SOVEREIGN NEW ISSUE · CARIBBEAN · 22 OCTOBER 2026

The Bahamas | New Issue Credit Analysis

USD 1.1bn 7.70% 2039 Notes: Pricing and Secondary Value

EXPECTED RATINGS	PRICING / SECONDARY (MID)	RECOMMENDATION
Ba3 / BB- / BB-	**7.70% at par / 7.69% (22 Oct)**	**NEUTRAL**
FAIR VALUE (MID-YIELD)	**VS. FAIR VALUE: PRICING / SECONDARY**	**PRIMARY RISK**
7.73% (range 7.66–7.80%)	**–3bp / –4bp**	**Fiscal slippage, SOE liabilities, external shocks**

Our view. The 2039s priced at par with a 7.70% coupon, at or marginally through our 7.73% fair-value estimate, and traded at 7.69% mid (7.716%/7.667% bid/ask) on 22 October. Tightening from the low-8% area absorbed the new-issue concession. The yield is high in absolute terms, but it offers little compensation beyond fair value for a 7.7-year duration, a new long-end curve point and the transfer of electricity-sector debt to the sovereign balance sheet. We remain **Neutral**: the transaction is mainly liability management, which supports liquidity but does not improve the credit. We would add at secondary yields of 7.85% or wider.

Investment Thesis

Absolute carry is high for the rating. The 7.70% coupon sits at the wide end of the Caribbean range, with a one-year breakeven of about 110bp of yield widening.

Mainly refinancing. The five series in the tender total USD 813m outstanding. Retiring the 2028–29 bonds would reduce a near-term maturity concentration.

Fiscal discipline has held. The central government ran primary surpluses of 2.7–3.7% of GDP in the last two fiscal years, and the IMF projects similar outcomes; the May 2026 re-election supports policy continuity.

Tourism and reserves cushion the peg. Travel receipts equal about a third of GDP; Central Bank foreign assets were BSD 3.1bn at end-August 2026.

Valuation and Principal Risks

Little value versus the curve. On duration, the new bond sits beyond the 2038s. At 7.69% mid it trades about 9bp inside the 2036–2038 line and about 4bp through our fair-value estimate.

Public-sector debt is rising. Agency and enterprise debt rose 35% in FY2025/26 to BSD 2.23bn; guaranteed debt more than doubled to BSD 703m.

External exposure is structural. The IMF projects a current-account deficit near 7.5% of GDP; the import bill is fuel-heavy and hurricane exposure recurs.

When to avoid. At secondary yields of 7.60% or tighter, or if low tender take-up turns residual proceeds into net new borrowing.

Table 1. New issue summary

Issuer	Commonwealth of The Bahamas	**Format**	144A / Reg S, senior unsecured
Size	USD 1.1bn	**Expected ratings**	Ba3 / BB- / BB-
Coupon / maturity	7.70% / 29 October 2039 (13Y)	**Average life**	~12 years; sinking fund (modeled: three equal installments, 2037–39)*
Pricing	Par; 7.70% yield (IPTs low-8% area)	**Settlement**	29 October 2026 (T+6)
Use of proceeds	Tender offer; USD 200m GBEC loan; USD 131.82m GBPC debt; refinancing	**ISIN**	USP06518AM90 (Reg S)

*Source: Bloomberg launch terms (21 October 2026) and YAS screen (22 October 2026); Government of The Bahamas tender offer announcement (19 October 2026). Secondary quote, 22 October: 99.879/100.257 (7.716%/7.667% bid/ask); Observed YAS fields: price 100.10, yield 7.687%, Z-spread 292.4bp, OAS 247.9bp, risk 7.742 and Macaulay duration 8.032. *Installment schedule is a modeled assumption: it reproduces the YAS analytics but has not been verified against the offering memorandum. GBEC = Grand Bahama Energy Company; GBPC = Grand Bahama Power Company.*

Conclusion. The transaction extends maturities and puts the Grand Bahama power debt on a transparent footing, but at 7.70% investors received fair value rather than a concession, and the bond now trades slightly through our estimate. For 2038 holders, tendering at 97.00 appears attractive relative to the screen, subject to acceptance and proration. For new money, we would wait for 7.85% or hold the 2036s.

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1. BAHAMAS CURVE AND NEW-ISSUE VALUATION

