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INVESTOR UPDATE

NOVEMBER, 2019

CONSENSUS REACHED BETWEEN GOVERNMENT AND EXTERNAL CREDITOR COMMITTEE

JOINT PRESS RELEASE

In a joint press release on October-18th, the government of Barbados and the Barbados External Creditor Committee announced that both parties had reached an agreement in principle on the treatment of Barbados' outstanding US-dollar denominated external debt. The agreement would allow Barbados to exchange certain outstanding US-dollar debt for new bonds to be issued by the sovereign/Barbados. The bonds to be exchanged include Barbados' 7.8% Fixed Rate Bonds due 2019, the 7.25% Notes due 2021, the 7.00% coupon bonds due 2022, the 6.625% long dated 2035 bonds, and a Floating Rate Loan with final maturity in 2019.

TERMS OF THE AGREEMENT

The agreement in principle includes a reduction of 26.3% in the aggregate sum of the original principal amount of the debt obligations and past due and accrued interest as of 1st October 2019.

In addition, the new bonds will have the following key terms:

A final maturity of 1st October 2029; five-year grace period on repayments of original principal; A debt management provision through October 2024; Equal semi-annual principal amortizations commencing in April 2025 through the remaining term of the bonds; A fixed annual coupon of 6.500%;

- A **"natural disaster clause"** that, subject to certain conditions and input from holders of the new bonds, will enable the Government to capitalize interest and defer principal maturities due on the new bonds for two years in the event that Barbados is adversely affected by an earthquake, tropical cyclone or rainfall event under its Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company insurance coverage; and

- A clause providing for the **"reinstatement of forgiven principal"** and past due and accrued interest upon the occurrence of a payment event of default prior to the successful completion of the ongoing International Monetary Fund (IMF) program.

OUTSTANDING ACCRUED INTEREST

The amount of past due and accrued interest as of 1st October 2019 **that is not to be cancelled** will be treated as follows:

- US$7.5 million to be paid in cash at closing to holders participating in the exchange (subject to the deduction of the Committee's unreimbursed costs and expenses below);

- US$32.5 million paid in the form of PDI bonds with a fixed annual coupon of 6.500%, with an amortization of US$30.0 million in October 2020, and a final maturity of February 2021; and

- The Balance to be capitalized into the new bonds that will mature in October 2029.

HOW WILL THE EXTERNAL CREDITOR COMMITTEE BE PAID?

The Committee's unreimbursed costs and expenses incurred in connection with the negotiation and implementation of the restructuring transaction (US$3 million) will be deducted from the cash payment made by the Government at closing in relation to past due and accrued interest, so that these costs and expenses are borne equally and fairly among all holders.

CONCLUSION

What is important here is that the external committee has been able to successfully negotiate a more favourable deal compared to the original draft proposals.

- The first important step is the treatment of a percentage of the outstanding accrued interest payments. While there is a 26.3% reduction in the aggregate principal amount outstanding and accrued as at Oct-1-2019; 73.7% of the outstanding and accrued interest will be paid.

- The agreement forces Barbados to abide by the IMF agreement as any payment default would allow the "reinstatement of forgiven principal" and past due and accrued interest. This is good for investors who may opt to hold on to the debt over the medium term as it ensures that from a fiscal and debt perspective, Barbados' should be a healthier sovereign, all things being equal.

- The expectation is that the newly issued 2029 bonds will have a total face value in excess of US$500 million. This was a deliberate move to allow the bond to be listed on the JP-Morgan EMBI (Emerging Market Bond Index). The relatively large issue size improves the liquidity of the bond. Improved liquidity ensures that hedge funds and portfolio managers who want exposure to distressed debt or recently defaulted debt can take exposure. Liquidity also allows individuals who own Bajan debt the opportunity to close out their positions quickly, if they so desire, as long there is a willing buyer.

- Our hope was that the almost 30% cut in principal would have been negotiated lower. However, Barbados does face challenges. The final restructuring terms were constrained by Barbados' Economic Recovery & Transformation (BERT) plan. The pillars of BERT and by extension, the 48-month IMF Extended Fund Facility (EFF) are guided by; (I) the need to reduce the debt/GDP ratio to 90% or below within 48 months and to 60% by 2033; (II) the need to eliminate the financing gaps during the EFF period and to allow for only moderate ones thereafter; and (III) the establishment of smooth and manageable repayment profile, free from spikes in future debt.

We will continue to monitor the situation and provide you with updates.

Source: Bloomberg; https://www.imf.org; Comprehensive Debt Restructuring BBD Debt Exchange Offer-Government of Barbados-14 September 2018 (http://gisbarbados.gov.bb); Government Information Service of Barbados; https://gisbarbados.gov.bb/blog/financing-projections-indicative-scenarios-for-external-debt/.

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT— As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation DEFINITIONS/ RECOMMENDATIONS.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT -
REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET
SELL -
REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKET WEIGHT -
EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY -
EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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