11.50%
NPV	91.24

2027 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-27
Cashflows 2024-27	4.00
Discount Rate	11.50%
NPV	85.83

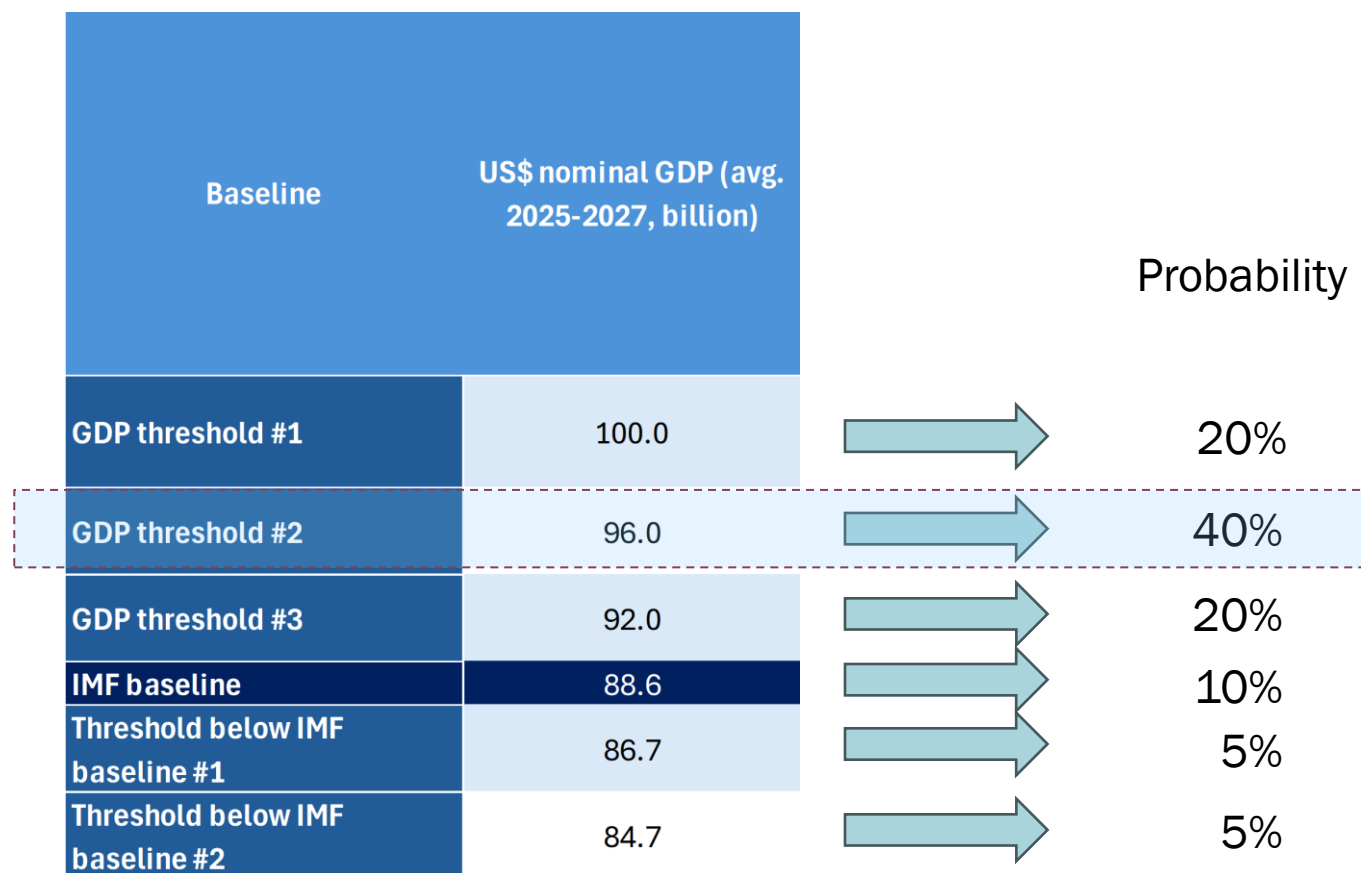
2028 Bond	USD
Repayment of Capital	100.00
Repayment Date	30-Sep-28
Cashflows 2024-28	4.00
Discount Rate	11.50%
NPV	80.98

Hold up to the targeted bond prices

- ❑ Investors are recommended to hold on to the bonds until NPV values are reached under the IMF Baseline case scenario.
- ❑ However, if GDP performs above expectations of the IMF (which is highly likely), then the valuations may further improve.

Bond	NPV
2029 Bond	70.16
2030 Bond	65.70
2031 Bond	63.10
2032 Bond	59.71
2033 Bond	58.27
2034 Bond	68.43
2035 Bond	67.75
2036 Bond	57.18
2037 Bond	56.78
2038 Bond	56.19

Probability of further upside is strong



- ❑ Considering First Capital Research expectation of 3%-4% growth from 2025E onwards, we believe there is a 80% probability, that Sri Lanka may reach above IMF baseline target of USD 88.6Bn.
- ❑ There is a **40% probability** that Sri Lanka may reach above USD 96Bn nominal GDP activating GDP threshold #2 (provided SL achieves the 2nd condition of 11.1% cumulative real GDP growth).

Bonds prices adjusted for probable GDP scenarios

We recommend to **HOLD** the bonds until the weighted average bond prices are reached [Sell beyond the targeted prices]

Probability	5%	5%	10%	20%	40%	20%	Weighted	
Bond	GDP #-2	GDP #-1	Baseline	GDP #1	GDP #2	GDP #3	Average Price	
2029 Bond	67.73	69.04	70.16	71.75	73.16	74.61	72.39	
2030 Bond	63.06	64.48	65.70	67.43	68.98	70.57	68.14	
2031 Bond	60.29	61.80	63.10	64.97	66.64	68.37	65.74	
2032 Bond	56.78	58.35	59.71	61.66	63.41	65.23	62.47	
2033 Bond	55.17	56.83	58.27	60.36	62.24	64.19	61.23	
2034 Bond	68.43	68.43	68.43	68.43	68.43	68.43	68.43	Plain Vanilla Bonds
2035 Bond	67.75	67.75	67.75	67.75	67.75	67.75	67.75	
2036 Bond	53.59	55.50	57.18	59.61	61.83	64.17	60.66	
2037 Bond	53.08	55.04	56.78	59.31	61.62	64.07	60.41	
2038 Bond	52.40	54.41	56.19	58.78	61.16	63.69	59.92	

Thank you