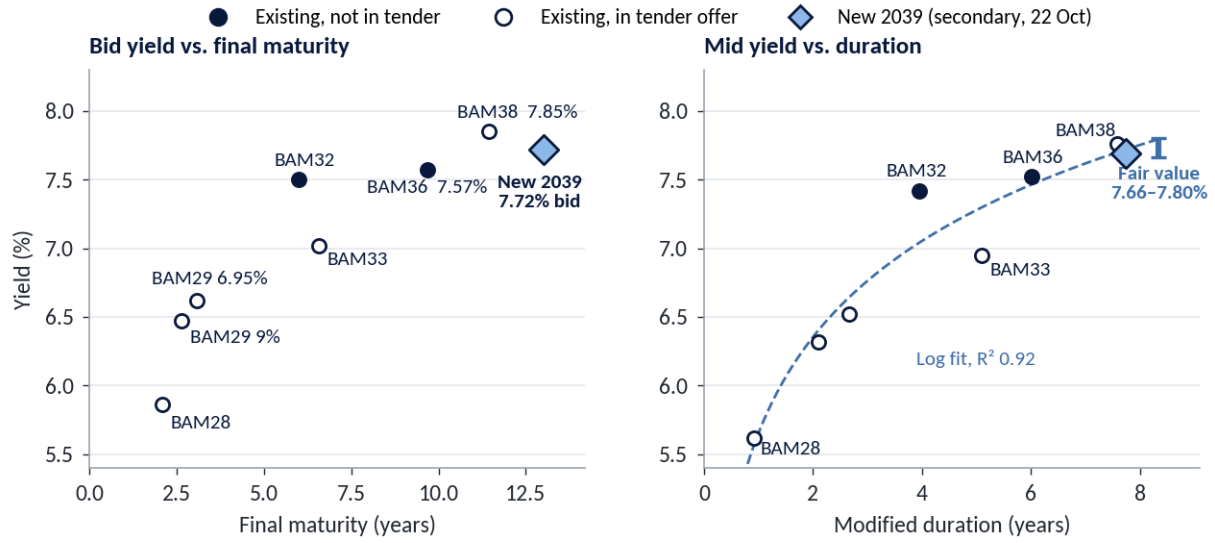
Before this issue, The Bahamas had seven USD Eurobonds outstanding, maturing between 2028 and 2038. The new 2039s extend the curve by about eighteen months in final maturity. Because the bond amortizes, its cash flows are shorter than the 13-year tenor suggests. Bloomberg's DES sinking-fund schedule and CSHF cash-flow analysis confirm three approximately equal annual principal repayments on 29 October 2037, 2038 and 2039, with one-third of the original principal repaid each year. The bond has a weighted-average life of 11.99 years, corresponding to an average-life date of 24 October 2038. This structure is consistent with the sovereign's existing amortizing bonds; the 8.95% 2032s, for example, repay principal in three installments beginning in 2030. At the YAS price of 100.10, Bloomberg reports a yield of 7.687%, Macaulay duration of 8.032, risk of 7.742 and convexity of 0.799. The modified duration is approximately 7.74 years (7.735 unrounded), slightly longer than the 2038s (7.59) and well beyond the 2036s (6.02). The confirmed cash-flow schedule is incorporated into our yield-curve valuation and relative-value analysis.

Table 2. Bahamas USD curve and tender terms

Bond	Bid	Ask	YTM %	Z-spread (bp)	OAS (bp)	Dur.	Out. (USD m)	Tender px	Status
6.000% 21-Nov-2028	100.26	100.70	5.86	79	78	0.92	158	100.769	Tender
9.000% 16-Jun-2029	106.06	106.74	6.47	145	127	2.09	173	108.155	Tender
6.950% 20-Nov-2029	100.91	101.43	6.62	186	166	2.66	226	102.250	Tender
8.950% 15-Oct-2032	106.87	107.57	7.50	243	224	3.95	n/a	—	Not tendered
6.625% 15-May-2033	97.94	98.61	7.02	229	197	5.09	176	98.625	Tender
8.250% 24-Jun-2036	104.57	105.19	7.57	276	242	6.02	1,067*	—	Not tendered
7.125% 02-Apr-2038	94.59	95.88	7.85	301	258	7.59	80	97.000	Tender
7.700% 29-Oct-2039	**99.879**	**100.257**	**7.72**	**295†**	**251†**	**7.74**	**1,100**	**—**	**New issue**

*Source: Bloomberg (existing bonds, 21 October 2026; new 2039s, YAS, 22 October 2026); Government of The Bahamas tender offer announcement (19 October 2026); Office of the Prime Minister (June 2025). YTM, Z-spread and OAS are bid-side; durations are modified durations (new 2039s: from the modeled installment schedule). *Original issue size of the 2036s. Duplicate 2038 quotation removed. Tender prices per USD 100 principal, excluding accrued interest. †Bid-equivalent, derived by adding the 2.9bp gap between the bid yield (7.716%) and the YAS yield (7.687%) to the YAS Z-spread (292.4bp) and OAS (247.9bp).*

Exhibit 1. Bahamas Sovereign Yield Curve



Source: Bloomberg (existing bonds, 21 October 2026, bid yields and modified durations as quoted; new 2039s, YAS, 22 October 2026); Khorlan Capital. Mid yields for existing bonds derived from bid/ask prices and quoted durations; new 2039s at the mid price of 100.068 (7.691%). New 2039 modified duration (7.74) from the modeled installment schedule. Fair-value range per Section 6.

Against final maturity, the bond priced 13bp over the 2036s (7.57%) and 15bp below the 2038s (7.85%); at its 22 October bid yield of 7.716%, the gaps are +15bp and −13bp. Against duration, the new bond is the longest Bahamas instrument, yet it yields less than the 2038s. Three further adjustments narrow the apparent pickup. First, the quoted Bloomberg yields for existing bonds are bid-side, whereas 7.70% was a reoffer yield. On mid yields the 2036s are at about 7.52%, the 2038s at 7.76% and the new 2039s

at 7.69%. Second, the 2038s have only USD 80m outstanding and are part of the tender, so their yield carries an illiquidity premium that a USD 1.1bn benchmark should not command. Third, the curve is non-monotonic in the belly: the 2032s (7.50%) yield more than the 2033s (7.02%). The 2032s are a high-coupon amortizer trading at a premium, while the 2033s are pinned to their 98.625 tender price. We therefore fit the curve loosely rather than forcing a smooth line through every point.

