

Scenario 1				
Contractual cash flows				
		Year 1	Year 2	Year 3
Discount rate	Loan	82.00	87.61	93.60
	6.84% Interest	5.61	5.99	6.40
		<u>87.61</u>	<u>93.60</u>	<u>100.00</u>
Expected cash flows				
Discount rate	Loan	82.00	86.12	90.45
	5.03% Interest	4.12	4.33	4.55
		<u>86.12</u>	<u>90.45</u>	<u>95.00</u>

Scenario 2						
Contractual cash flows						
		Year 1	Year 2	Year 3	Year 4	Year 5
New instrument		50	50	50	50	1050
Existing bond						
Principal of	1000					
coupon of	5.00%	50	50	50	50	1050
Accretion to contractual cash flows		<i>(applies to both instruments)</i>				
Contractual Yield		960.00	967.10	974.63	982.60	991.05
	5.95% Interest	57.10	57.53	57.97	58.45	58.95
	Cash flows	<u>-50.00</u>	<u>-50.00</u>	<u>-50.00</u>	<u>-50.00</u>	<u>-1050.00</u>
		967.10	974.63	982.60	991.05	0.00
Accretion to expected cash flows		<i>(expected profile for both instruments)</i>				
Expected Yield		960.00	961.80	963.70	965.69	967.79
	5.24% Interest	50.30	50.40	50.49	50.60	50.71
	Cash flows	<u>-48.50</u>	<u>-48.50</u>	<u>-48.50</u>	<u>-48.50</u>	<u>-1018.50</u>
		961.80	963.70	965.69	967.79	0.00

Scenario 3						
New high yield bonds - contractual cash flows						
Principal amount	100,000,000					
interest rate	20.00%					
		Year 1	Year 2	Year 3	Year 4	Year 5
principal		100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
interest		20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
cash flow		-20,000,000	-20,000,000	-20,000,000	-20,000,000	-120,000,000
carrying amount		100,000,000	100,000,000	100,000,000	100,000,000	0
New high yield bonds - expected cash flows						
cash flow		-20,000,000	-20,000,000	-20,000,000	-20,000,000	-70,000,000
expected shortfall		0	0	0	0	-50,000,000
expected yield	12.15%	Expected cash flows (NB not used only for comparison)				
	-£100,000,000.00					
principal		100,000,000	92,153,476	83,353,327	73,483,654	62,414,472
interest		12,153,476	11,199,851	10,130,327	8,930,818	7,585,528
cashflow		-20,000,000	-20,000,000	-20,000,000	-20,000,000	-70,000,000
carrying amount		92,153,476	83,353,327	73,483,654	62,414,472	0
Old bonds						
Principal amount	154,156,269					
interest rate	7.46%					
		Year 1	Year 2	Year 3	Year 4	Year 5
Contractual cash flows on old bonds		11,501,231	11,501,231	11,501,231	11,501,231	165,657,500
Purchased old bonds		Contractual cash flows				
		100,000,000	107,431,905	116,270,904	126,783,401	139,286,245
contractual yield	interest	18,933,136	20,340,229	22,013,729	24,004,074	26,371,255
18.93%	payments	-11,501,231	-11,501,231	-11,501,231	-11,501,231	-165,657,500
	carrying amount	107,431,905	116,270,904	126,783,401	139,286,245	0
Purchased old bonds		expected cashflows				
	1 cashflow	-11,501,231	-11,501,231	-11,501,231	-11,501,231	-115,657,500
	expected shortfall	0	0	0	0	-50,000,000
economic yield		expected profile				
	12.15%	100,000,000	100,652,245	101,383,761	102,204,181	103,124,311
	interest	12,153,476	12,232,747	12,321,651	12,421,361	12,533,189
	cashflows	-11,501,231	-11,501,231	-11,501,231	-11,501,231	-115,657,500
	carrying amount	100,652,245	101,383,761	102,204,181	103,124,311	0