DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

("**Sri Lanka**" or the "**Republic**")

Q&A FOLLOWING THE REPUBLIC'S DOMESTIC DEBT OPTIMIZATION INVESTOR PRESENTATION

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The Investor Presentation (as defined below) gathered registered attendees and enabled the Sri Lankan Authorities (the "Authorities") to provide further information and clarification regarding the Republic's Treasury Bond Invitation to Exchange set out in the Treasury Bond Exchange Memorandum dated 04 July 2023 (the "Treasury Bond Exchange Memorandum") (the "Treasury Bond Invitation to Exchange") and Sri Lanka Development Bond ("SLDB") Invitation to Exchange set out in the SLDB Exchange Memorandum dated 04 July 2023 (the "SLDB Exchange Memorandum") (the "SLDB Invitation to Exchange"), each announced by the Republic on 04 July 2023, in the context of the Republic's Domestic Debt Optimization program ("DDO"). Following the presentation by the Secretary and Additional Director General to the Treasury and Ministry of Finance, Economic Stabilization & National Policies ("MOF"), attendees were invited to raise questions.

In line with the commitment for transparency undertaken by the Authorities, this Q&A document intends to provide responses to all relevant questions raised by participants during the virtual Investor Presentation held by the Authorities on 07 July 2023 (the "Investor Presentation"), including those which could not be addressed live by the Authorities and their advisors.

Questions raised during the interactive session have been organized and summarized by topics so as to facilitate the provision of answers.

The Investor Presentation itself and other documents relating to the Treasury Bond Invitation to Exchange and the SLDB Invitation to Exchange can be found here.

Terms used herein and otherwise not defined shall have the meanings given in the Treasury Bond Exchange Memorandum or the SLDB Exchange Memorandum, as the context so requires.

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The Information has been prepared by the Republic to answer the questions asked at the Investor Presentation. The purpose of the Investor Presentation and this document is to provide further information and clarification regarding the Republic's Treasury Bond Invitation to Exchange and SLDB Invitation to Exchange, each announced by the Republic on 04 July 2023, in the context of the DDO.

The Information does not constitute or form part of, and should not be construed as an offer, solicitation or invitation to sell or issue or exchange or restructure, or any solicitation of any offer to purchase or subscribe for or exchange or agree to restructure, any securities, loans and guarantees of the Republic, nor shall any part of it nor the fact of its publication form part of, or be relied on in connection with, any contract or investment decision relating thereto. The material contained in this document is presented solely for information and clarification purposes and is not to be construed as providing investment advice. As such, it has no regard to the specific investment objectives, financial situation or particular needs of any recipient or creditor of the Republic.

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1. RESPONSES TO GENERAL QUESTIONS

#	Question	Republic's Response
1.	Will accrued interest be paid as of 30 June or 31 July 2023?	Accrued interest will be paid on the Settlement Date by the Republic on SLDBs and Treasury Bonds subject to successful Offers up to but excluding the Settlement Date.
2.	Will the coupons for the New Bonds accrue from the respective last coupon dates or from 31 July 2023?	The coupon for each New Bond will accrue from and including the Settlement Date.
3.	What is the cut-off date for the bonds held by Eligible Holders?	The cut-off date to be used when determining the holding of any SLDB or Treasury Bond for the purposes of each Invitation to Exchange is 28 June 2023.
4.	Can the New Bonds be traded on the secondary market?	The New Bonds which are LKR-denominated Treasury Bonds can be traded freely in the same manner as Treasury Bonds currently outstanding. The New Bonds which are USD-denominated Treasury Bonds can be traded freely in the same manner as the SLDBs currently outstanding, by endorsement and delivery and registration of the transfer with the Superintendent of Public Debt.
5.	If a bondholder doesn't submit an offer before the deadline, what will their options be?	With regards to the Treasury Bond Invitation to Exchange, in the event that an Eligible Holder does not submit an Offer, such holder's Treasury Bonds will continue to be serviced by the Republic pursuant to the terms thereof. Please refer topic named “Purpose of this Invitation to Exchange” in page 6 of the SLDB Invitation to Exchange. The above said section is given below for easy reference. “In the event that following the Expiration Date, an Eligible Holder has not submitted an Offer in relation to its Eligible Bonds (or has submitted an Offer relating to less than the total amount of Eligible Bonds held) such Eligible Holder may contact SPD to exchange such Eligible Bonds on terms equivalent to the LKR Option only, provided that, whereas Eligible Holders who submit offers before the Expiration Date will receive past due interest and accrued interest in cash on the Settlement Date, Eligible Holders