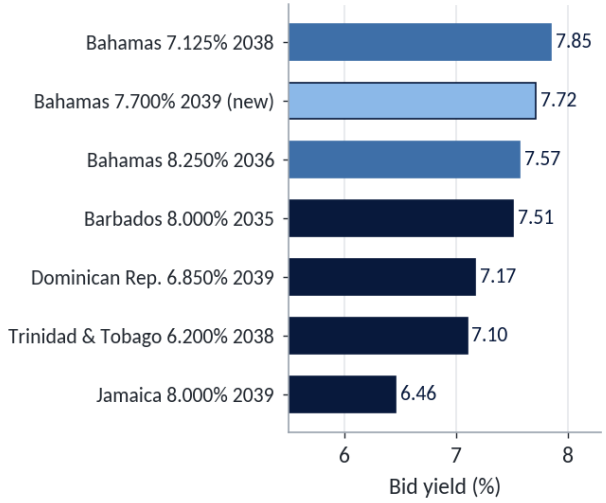
> **Key takeaway:** On a duration-consistent, mid-to-mid basis, the 2039s priced close to fair value and now trade about 4bp through it. The 17bp mid-yield pickup over the 2036s pays for 1.7 years of extra duration at about 10bp per year, below the slope implied by the 2036–2038 segment (15bp) or by regional curves (around 12bp).

Within the tender, the fixed purchase prices sit 0.8–1.4 points above the 21 October ask on the 2038s and both 2029s, and broadly match the screen prices of the 2028s and 2033s. At 97.00, the 2038s are being repurchased at a yield of about 7.52%. That is 18bp below the 7.70% at which the government issued, so the sovereign is paying to extend maturities. If every holder tendered, the five series would cost about USD 829m at the fixed prices, or about USD 851m including roughly USD 23m of accrued interest, against roughly USD 768m left after electricity-sector principal (Section 4) and before undisclosed transaction costs. Either participation falls short of full take-up, or the government will apply its per-series Maximum Purchase Price, which has not yet been announced, and prorate tenders. The offer expires at 5:00 p.m. New York time on 27 October; it is conditioned on the closing of the new notes, carries no minimum participation, and leaves acceptance, the per-series caps and any proration to the government's discretion. Results are due on 28 October and settlement on 29 October.

2. CARIBBEAN RELATIVE VALUE

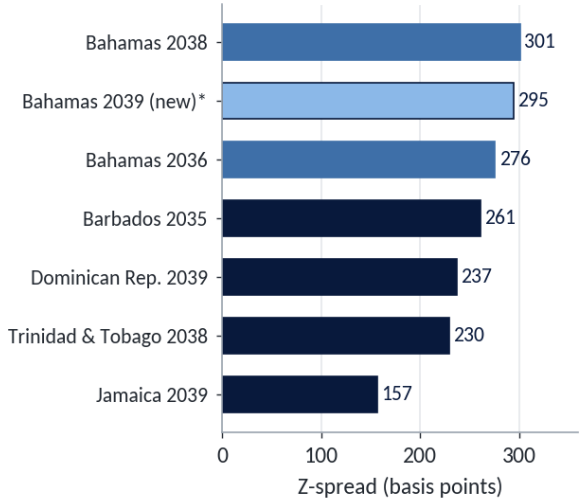
The relevant regional comparators are the long-dated USD bonds of Jamaica, the Dominican Republic and Trinidad & Tobago, together with the Barbados 2035s as the nearest single-B reference. Every comparator except Barbados carries a higher rating than The Bahamas from at least one agency. Table 3 sets out yield differentials using the new bond's 22 October bid yield (7.716%) against the comparators' 21 October bid yields. These are differences in yield, not in spread, and they do not adjust for duration.

Exhibit 2. Caribbean Sovereign Relative Value



Bid yield to maturity (%); new 2039s at their 22 October bid yield.

Exhibit 3. Caribbean Sovereign Spread Comparison



*Z-spread in basis points (bp). *New 2039s: calculated bid-equivalent based on the observed Bloomberg YAS Z-spread of 292.4bp; not an observed quote.*

Source: Bloomberg (existing bonds, 21 October 2026; new 2039s, YAS, 22 October 2026); Khorlan Capital.

Table 3. Caribbean sovereign comparison

Sovereign	Bond	Moody's / S&P	YTM %	Z-spread (bp)	Dur.	New 2039 (bid) vs. bond
Bahamas	**7.700% Oct-2039**	**Ba3 / BB- (exp.)**	**7.72**	**295†**	**7.74**	**—**
Bahamas	7.125% Apr-2038	Ba3 / BB-	7.85	301	7.59	−13bp
Bahamas	8.250% Jun-2036	Ba3 / BB-	7.57	276	6.02	+15bp
Jamaica	8.000% Mar-2039	Ba3 / BB	6.46	157	7.62	+126bp
Dominican Republic	6.850% Mar-2039	Ba2 / BB	7.17	237	8.18	+55bp
Trinidad & Tobago	6.200% Jul-2038	Ba2 / BBB-	7.10	230	7.95	+62bp
Barbados	8.000% Jun-2035	B2 / B+	7.51	261	4.82	+21bp

Source: Bloomberg (existing bonds, 21 October 2026, bid yields and Z-spreads as quoted; new 2039s, YAS, 22 October 2026); Khorlan Capital. †Bid-equivalent Z-spread derived from YAS (see Table 2). Ratings as supplied by Bloomberg; Barbados S&P rating from the 2029 line. JMD-denominated Jamaica 2050s excluded.

