



Question and Answer Update #1

August 21, 2012

During the course of Belize's consultations with holders of Belize's Step-Up Bond due 2029, a number of questions have been raised regarding both the substance and the process of the Government's proposal to restructure this instrument.

In the interest of full transparency, the Government sets out below a summary of the significant questions raised by bondholders and the answers provided by the Government. As the process moves forward, the Government will provide further updates so that all bondholders will have the benefit of the Government's thinking on relevant issues.

| Question | Answer |
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| 1. Recent press reports (and quotations attributed to members of the creditor committee) suggest that Belize has failed to provide background information required for bondholders to assess the reasonableness of the Government's Indicative Restructuring Scenarios. Why? | These press reports are inaccurate. At the time it posted Indicative Restructuring Scenarios on this Central Bank of Belize website, the Government also posted its responses to the economic information requested by the creditor committee together with a general overview of Belize's economic situation and prospects. Bondholders are therefore able to access the information, projections and assumptions that underlie the Government's Indicative Restructuring Scenarios. |

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| <p>2. Do the Indicative Scenarios represent an offer on the part of Belize?</p> | <p>No. They are intended as a basis for ongoing discussions with bondholders. The Scenarios represent our current thinking on the most effective ways of closing the projected financing gaps that were shared with creditors earlier this year. We remain eager to have a constructive and sober dialogue with creditors around the Indicative Scenarios and the projections that underpin them. Once it has analyzed the figures that have been made available, the creditor committee in particular should feel free to put forward alternative structures for discussion.</p> |
| <p>3. How does the Government see the process and timing for this operation going forward?</p> | <p>The Government wishes to advance this process as quickly as possible. Thus far, however, the creditor committee has neither commented on the Government's Indicative Restructuring Scenarios nor has it offered its own suggestions regarding the nature and form of a restructuring transaction (although there seems to be a general consensus that some form of debt relief is required). While individual bondholders have offered their views to the Government on some of these issues, the authorities' offer of a face-to-face meeting has received no response from the creditors' committee. A constructive dialogue at this juncture cannot move forward until the committee provides its views. As to timing, the Government would like this to be a 2012 operation, but obviously this requires the good faith cooperation of the bondholders.</p> |

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| <p>4. Was the Government's decision not to pay the August 20 coupon a demonstration of "unwillingness to pay" rather than an "inability to pay"?</p> | <p>The Government's 2012 budget included a line item for debt service payments. As we made clear at the time of introducing that budget in Parliament, however, the source of funding for those payments (as well as several other line items in the budget) had not been identified.</p> <p>In the end, no source of that funding materialized, leaving the Government no choice but to miss the August 20 coupon payment. The other expenditure items in the 2012 budget had already been squeezed to the breaking point.</p> |
| <p>5. Is the need for a Superbond restructuring merely a function of the Government's decision to nationalize two of the country's public utilities with the attendant obligation to pay reasonable compensation to the former owners?</p> | <p>The Government's decision to nationalize these companies, is <u>not</u> the proximate cause of the need to restructure the Superbond. The hard reality of the situation is that a significant restructuring of the Superbond is necessary without regard to the additional liabilities associated with these nationalizations. A review of the financial projections shows that the debt service required for the Superbond, particularly at its exceptionally high stepped-up coupon rate, is simply not sustainable taken on its own.</p> <p>It should in any case be noted that the maintenance of the status quo with regard to the two public utilities that were nationalized would have led to higher fiscal costs than those implicit in the compensation ranges that we have published, and would eventually have led to worse outcomes for bondholders and other stakeholders.</p> |

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| <p>6. Is there not a flow of dividends expected from the nationalized utilities that could fully or partially offset the liabilities that the Government faces in the form of outstanding compensation?</p> | <p>The dividends that the Government expects from the nationalized utilities have been fully factored in into the fiscal projections that have been shared with bondholders. The combined flow is modest, and insufficient to make a material dent on the Additional Liabilities on a cash flow basis.</p> |
| <p>7. Why is the Government subordinating its bondholders to the former shareholders of BTL and BEL?</p> | <p>It is not. The approach of the Indicative Scenarios is to place bondholders and the former shareholders on the same footing, with the same restructuring terms being applied to the Superbond as to both sets of compensation payments at the valuation mid-point. While it is clear to the Government and most bondholders that the Additional Liabilities cannot be ignored, the Government is willing to discuss the approach to the outstanding compensation payments implicit in the Indicative Scenarios.</p> |
| <p>8. Has any progress been made in the Government's discussions with the former shareholders of BTL and BEL?</p> | <p>Preliminary discussions have been held with both sets of claimants, and progress has been made with the former shareholders of BEL on clarifying certain technical aspects of the two valuations relating to this utility.</p> <p>Recently, representatives of the former shareholders of BTL informed the Government that the mid-point 'pre-restructuring' assumption for compensation that is implicit in the Indicative Scenarios falls considerably short of the expectations of the former BTL shareholders. The Indicative Scenarios do not allow for</p> |

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| | <p>compensation to be paid out at a higher level, and consequently the Government believes that the demands of the former BTL shareholders, as well as being without justification, are unaffordable for both Belize and its bondholders.</p> |
| <p>9. Isn't Belize being excessively conservative in the macroeconomic assumptions underlying the Indicative Restructuring Scenarios?</p> | <p>The principal lesson that everyone should have learned from the 2007 debt restructuring is the risk of excessive optimism in financial projections. At the creditors' insistence, the 2007 restructuring involved no reduction to the principal of the debt stock, and the net present value loss to creditors was substantially muted by the precipitous step up coupon feature of the instrument.</p> <p>It is in no one's interest to repeat those mistakes in 2012. The macroeconomic assumptions that support the Indicative Restructuring Scenarios are, we believe, moderate and defensible. The Government is indeed fully prepared to defend those assumptions and projections.</p> |
| <p>10. What assistance can be expected from the multilateral financial institutions?</p> | <p>Multilaterals such as the IADB and the Caribbean Development Bank already have significant exposure to Belize. The Government has approached both entities seeking additional financial support for this restructuring but it is premature to speculate about whether, how and how much additional support may in the end be forthcoming.</p> |

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| <p>11. Assuming that this restructuring takes the form of an exchange offer, does the Government have a “critical mass” threshold for bondholders participating in that exchange?</p> | <p>The Step-Up Bond due 2029 contains a collective action clause that permits the holders of 75% of the bonds either to amend the terms or approve a complete exchange of that bond for a new instrument or instruments. The Government is currently disinclined to close a restructuring transaction unless that 75% threshold has been reached.</p> |
| <p>12. If certain bondholders elect to pursue their individual legal remedies, will this disrupt or delay the proposed restructuring?</p> | <p>The Trust Indenture for the Step-Up Bonds centralizes all enforcement powers in the hands of the Trustee. There is no scope for the pursuit of individual bondholder legal remedies unless the Trustee fails to act for 60 days after receipt of (i) a request from holders of at least 25% of the Step-Up Bonds for the Trustee to institute a legal action and (ii) an indemnity reasonably satisfactory to the Trustee against its costs, expenses and liabilities related to such an action.</p> <p>Were the Trustee to pursue legal remedies, of course, it would do so on behalf of all bondholders.</p> <p>If an exchange offer or other transaction is concluded with the support of holders of at least 75% of the Step-Up Bonds, any legal action pending at the time of that closing will be rendered moot. A lesser majority of 66⅔ can approve the rescission of any prior acceleration of the bond.</p> |