		who subsequently contact SPD will be invited to submit offers to receive their past due interest and accrued interest capitalised and not paid in cash.”
6.	What is meant by Domestic Debt Optimization? We have heard of domestic debt restructuring but what is optimization? and why isn't external debt restructuring optimized?	"Domestic Debt Optimization" is the name given to the domestic debt restructuring programme by the Republic. In parallel, the Republic has been engaging with its external creditors and remains committed to reach an agreement on a restructuring of the Republic's external sovereign debt.
7.	Will banks in other countries (including the Maldives) be treated as FCBU entities and treated bilaterally?	"FCBUs" refers to the foreign currency non-market debt owed by the Republic to local banks. Foreign banks holding SLDBs are Eligible Holders for the purposes of the SLDB Invitation to Exchange and should consider the SLDB Invitation to Exchange carefully. Foreign banks with which the Republic has entered into foreign law contracts for foreign currency debt will be treated bilaterally, given the very limited number of lenders in this category.
8.	The DDO might have a negative impact on LKR market liquidity. How will the CBSL handle this?	In recent months, uncertainty in the domestic financial markets translated into a significant increase in financing costs and greater volatility. In this regard, the DDO aims to restore confidence in the markets. The progress made on the DDO appears to be resulting in a greater level of confidence in recent weeks. The Treasury Bond Invitation to Exchange is however likely to have little impact on markets’ liquidity, given the Superannuation Funds’ limited activity in the secondary markets. CBSL will continue to monitor developments in the domestic financial markets and seek to ensure that they remain well functioning and stable.
9.	Can you repeat the options available for the ISBs (International Sovereign bonds)?	The Republic is currently pursuing its discussions with its external creditors to agree on the terms for the restructuring of the Republic's external sovereign debt. Such terms have not yet been agreed.

10.	When will negotiations with the private creditors begin? Have the Official Creditors agreed the terms published in DDO documents? Is there a possibility of changes to the DDO if the private creditors disagree?	The Republic continues to engage with its external creditors and their advisors (where applicable), including its official bilateral creditors and private creditors, to agree on terms for the restructuring of the Republic's external sovereign debt. Sri Lanka's external debt restructuring strategy (underpinning the DDO Investor Presentation) relies on a set of realistic debt treatment assumptions (not yet agreed with external creditors) that comply with all debt sustainability analysis targets set out in the International Monetary Fund ("**IMF**") Extended Fund Facility programme (the "**IMF Programme**"), except one – the gross financing needs target. The DDO, in its envisaged form, is targeted to reduce the Republic's refinancing needs in the coming years but will not be subject to discussions with external creditors. The Authorities are therefore not considering any amendments to the proposed terms of the Invitation to Exchange, even if this were to be requested by external creditors.
11.	In the Invitations to Exchange, Superannuation Funds and other accepted registered owners are invited to participate while Individual Investors are specifically mentioned as not eligible to participate in either Invitation to Exchange. What is the rationale in exempting Individual Investors (all at higher income levels)?	Individual Investors are excluded from the Invitations to Exchange as, despite the important number of Individual Investors, their aggregated holdings represent a very small share of outstanding Treasury Bonds (1.4% as at end May 2023) and SLDBs (1.3% as at the end of May 2023). Their inclusion in the Invitations to Exchange would have entailed significant administrative and operational costs for a limited impact.