Reading the differentials

Jamaica (+126bp). This gap is the widest but the least informative. Jamaica shares the Ba3 rating with The Bahamas at Moody's and sits a notch higher at S&P. Its 2039s are a scarcity bond after the September 2026 buyback, which repurchased part of the line alongside a new USD 1bn 2037 issue (Government of Jamaica, Form 18-K/A). We do not regard the Jamaica gap as an achievable compression target.

Dominican Republic (+55bp). This is the most informative comparison: the issuer is liquid and frequent, with a full curve one notch higher at both agencies. Interpolated to the new bond's duration along its own curve, the DR yields about 7.13%. The Bahamas 2036s already trade about 68bp over the DR curve at equivalent duration. Applied at 7.7 years, that premium implies about 7.81% bid, or about 7.76% mid, for the new bond. The 2039s trade at 7.716% bid and 7.69% mid, roughly 7–9bp inside, which is consistent with the curve-based estimate.

Trinidad & Tobago (+62bp) and Barbados (+21bp). Trinidad's curve is unusually flat at the long end, with only about 3bp per year of duration from 2036 to 2038, and its investment-grade S&P rating is a ceiling The Bahamas is unlikely to reach soon. Barbados trades only 21bp below the new bond despite a two-notch rating gap at S&P. That reflects its much shorter duration (4.8) and the market's confidence in its reform program, rather than cheapness in The Bahamas.

> **Key takeaway:** The regional yield premium is real, but most of it reflects The Bahamas' lower rating, its wider spread curve and the longer duration of the new bond. Once those are adjusted for, the 2039s are fairly priced against the DR and slightly rich against their own 2038s. On Z-spread, the 2039s (about 295bp bid-equivalent) sit roughly 8bp inside a duration-interpolated line between the 2036s (276bp) and 2038s (301bp),. On a risk-adjusted basis we find no regional mispricing to exploit.

3. SOVEREIGN CREDIT FUNDAMENTALS

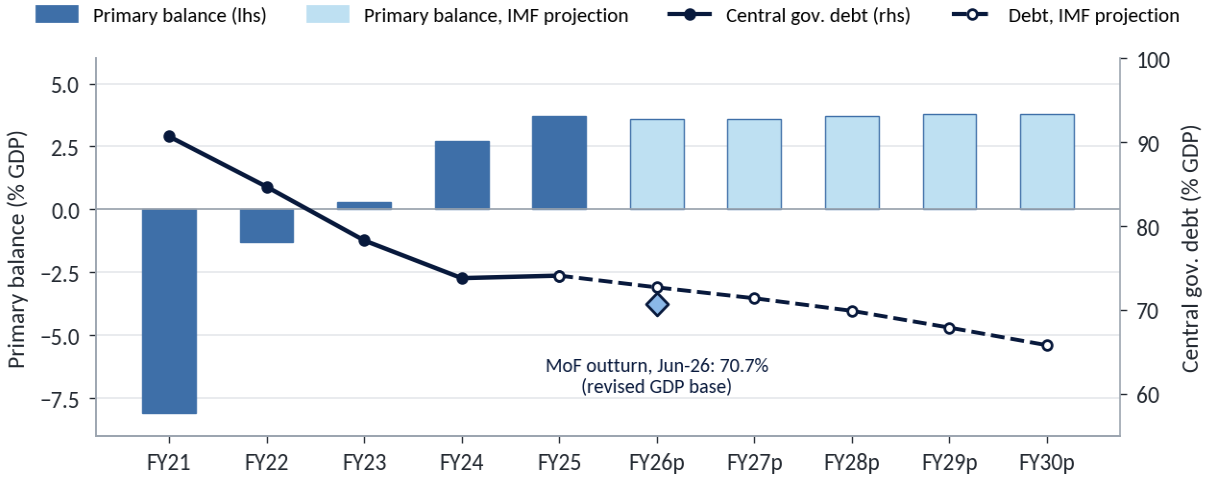
Growth and tourism

Tourism remains the principal source of foreign-exchange earnings and a key driver of tax revenue. However, growth in visitor arrivals does not translate proportionately into economic activity. Cruise passengers account for much of the increase, while higher-spending stopover tourism faces accommodation and infrastructure constraints. This distinction matters for sovereign credit: stronger arrival figures may overstate improvements in foreign-exchange earnings and fiscal revenue. Additional hotel and airport capacity could support higher-value tourism, although construction-related imports may temporarily offset the external benefit. The sector's concentration also leaves the economy exposed to shifts in US consumer spending, airline capacity and severe weather events. A sustained slowdown in higher-value tourism would weaken services exports, reduce tax collections and complicate fiscal consolidation, particularly given the government's elevated debt-service obligations. Conversely, stronger spending per visitor and improved hotel occupancy could support revenue growth without requiring a comparable increase in arrivals.