2. RESPONSES TO QUESTIONS REGARDING THE TREASURY BOND INVITATION TO EXCHANGE

#	Question	Republic's Response
Questions regarding the terms of the Treasury Bond Invitation to Exchange and the New Bonds		
1.	Who can participate in the Treasury Bond Invitation to Exchange?	Registered owners of Eligible Bonds, that are; (i) Superannuation Funds (as defined in the Exchange Memorandum) or (ii) otherwise accepted by the Republic, at its sole discretion, can participate in this Invitation to Exchange, **EXCEPT** Individual Investors.
2.	Can we expect future market interest rates may be in line with proposed 9% bond rate?	Future interest rates will be subject to market conditions. As per the macroeconomic framework underpinning Sri Lanka's IMF Programme, the interest rates on new Treasury Bonds issuances are projected to converge to close to 10% from 2026 onwards. It should be noted that such projections are assumptions underpinning the IMF macroeconomic framework which forms the basis of the IMF Programme and do not preclude a quicker or sharper normalization of rates in the coming years. As described during the Investor Presentation, should market yields rally to below 9% in the medium or longer term, the operation would actually result in an opportunity gain for the Superannuation Funds, as they would have received Treasury Bonds with a coupon rate superior to the then prevailing market yields.
3.	If we had Treasury Bonds through more than one custodian, are we required to submit an offer with each custodian?	Yes. Holders wishing to make an Offer should submit an Exchange Form to each custodian relating to the Treasury Bonds held through that custodian. If a holder holds Treasury Bonds through a custodian under more than one Beneficial Owner Code, an Exchange Form will need to be submitted per Beneficial Owner Code.
4.	Please can you provide an indicative price calculation for the New Bonds	Pricing assessment can be performed on the basis of the standard discounted cash flows method, which would take into account the variation in coupon rates in the outer years.

	noting the coupon step down structure?	
5.	If the original maturity of a bond that we currently hold is 2028, do we still receive 12 instruments with the first instrument maturing in 2027?	Every holder of Treasury Bonds participating in the Invitation to Exchange will receive a basket of 12 Treasury Bonds (of equal size) for a total amount corresponding to the nominal value of the tendered Treasury Bonds. The 12 new instruments offered to participating Treasury Bonds holders as part of the exchange will mature between 2027 and 2038, irrespective of the maturity of the tendered Treasury Bonds. For example, should a Superannuation Fund hold a Treasury Bond maturing in 2028 for a total nominal amount of LKR 100m, and successfully participate to the Invitation to Exchange (i.e., the Fund's Offer is deemed valid and accepted by the authorities), then the Fund would receive the 12 new Treasury Bonds (including the first one maturing in 2027) as described above for a total nominal amount of LKR 100m.
6.	Will there be a pricing mechanism introduced for the two tiered coupon structure in case the holder would want to dispose of the bonds in the secondary market for liquidity purposes?	Holders of new Treasury Bonds will be able to exchange such Treasury Bonds on the secondary market, after the Settlement Date. Pricing of these Treasury Bonds on the secondary market will depend on market conditions prevailing on the relevant transaction date.
7.	Will the first coupon of each new bond be an odd coupon (i.e. 12% prorated to number of days from 31 July)? If Face Value is exchanged at clean price, then there is no accrued interest up to 31 July accounted for in the New Bonds, resulting in odd coupon.	The first coupon payment on each new Treasury Bond will be calculated on a pro-rata basis from (and including) the Settlement Date up to (but excluding) the first coupon date, as detailed in the Treasury Bond Exchange Memorandum. Interest accrued and unpaid up to the Settlement Date on Eligible Bonds successfully subject to successful Offers will be settled in cash on the Settlement Date.
8.	The coupon rate of our T-Bonds holdings is lower than the yield-to-	New Treasury Bonds will be issued to holders who submit successful Offers in response to the Invitation to Exchange, for an amount equivalent to the nominal value of the

	maturity. How do you calculate the exchanged amount?	Eligible Bonds tendered. The exchanged amount is therefore independent from the yield-to-maturity of the portfolio. For example, should a Superannuation Fund hold Eligible Bonds with a nominal value of LKR 100m and fair value of LKR 99m, and should it submit a successful Offer for its Eligible Bonds, then the Superannuation Fund would receive new Treasury Bonds for a total amount of LKR 100m.
9.	What is the guideline on the exchanged New Bonds tenure for a particular existing Treasury Bond?	Every holder of Treasury Bonds participating in the Invitation to Exchange will receive a basket of 12 Treasury Bonds (of equal size) for a total amount corresponding to the nominal value of the tendered Treasury Bonds. The 12 new instruments offered to participating Treasury Bonds holders as part of the exchange will mature between 2027 and 2038, irrespective of the maturity of the tendered Treasury Bonds. For example, should a Superannuation Fund hold Treasury Bonds maturing in 2035 for a nominal amount of LKR 100m and successfully participate to the Invitation to Exchange (i.e., the Fund's Offer is deemed valid and accepted by the authorities), then the Fund would receive the 12 new Treasury Bonds described above for a total amount of LKR 100m. Through this operation, the Fund would therefore be able to reduce the average maturity of its investment, from 12 years to 10 years.
10.	Are investments in new Treasury Bonds and Treasury Bills subject to the Treasury Bond Invitation to Exchange?	Only Eligible Bonds held as at 28 June 2023 are subject to the Treasury Bond Invitation to Exchange. For reference, the Treasury Bonds eligible for the Invitation to Exchange (the "**Eligible Bonds**") are listed in the Treasury Bond Exchange Memorandum. <u>Treasury Bills are excluded</u> as the Treasury Bond Invitation to Exchange relates only to Treasury Bonds. The Republic has not published, and does not intend to publish, an Invitation to Exchange relating to the Treasury Bills.

11.	Will Treasury Bills be converted into Treasury Bonds?	Only Treasury Bill holdings of the CBSL will be converted into Treasury Bonds under the DDO programme. Treasury Bill holdings of other investors are not subject to an invitation to exchange under the DDO.
Questions regarding Superannuation Funds		
12.	If a Superannuation Fund has a mix of Treasury Bonds and other investments and the fund decides not to participate, then is the enhanced tax applicable only for the income from the Treasury Bonds or is it to the full income of the fund including income from other investments?	In the event that a Superannuation Fund does not meet the Participation Threshold and is therefore subject to the 30% tax rate, such 30% tax rate will be applied to income from such Superannuation Fund's holding of Treasury Bonds only.
13.	If a Superannuation Fund does not hold Treasury Bonds and only holds Treasury Bills, could such fund be subject to the 30% tax rate?	With regards to Superannuation Funds which as of 28 June 2023 do not hold any Treasury Bonds, such Superannuation Funds will not be subject to the 30% tax rate as a result of not participating in the Treasury Bond Invitation to Exchange. Treasury Bills are not Eligible Bonds for the purposes of the Treasury Bond Invitation to Exchange.
14.	In case a Superannuation Fund decided not to participate will tax rate continue to be at 30% even after 15 years?	In the event that a Superannuation Fund does not meet the Participation Threshold and is therefore subject to the 30% tax rate, such 30% tax rate will be applied from 01 October 2023 and will apply for the second six months period of the year of assessment commencing on 01 April 2023 and for the year of assessment commencing on 01 April 2024 and every subsequent year of assessment thereafter.
15.	Is the 50% participation requirement for Treasury Bonds maturing from July to December 2023 or for Treasury Bonds matured from January to December 2023?	The Participation Threshold is set at not less than 50% of Superannuation Funds' holdings of Eligible Bonds maturing in 2023, which are outstanding on the business day prior to the Launch Date (28 June 2023). This means that the 50% Participation Threshold only relates to each Eligible Bond maturing between 28 June 2023 and 31 December 2023. For the avoidance of doubt, the Treasury Bond with ISIN LKB00523G153 (10.20% 2023A) maturing on 15 July 2023 is not an Eligible Bond. For reference, the Treasury