Fiscal sustainability

Fiscal consolidation has been substantial. The primary balance moved from a deficit of 8.1% of GDP in FY2020/21 to a surplus of 3.7% in FY2024/25. The gains came from tourism-linked taxes, VAT compliance and spending restraint, and new revenue from the domestic minimum top-up tax began in FY2025/26. Moody's, which raised the rating to Ba3 this year, expects primary surpluses near 4% of GDP through FY2027/28. A primary surplus is not the same as low refinancing risk, however. Public-sector interest payments of BSD 731m in FY2025/26 equal about 4% of GDP, close to a fifth of central government revenue. The IMF puts gross financing needs at 24.6% of GDP in FY2024/25 and 21.4% in FY2025/26, much of it short-term Treasury bills held by domestic banks. The IMF also judges that the 50%-of-GDP debt target for FY2030/31 needs new revenue measures, such as income taxes, a higher VAT rate or fewer exemptions. Policy has partly moved the other way: VAT on unprepared food was removed in April 2026. The civil-service pension scheme carries an unfunded liability above 15% of GDP.

Figure 1. Primary balance and central government debt



Source: IMF 2025 Article IV (Country Report 26/31, February 2026 vintage; fiscal years ending June); Ministry of Finance Public Debt Statistical Bulletin FY2025/26. FY26p onward are IMF projections. The MoF ratio uses a higher, revised nominal GDP and is not directly comparable with the IMF series.

Table 4. Selected indicators — IMF February 2026 vintage

Indicator	2025 est.	2026 proj.	Latest official data / comment
Real GDP growth (%)	2.8	2.2	IMF; converging to ~1.5% potential
Overall fiscal balance (% GDP, FY)	−0.5	−0.5	FY2024/25 and FY2025/26
Primary fiscal balance (% GDP, FY)	3.7	3.6	Moody's: ~4% average FY26–FY28
Central government debt (% GDP, FY)	74.1	72.7	MoF: 70.7% at June 2026 (revised GDP)
Current account (% GDP)	−7.8	−7.5	Oil prices pose upside risk to the deficit

Source: IMF Country Report No. 26/31; Ministry of Finance; Moody's Ratings (as reported by the Office of the Prime Minister). Fiscal rows refer to fiscal years ending June (2025 = FY2024/25).

Debt coverage: why the ratios differ

Headline debt ratios for The Bahamas vary with coverage and with the GDP vintage used. The Ministry of Finance's FY2025/26 bulletin puts central government debt at BSD 12.47bn, or 70.7% of GDP, down from 70.9%. In nominal terms the stock rose 5.9%, so the lower ratio reflects faster growth in the revised nominal GDP series. On the IMF's February 2026 GDP vintage, the same stock would be about 75%, above the Fund's own 72.7% projection. Debt of government agencies and business enterprises rose 35% to BSD 2.23bn, driven largely by the Grand Bahama Power acquisition and other enterprise borrowing. That lifts total public-sector debt to BSD 14.70bn, or 83.3% of GDP on the ministry's basis. (The IMF's consolidated measure, net of intra-public holdings, was 77.4% in FY2024/25.) The direction matters more than the level: central government debt is broadly stable as a share of GDP, while debt outside the budget is growing quickly.

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Table 5. Public debt by coverage, end-June 2026

Measure	BSD m	% of GDP*	Change y/y
Central government debt	12,466	70.7	+5.9%
of which domestic	7,062	40.1	+9.0%
of which external	5,404	30.6	+2.1%
Agencies & government business enterprises	2,230	12.6	+35.1%
Total public-sector debt	**14,697**	**83.3**	**+9.5%**
Memo: government-guaranteed debt (within the above)	703	4.0	+113.2%
Memo: public-sector interest paid, FY2025/26	731	4.1	—

*Source: Ministry of Finance Public Debt Statistical Bulletin FY2025/26 (as reported 2026); Khorlan Capital. *Ratios on the nominal GDP implied by the Ministry's 70.7% central government ratio (~BSD 17.6bn). BSD amounts equal USD amounts at the 1:1 peg. Guaranteed debt is largely included in agency and enterprise debt and is not additive.*

> **Key takeaway:** Fiscal performance at the central government level is consistent with the Ba3/BB- ratings. It does not, in our view, support further spread compression while public-sector debt outside the budget grows faster than GDP, and the Fiscal Responsibility Council has flagged roughly BSD 476m of guarantees that were not in the budget.

4. ELECTRICITY-SECTOR DEBT: SPECIAL FOCUS

About 30% of the proceeds, USD 331.82m of principal plus accrued interest, will repay two obligations created by the government's 2026 acquisition of Grand Bahama Power Company (GBPC) from Emera. The first is a USD 200m term loan to Grand Bahama Energy Company (GBEC). GBEC is the state-owned vehicle that bought GBPC's shares, and its loan was funded USD 150m externally and USD 50m by a domestic lender under a government guarantee. The second is USD 131.82m of legacy GBPC commercial debt that the utility carried when it was acquired. According to the Ministry of Finance, about 83% of that debt is denominated in Bahamian dollars.