		Bonds eligible for the Invitation to Exchange (the "**Eligible Bonds**") are listed in the Treasury Bond Exchange Memorandum.
16.	Will the envisaged exchange of Treasury Bonds have any impact on Superannuation Funds' beneficiaries' accounts balances?	The Exchange of Treasury Bonds will not impact the Superannuation Funds' balance sheets, or on their beneficiaries' accounts balances. Due to the nature of their business model, Superannuation Funds are permitted by the regulator to adopt deregulatory accounting rules – that will allow them to record the new Treasury Bonds at the transaction price (i.e., cost value). The result of such accounting treatment is that they will not be required to restate their assets and liabilities (i.e. the beneficiaries' accounts balances).
17.	If a Superannuation Fund fully divest its Treasury Bond holdings prior to 25 July 2023, will they be subject to 30% tax on their income?	The relevant cut-off date for determining whether a Superannuation Fund has met the Participation Threshold is 28 June 2023. If a Superannuation Fund divests its Treasury Bond holding, in whole or in part, after 28 June 2023 and as a result is unable to meet the Participation Threshold, such Superannuation Fund will be subject to the 30% tax rate.
18.	Some Superannuation Funds could have liquidity constraints, (if the fund has net outflows due to more retirements than newcomers), in that case could the Superannuation Fund sell part of the portfolio prior to the bond exchange and build liquidity buffers? Will this sell off prior to the exchange cause 30% taxation on the overall fund?	Treasury Bonds divested by a Superannuation Fund prior to 28 June 2023 will not be counted when calculating such Superannuation Fund's Participation Threshold. If a Superannuation Fund divests its Treasury Bond holding, in whole or in part, after 28 June 2023 and as a result is unable to meet the Participation Threshold, such Superannuation Fund will be subject to the 30% tax rate. The Participation Threshold has been set at 50% for Treasury Bonds maturing in 2023 to provide Superannuation Funds with a buffer for liquidity purposes.
19.	Would participation in the Invitation to Exchange translate into a loss for Superannuation Funds?	Firstly, participation in the Invitation to Exchange will not have any impact the Superannuation Funds' balance sheets or beneficiaries' accounts (see Question 16 above). Secondly, as highlighted in the Investor Presentation, participation in the Invitation to Exchange will have a positive impact in the short-term for Superannuation Funds as

		coupons on their new Treasury Bonds portfolio are set at 12% - in excess of the current average coupon rate on their current portfolio. In the medium term, once the Republic's economy is expected to stabilize and inflation to cool, the coupon rate on the new Treasury Bonds issued as part of the Exchange would decrease to 9%. Depending on the level of interest rates at that time, these new Treasury Bonds may therefore offer a slight opportunity gain or loss for the Superannuation Funds. In the long term, participation in the Invitation to Exchange should have no impact on average net returns as the Treasury Bonds would be progressively redeemed.
20.	Are all bonds in the portfolio held as at 28 June/04 July taken into consideration? Would Superannuation Funds be able to sell some bonds during the period up to 25 July and exchange the remaining Treasury Bond incurring the 30% tax rate?	Superannuation Funds, like any holder of Treasury Bonds, are permitted to trade their Treasury Bonds portfolio during the Invitation Period. However, compliance with the Participation Threshold will be assessed based on each Superannuation Fund's holdings as at 28 June 2023. By way of example, a Superannuation Fund which does not submit an Offer relating to an Eligible Bond maturing between 2024 and 2032 held in its portfolio as at 28 June 2023, would not be able to meet the Participation Threshold and would therefore be subject to an increase in its income tax rate to 30% (on its taxable income attributable to all Treasury Bond investments).
21.	When will the amended tax rate apply from?	The 30% tax rate will apply from 01 October 2023 for the second six months period of the year of assessment commencing on 01 April 2023 and for the year of assessment commencing on 01 April 2024 and every subsequent year of assessment thereafter.
22.	Is any income received by a Superannuation Fund prior to 01 October 2023 exempted from higher taxation of 30%?	Yes. The 30% tax rate will apply to taxable income received by a Superannuation Fund attributable to all Treasury Bond investments from 01 October 2023.
23.	Will Superannuation Funds with a predetermined benefit scheme be subject to the increased tax rate if they do not meet the Participation	All Superannuation Funds which do not meet the Participation Threshold will be subject to the 30% tax rate.