A. Debt substitution and incremental borrowing

Both obligations are already counted in public-sector debt, within agency and enterprise borrowing. Repaying them with sovereign bonds therefore leaves consolidated public-sector debt unchanged at face value for this component, before accrued interest. Central government debt, however, rises by about USD 332m, roughly 1.9% of GDP; agency debt falls by the same amount, and guaranteed debt should fall by at least the USD 200m GBEC loan. The liability changes legal form, maturity and currency: bank and commercial loans become a 13-year amortizing sovereign bond, and refinancing the Bahamian-dollar portion of GBPC's debt adds about BSD 110m (USD 110m equivalent) to foreign-currency debt.

The transaction as a whole is debt-neutral only under certain outcomes, and final tender participation is not yet known. Assuming uniform take-up across the five tendered series at the fixed prices, with accrued interest on tendered notes paid from the proceeds and any residual held as cash, gross public-sector debt would rise by about USD 35m at the highest take-up the proceeds can fund (about 90%), USD 160m at 75%, USD 360m at 50% and USD 565m at 25% (roughly 0.2–3.2% of GDP). If the residual instead retires existing domestic debt at par, the increase is limited to the tender premium over par plus the accrued interest financed by the new bond, up to about USD 35m. All figures exclude underwriting fees and other transaction costs, accrued interest on the electricity-sector debt and the effect of any proration, none of which has been disclosed. The final effect will be known only after the tender results on 28 October.

B. Contingent liability exposure

Near-term crystallization risk falls. The government no longer needs to stand behind a bank loan that it could have been called on to support; it now pays the debt directly over a long maturity. The underlying exposure has not gone away, though. GBEC's separate BSD 80m guaranteed facility for GBPC capital spending and working capital is outside the use of proceeds. GBPC is also moving to the Bahamas Power and Light tariff schedule. If lower tariffs are not offset by lower fuel and generation costs, the utility's operating losses become a call on the budget through transfers.

C. Fiscal transparency

The transaction improves visibility: debt that sat in enterprise accounts will now appear in central government statistics and budgeted debt service. The IMF has repeatedly asked the authorities to quantify the liabilities arising from energy-sector investments and power-purchase agreements, and to publish audited SOE accounts. This transaction addresses only part of that agenda. It may also raise the direct interest bill: the 7.70% sovereign coupon could exceed the cost of the guaranteed bank loans, whose terms have not been published.

D. Energy reform

Electricity reform is central to the medium-term credit story. Fuel imports are a large part of the import bill, high power costs hold back investment, and transfers to utilities compete with revenue measures for fiscal space. The authorities aim to generate 30% of electricity from renewable and lower-emission sources by 2030. Their program includes LNG regasification, solar-plus-storage microgrids in the Family Islands and a separate grid company for New Providence. If delivered, it lowers the external energy bill and limits future transfers. Much of it runs through private power-purchase agreements whose obligations are not yet fully quantified.

E. Credit implications

We see the electricity refinancing as credit-neutral. It is liquidity-positive: it replaces near-dated bank debt with long-dated fixed-rate funding and reduces guarantee risk. It is solvency-neutral to slightly negative: consolidated debt is unchanged for this component, the interest cost may rise, foreign-currency debt increases, and the sovereign now bears the operating risk of a utility moving to lower tariffs. The decisive variable is GBPC's post-acquisition financial performance, which has not been published.

Exhibit 4. New issue use of proceeds

Component	USD m	Nature	Effect on consolidated public-sector debt	Status
Tender offer purchases (five series)	≤ ~768*	Eurobond refinancing	Neutral only if take-up is high or residual proceeds retire debt; face retired varies with mix	Results due 28 Oct
GBEC term loan (guaranteed)	200.00	SOE → sovereign	Neutral; central gov. +, agencies –; guarantees fall	Confirmed
GBPC legacy debt	131.82	SOE → sovereign	Neutral; ~83% BSD debt becomes USD debt	Confirmed
Residual refinancing	Residual	Gov. refinancing	Neutral if it retires existing debt; additive if held as cash	Depends on tender
Total gross issuance	**1,100.00**		**Plus accrued interest and fees on each component**	

*Source: Bloomberg launch terms; Government of The Bahamas tender announcement (19 October 2026); Ministry of Finance; Khorlan Capital. *Proceeds available after electricity-sector principal, before accrued interest and transaction costs. Full take-up of all five series at the fixed tender prices would cost ~USD 829m, or ~USD 851m including accrued interest. Tender and residual amounts are not confirmed, so no proportional chart is shown.*

5. EXTERNAL LIQUIDITY AND RESERVES

The Bahamian dollar has been pegged one-to-one to the US dollar since 1966. The peg depends on the Central Bank's foreign assets, the regulation of capital flows and the steady tourism inflow. The Central Bank's statement for 31 August 2026 shows foreign assets of BSD 3.115bn (USD 3.115bn at the peg). That balance-sheet figure is not the same as freely usable reserves. It includes BSD 19m of accrued interest and BSD 186m of IMF positions (reserve tranche and SDR holdings). Against it stands a BSD 410m SDR allocation liability to the IMF, part of which was on-lent to the Ministry of Finance (BSD 239m). Net of the SDR allocation, foreign assets are about BSD 2.71bn. That is roughly equal to base money, which is the relevant coverage test under a currency-board-like peg.

From a sovereign credit perspective, the principal vulnerability is the economy's dependence on tourism receipts to sustain foreign-exchange liquidity while meeting substantial import and external debt-service requirements. Although current reserve coverage provides an important buffer, a prolonged slowdown in US consumer spending, higher energy prices or a major hurricane could simultaneously weaken foreign-currency inflows and increase public-sector financing needs. Reserve adequacy should therefore be assessed alongside the current-account balance, external refinancing requirements and the government's capacity to maintain fiscal discipline. For USD bondholders, sustained pressure on these indicators would likely translate into wider sovereign spreads, even without an immediate threat to the exchange-rate peg.

Table 6. Central Bank foreign assets and coverage, 31 August 2026

Item	BSD m	Comment
Deposits held in foreign currencies	1,024.5	Liquid
Securities of other governments	1,885.7	Liquid, marketable
IMF reserve tranche and SDR holdings	185.9	Reserve assets
Accrued interest	19.2	Balance-sheet item
Total foreign assets (gross)	**3,115.3**	**Balance-sheet foreign assets**
Less: IMF SDR allocation (liability)	(409.6)	Long-term IMF liability
Foreign assets net of SDR allocation	**2,705.7**	**Proxy for net position**
Base money (currency, Sand Dollar, bank deposits)	2,715.6	Monetary liabilities
Gross / net foreign assets to base money	115% / 100%	Adequate, with limited margin
Gross foreign assets, months of imports	~4.7	On IMF 2026–27 import projections

Source: Central Bank of The Bahamas, Statement of Assets and Liabilities (31 August 2026); IMF Country Report No. 26/31 (import projections); Khorlan Capital.

Coverage appears adequate by conventional metrics: the IMF assessed reserves at 143% of its adequacy metric for 2025, and import cover is above three months. Net coverage of base money is close to 100%, however, which leaves limited margin. The level is seasonal, however. Foreign-exchange inflows peak in the first half of the year and are drawn down by fuel imports and corporate profit repatriation. The external balance is also structurally negative. The IMF projects a current-account deficit of 7.5% of GDP in 2026, a large goods deficit only partly offset by travel receipts, and more recent private-sector estimates that include higher oil prices point to a wider gap. Foreign direct investment linked to tourism and energy projects provides financing but also adds to imports in the near term. A major hurricane would hit receipts, imports and the budget at once.

Reserves back the peg and the banking system's foreign-currency needs; they are not sovereign cash for bond service, which is paid from revenue and new borrowing. This deal modestly raises reserves, as USD proceeds are converted to repay Bahamian-dollar GBPC debt, but it also raises foreign-currency debt.

> **Key takeaway:** On current data, external liquidity appears adequate to support the peg through a normal hurricane season, although a severe shock would test the margin. Any compensation for external risk should come from the spread, not from an assumption that reserves will service the bonds.

6. FAIR VALUE, NEW-ISSUE CONCESSION AND SECONDARY VALUE

We estimate the yield at which an existing Bahamas bond with the new issue's cash flows would trade: a 12-year average life and 7.74 years of modified duration, based on the modeled installment schedule that reproduces the Bloomberg YAS analytics. We work on mid yields throughout. We use four complementary approaches, which are partially correlated because they draw on the same Bahamas and regional quotes, and then adjust for the liquidity of a USD 1.1bn benchmark compared with the USD 80m 2038s.

Table 7. Khorlan fair-value framework (mid-yield basis)

Approach	Construction	FV (mid)
A. Own-curve fit	Log fit of mid yield on modified duration, all seven bonds (R^2 0.92); 2032s +38bp cheap, 2033s −34bp rich	7.72%
B. Long-end segment	2036–2038 mid line (15bp per year of duration) extended to 7.74 years	7.78%
C. Anchor plus regional slope	2036s mid (7.52%) plus median regional long-end slope (12bp per year) over 1.72 years	7.72%
D. Rating-peer premium	DR curve at 7.74 years (7.13% bid) plus current Bahamas premium over DR (68bp), converted to mid using the 2036s' half bid/ask (5bp)	7.76%
Average of approaches		7.75%
Liquidity credit	Benchmark-size issue versus small, tender-affected 2038s	−2bp
Khorlan fair value	**Central estimate (range 7.66–7.80%)**	**7.73%**

Source: Bloomberg (21 October 2026); Khorlan Capital. Mid yields derived from quoted bid/ask prices and durations. New-issue cash flows modeled as three equal installments in 2037–39, consistent with Bloomberg YAS. Comparator quotes predate pricing.

New-issue concession at pricing = 7.70% − 7.73% = −3bp (range −10bp to +4bp). This is a historical measure fixed at pricing. Secondary relative value is separate: at the 22 October mid yield of 7.69% (price 100.068), the bond trades about 4bp through fair value (range −11bp to +3bp), and a buyer at the 7.667% ask would pay about 6bp through. The remaining uncertainty comes mainly from how much weight the illiquid 2038s deserve and from comparator quotes that predate pricing; the 2036s could also cheapen as the new supply is absorbed. With the YAS analytics corroborating the modeled installments, cash-flow uncertainty is now small. We do not count the tender premium as a concession, because it accrues to tendering holders, not to buyers of the new bond. Tightening from the low-8% area to 7.70% absorbed the concession available at launch.