	Threshold? Will it not affect sustainability?	
24.	What assurance can the Government provide to ensure that the income tax applicable to Superannuation Funds will not be changed in future, even if such fund participates in the bond exchange?	The proposed tax incentive is a firm policy commitment from the Authorities. Superannuation Funds participating in the Invitation to Exchange and meeting the Participation Threshold will remain subject to its current tax rate whilst those not participating to the satisfaction of the Participation Threshold will be subject to the 30% tax rate. As explained during the Investor Presentation, the Authorities are committed to applying this tax rate on an ongoing basis.
25.	For Superannuation Funds, how will you arrive at the exchange amount?	The exchanged amount will correspond to the nominal value of the aggregate principal amount of Eligible Bonds having been successfully tendered.
26.	Which Treasury Bonds does this exchange offer target?	For all Eligible Holders of Treasury Bonds, the Invitation to Exchange only applies to the Eligible Bonds, as listed in the Treasury Bond Exchange Memorandum.
27.	Does the tax incentive only relate to the returns from Treasury Bonds? Are Superannuation Funds required to exchange their entire Treasury Bonds portfolio to avoid any income tax rate increase?	The tax incentive (i.e., the increase in the applicable income tax rate for superannuation funds not participating to the exchange to the satisfaction of the Participation Threshold) relates to taxable income attributable from investments in Treasury Bonds (outstanding Treasury Bonds as well as future investments in Treasury Bonds). A Superannuation Fund will be considered to have participated in the Invitation to Exchange to the satisfaction of the Participation Threshold (resulting in a given Superannuation Fund's income tax rate being unchanged) if it submits successful Offers in response to the Invitation to Exchange which, in aggregate, relate to: - not less than 50% of its holding of each series of Eligible Bonds maturing in 2023; and - 100% of its holding of Eligible Bonds maturing between 2024 and 2032 (inclusive).

28.	When meeting the Participation Threshold, do Superannuation Funds have the option of selecting any series and any amount for the exchange if the aggregate Face Value is equivalent to at least 50% of the total outstanding holdings of Treasury bonds maturing in 2023?	To meet the Participation Threshold for Eligible Bonds maturing in 2023, a Superannuation Fund is required to submit valid offers for at least 50% of its holding, as at 28 June 2023, of Eligible Bonds **from each series**.
29.	Will the T-Bonds bearing a coupon rate lower than 9% be exchanged against new T-Bonds bearing a 12% coupon rate in next two and a half years?	Any T-Bonds holder having submitted a successful Offer to exchange will receive a basket of 12 T-Bonds (of equal size) for a total amount corresponding to the nominal value of the T-Bonds successfully tendered, with interest rate of 12.0% up to but excluding 2026 (and interest rate of 9.0% from and including 2026). For example, should a Superannuation Fund currently hold Treasury Bonds bearing a coupon rate of 6% and submit a successful Offer for such Treasury Bonds, then the Fund would receive new instruments carrying an interest rate of 12% in the first years before stepping down to 9%, as described above.
30.	What is the source document Superannuation Funds should submit to IRD to confirm acceptance / rejection?	The Inland Revenue Department will publish guidance on this point in due course.
Questions regarding other holders of Eligible Bonds		
31.	Can other financial market participants (Primary Dealers, Insurance companies) participate in this exchange? If "Yes", should these companies meet the same criteria given (not less than 50% of bonds maturing in 2023)?	Any holder of Treasury Bonds, other than Individual Investors, may submit an Offer in response to the Invitation to Exchange relating to some or all of its holding. There is no minimum participation requirement for holders of Treasury Bonds which are not Superannuation Funds and such holders will not be subject to any changes in the tax rates applicable to it as a result of participation or non-participation in the Treasury Bond Invitation to Exchange. Acceptance or rejection of Offers from such holders shall be at the sole discretion of the Republic.

3. RESPONSES TO QUESTIONS REGARDING THE SLDB INVITATION TO EXCHANGE

#	Question	Republic's Response
Questions regarding the terms of the SLDB Invitation to Exchange and the New Bonds		
1.	Who are the Eligible Holders of SLDB's?	All holders of SLDBs, other than Individual Investors, are Eligible Holders for the purposes of the SLDB Invitation to Exchange.
2.	Is it possible to transfer ownership of an SLDB prior to the Expiration Date of this offer (deadline for submission of Offer)?	Outstanding (not matured) SLDBs may be transferred between Eligible Holders prior to an Offer being submitted relating to the relevant SLDBs. SLDBs shall not be transferred to an Individual Investor by an Eligible Investor at any time. Following the submission of an Offer relating to any SLDBs, the holder of such SLDBs may not transfer such SLDBs until the Settlement Date or the termination of the Invitation to Exchange.
3.	In the SLDB Exchange Memorandum, it states that the LKR Option does not carry a grace period. However, the presentation states that there is a one year grace period?	The overall economic structure of the LKR Option includes a principal grace period of one year as the first New LKR Bond matures in July 2025. Note however that the LKR Option is structured as five separate New LKR Bonds maturing in each with a bullet repayment structure.
4.	For the LKR Option, is the New LKR Bond a single bond or is it split into 5 different bonds with different maturity dates?	The LKR Option is structured as five separate New LKR Bonds, each with a bullet repayment structure, maturing respectively in 2025, 2027, 2029, 2031 and 2033. This results in the same economic effect as a single bond amortizing every two years. The LKR Option is structured in this way as the Central Depository System ("**CDS**") cannot accommodate amortizing bonds.
5.	What would be the way forward for settlement of the SLDBs if an Eligible Holder's valid Offer is not accepted?	In the context of the SLDB Invitation to Exchange, the Republic will accept all valid Offers from Eligible Holders.

6.	Please clarify the process for settlement of the exchange of SLDBs. Will SLDBs be exchanged all at once?	SLDBs, which are subject to a successful Tender Offer will be exchanged for New USD Bonds or New LKR Bonds, as applicable, on the Settlement Date in a single transaction.
7.	If all banks opt to take the LKR Option for SLDBs, this can have pressure on the exchange rate. Will this be allowed in stages or all $880mn at once?	The Authorities are currently discussing with the relevant holders of SLDBs to ensure a successful implementation of the debt exchange with limited adverse impact on the FX rate market and on banks' activities.
Questions regarding Individual Investors		
8.	Are individual SLDB holders exempted from this process?	Individual Investors are not Eligible Holders for the purposes of the SLDB Invitation to Exchange. Individual Investors should contact their Designated Agent after the Settlement Date to discuss a resolution for their SLDBs. (Individual Investor means a natural person that is the legal owner of record of Eligible Bonds and will not be eligible to participate in the Invitation to Exchange.)
9.	What is the treatment offered to individual investors?	Individual Investors should contact their Designated Agent after the Settlement Date to discuss a resolution for their SLDBs.
10.	Will individual holders of SLDBs continue to receive coupons and maturities in USD?	Individual Investors should contact their Designated Agent after the Settlement Date to discuss a resolution for their SLDBs.
Questions regarding foreign/overseas investors		
11.	For foreign holders who are eligible to receive past due interest in LKR, are they allowed to convert the same	The Department of Foreign Exchange of CBSL recommends opening an LKR Inward Investment Account ("**IIA**") with an Authorized Dealer and submitting a request through Authorized Dealer to the Department of Foreign Exchange of CBSL to obtain the necessary permissions/ approvals to receive the relevant cash proceeds into said IIA,

	to USD through an Authorized Dealer?	along with the documentary evidence to support the inward remittances brought to Sri Lanka for the captioned investment.
12.	Should foreign institutional investors open an LKR account to receive past due and accrued interest? Will it be paid in LKR and can those LKR be converted to USD with a bank in Sri Lanka?	See response to Question 11 above.
13.	Is it a requirement to have an IIA account to participate in this Invitation to Exchange and to get LKR proceeds back to USD.	See response to Question 11 above.
Other questions regarding the SLDB Invitation to Exchange		
14.	Will coupons from SLDBs continue to be excluded from income tax?	The income tax rate on New USD Bonds will be the same as was previously applied to SLDBs. The tax rate applicable to New LKR Bonds will be similar to all other series of LKR-denominated Treasury Bonds.
15.	Can the New LKR Bond issued in exchange for SLDBs be used as liquid assets for SLAR computation?	The New LKR Bonds will be treated the same as all other series of LKR-denominated Treasury Bonds.
16.	Would the New LKR Bonds carry the same risk weight as previous SLDBs?	Under the current regulatory framework directives of the Central Bank of Sri Lanka, LKR-denominated Government debt instruments (including the New LKR Bonds) will carry a 0% risk weight whereas foreign currency denominated debt instruments (including the New USD Bonds) carry a 20% risk weight.
17.	Can the new floating rate LKR bonds be used as collateral to borrow from CBSL / reverse repo?	The New LKR Bonds will be treated the same as all other series of LKR-denominated Treasury Bonds.