Table 8. Illustrative secondary-market entry framework

Yield (mid)	vs. FV (7.73%)	vs. 2036s mid (7.52%)	Pick-up per year of extra duration	Assessment
7.40%	−33bp	−12bp	negative	Through fair value and the 2036s; avoid
7.50%	−23bp	−2bp	negative	Rich; prefer the 2036s
7.60%	−13bp	+8bp	5bp	Rich; extension under-rewarded
7.69% (22 Oct mid)	**−4bp**	**+17bp**	**10bp**	**Slightly through fair value; neutral**
7.80%	+7bp	+28bp	16bp	Modest discount; neutral to positive
7.90%	+17bp	+38bp	22bp	Adequate discount; participate
8.00%	+27bp	+48bp	28bp	Clear discount (IPT area); participate

Source: Khorlan Capital. Extension measured as 1.72 years of modified duration beyond the 2036s. Discounts are relative to the central fair value (7.73%; range about ±7bp). Approximate prices: 7.60% ≈ 100.78; 7.85% ≈ 98.85.

7. TOTAL RETURN AND RISK SCENARIOS

The scenarios start from the 22 October mid price of 100.068 (7.69%), with the 7.70% coupon and three equal installments in 2037–39, and show an instantaneous parallel yield shock followed by twelve months of carry at the shocked yield. Because no principal is repaid in the first year, amortization does not affect one-year carry. It does reduce price sensitivity compared with a 2039 bullet, which we show for reference. Shocks may come from Treasuries or spreads: with spread and rate duration both about 7.7 years, a 50bp credit widening has roughly the same price effect as a 50bp rise in Treasuries.

Exhibit 5. Indicative price sensitivity and one-year return

Yield shock	Yield	Price change (amortizing)	1Y total return (amortizing)	Price change (bullet reference)	1Y total return (bullet reference)
−100bp	6.69%	+8.1%	+15.4%	+8.6%	+15.9%
−50bp	7.19%	+4.0%	+11.4%	+4.2%	+11.7%
Unchanged	7.69%	0.0%	+7.7%	0.0%	+7.7%
+50bp	8.19%	−3.8%	+4.1%	−4.0%	+3.9%
+100bp	8.69%	−7.3%	+0.7%	−7.7%	+0.3%
+200bp (stress)	9.69%	−14.0%	−5.6%	−14.6%	−6.3%

Source: Bloomberg (YAS, 22 October 2026); Khorlan Capital. Illustrative: starts from the mid price of 100.068 (7.691%), 7.70% coupon, settlement on 29 October 2026, semi-annual 30/360, no reinvestment income and no curve roll-down; the bullet columns assume a hypothetical 2039 bullet for reference only. One-year breakeven widening is about 110bp (amortizing) and 105bp (bullet). Not a forecast.

A high coupon protects only against small moves. A 100bp widening, comparable to past Caribbean sell-offs driven by hurricanes or global risk aversion, would nearly eliminate a year of carry (one-year total return of +0.7%), and a 200bp stress would reduce the price by about 14%, leaving a one-year total return of about −5.6%. With 7.7 years of duration, this is a long-duration spread asset rather than a short-duration income asset.

8. INVESTMENT CONCLUSION

NEUTRAL
at 7.69% mid

Bottom line. The 2039s priced at fair value and now trade slightly through it. We would add at secondary yields of 7.85% or wider (about 98.85) and avoid at 7.60% or tighter (about 100.78). For 2038 holders, tendering at 97.00 appears attractive relative to the screen, subject to acceptance and proration; switching into the 2039s now means buying at the offer. For new money, we prefer the 2036s at current levels.

Are the 2039s attractive at current levels? In absolute yield terms, yes; relative to risk, they are fair rather than cheap. The bond priced at 7.70% against our 7.73% fair-value estimate and trades at 7.69% mid, within the estimate's margin of error.

Versus the 2038s. The new bond yields about 13bp less on bid (7.716% vs. 7.85%) and about 7bp less on mid (7.69% vs. 7.76%), with slightly more duration. Its size and liquidity justify only a small discount, which is already priced.

Concession and secondary value. −3bp at pricing (range −10bp to +4bp); about −4bp at the 22 October mid.

Liability management or leverage? Mainly liability management: most proceeds refinance Eurobonds and electricity-sector debt already in the public-sector stock, although central government debt rises by about 1.9% of GDP. Depending on tender take-up and the use of residual proceeds, we estimate that gross public-sector debt rises by between about USD 35m and USD 565m (Section 4).

Are fundamentals improving enough? At the central government level they are holding up rather than improving, while indicators for the wider public sector are deteriorating. We think that is enough to keep spreads stable, but not to tighten them.

Preferred instrument. The 2036s: they are of comparable size, not part of the tender, and give up about 17bp of mid yield for 1.7 fewer years of duration. At 7.85% or wider, we would prefer the new 2039s.

What Would Change Our View

Toward Participate: secondary yields at 7.85% or wider without a change in fundamentals; tender take-up high enough to leave little residual borrowing; published GBPC accounts and a tariff path showing no new transfer burden; FY2026/27 half-year data confirming a primary surplus of at least 3.5% of GDP and a halt in the rise of agency debt; or a positive outlook from S&P.

Toward Avoid: secondary yields of 7.60% or tighter; further guarantees outside the budget or new SOE borrowing; net foreign assets falling clearly below base money; a damaging hurricane or a sharp slowdown in US stopover demand; or new long-dated supply soon after this deal.

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IMPORTANT DISCLOSURES

DISCLAIMER

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