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Govt **FPA**

HELP FOR **FORWARD PRICING ANALYSIS**

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Price

Enter FPA (price) <Go>.

NOTE: You can combine the shortcuts.

DESCRIPTION OF DISPLAY

The CUSIP or Bloomberg ID number and market information appear at the top of the screen. For more information, enter Q <HELP>. Depending on the security you select, some or all of the following fields appear:

PREVIOUS COUPON: The date of the previous coupon payment.

NEXT COUPON: The date of the next coupon payment.

NEXT FIX: The date the next coupon rate will be set.

CURRENT COUPON @

SETTLEMENT: The expected coupon at the settlement date.

Australia 61 2 9777 8600

Brazil 5511 3048 4500

Europe 44 20 7330 7500

Germany 49 69 920410

Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000

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CURRENT COUPON

@ **TERMINATION:** The expected coupon at the termination date.

SETTLEMENT DATE: The date securities must be paid for and delivered to complete a transaction.

PRICE: The price of the security, expressed as a percentage of par. The ask yield appears to the right, if applicable.

FULL PRICE: Appears only for bonds with factor adjusted prices, such as index linked bonds. The quoted price plus any accrued interest for the bond.

REPO RATE

(ACT/day type): The repo rate from MMR <Go> (Money Rate Monitors) and the day type. If the repo rate is unavailable in MMR, an available representative rate is selected for that currency. This is usually a three-month deposit rate. For a list of day types, move your cursor to the first highlighted field.
(1 <Go> for list of representative rate ticker symbols)

Australia 61 2 9777 8600

Brazil 5511 3048 4500

Europe 44 20 7330 7500

Germany 49 69 920410

Hong Kong 852 2977 6000

Japan B1 3 3201 8900

Singapore 65 6212 1000

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FACE AMOUNT: The amount of money used in the analysis. For a list of amount types, move your cursor to the first highlighted field. Each (M) equals '000.

TERMINATION DATE

<OR> TERM

(IN CAL. DAYS): The date or the number of days until the repo agreement ends.

BUMP ALL DATES

FOR WEEKENDS/

HOLIDAYS (Y/N): Choose (Y) to roll dates forward if they fall on a weekend or a holiday.

BESA (Y/N): Choose (Y) to convert the forward all in price to a forward yield. The yield is rounded to five decimal places; the consideration is recalculated from the forward yield, which results in the termination money.

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COMPOUNDING METHOD: The method used to calculate the financing and reinvestment income. The following choices appear:

1=CD - The CD compound method, which uses the time from settlement to termination as coupon-to-coupon compounding periods, with the compounding performed on a CD basis. When there are one or more coupon payments between settlement and termination, financing of the original value is done through several rolling CD's.

2=PROCEEDS - The method in which each payment is CD compounded to the next payment date and added to the final date. The final payment is then discounted to the settlement date as one CD. Financing of the original purchase is on a term basis (i.e., it is financed as a simple CD for the entire period). The maximum period from settlement to termination for this method is two years.

3=SCIENTIFIC - Coupon-to-coupon compounding periods, with compounding performed on a scientific (exponential) basis. In other words, compounding is instantaneous where the time between re-investment of coupons approaches zero.

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Germany 49 69 920410

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Japan B1 3 3201 8900

Singapore 65 6212 1000

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NOTE: The CD and PROCEEDS methods give the same results when the settlement and termination dates are in the same coupon period.

REINVEST

COUPONS (Y/N): Choose (Y) to assume coupons are reinvested at the repo rate.

B/E REPO RATE: The break-even repo rate, which is the rate used to finance the long (cash) position to off-set the drop in price due to the loss of accrued interest.

In the fields that appear below B/E REPO RATE, enter a value for one field to calculate the others. Depending on the security you select, some or all of the following fields appear:

SPREAD EARNED(BP)/

EARNED (BP): The spread earned, in basis points.

NET PROFIT/LOSS: The net profit or loss in the analysis.

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FORWARD PRICE: The future price (in decimal and 32nds) of the bond, minus interest from the time you did not own the bond.

FULL FWD PRICE: The quoted price plus accrued interest for the bond minus interest on the time you did not own the bond.

DROP: The drop in price (in decimal and 32nds) caused by the loss of accrued interest.

STREET/US TREASURY/YIELD: The forward yield given the price change. For U.S. Treasuries, you can choose to calculate the yield using (T) Treasury Yield or (S) Street Yield. Treasury yield is only used at Treasury auctions and applies to when-issued securities, primarily reopenings. This is linear in the first coupon period, compounding in the others, using an ACT/ACT day type. The Treasury yield allows you to calculate the arbitrage-free yield on the when-issued security. Street yield is the common convention type for settling Treasury transactions in the secondary market.

Re-opens

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YIELD DROP: The drop in yield caused by loss of accrued interest. This is the difference between the settlement and forward yields.

INVOICE PAYMENT

SETTLEMENT: The sum of the purchase price and accrued interest.

TERMINATION: The sum of the coupon income earned and the reinvestment income on coupon income, minus the sum of the net profit/loss and the termination value.

NET CHANGE: TERMINATION - SETTLEMENT.

NOTE: The purchase value is defined as the settlement price plus accrued interest at settlement. The termination value is the termination price plus accrued interest at termination.

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FORWARD BREAKEVEN PRICING TABLE

Page 2 displays a scenario analysis of forward prices generated given different repo and current market prices for a specific settlement date. The central **PRICE AT SETTLEMENT** defaults to the settlement price, and the central **REPO RATE** defaults to the repo rate from page 1. In addition to the fields on page 1, the following fields appear:

ROUND (Y/N)?: Choose to display the prices in the table as (Y) fractions or (N) decimals rounded to the nearest 256th.

CHANGE: The increments between the **PRICES AT SETTLEMENT**.

CHG: The increments between the **REPO RATES**.

INFLATION-INDEXED CALCULATIONS

FPA uses inflation accretion when calculating forward pricing for inflation-indexed securities. *TIPS*

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FPA uses several steps to calculate the forward price. FPA adjusts the clean price for inflation, calculates the horizon date forward price, and removes the inflation accretion to back into a forward price for the settlement date. For more information on Treasury Inflation-Indexed Securities, enter TIPS <Go>.

BANK OF ITALY REPO CALCULATIONS

The Bank of Italy's repo quotation takes into account the Scarto tax payable on most Italian government bonds. The Scarto tax is assumed to be reclaimable, so it is built into the gross rate. NOTE: The gross repo interest is calculated on the net start amount and not on the gross start amount.

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The calculation is:

$$PSE(t) = PSE(p) + RDL(p) + [(PSE(p) + RDN(p)) * TRI/100 * (GRI/365)] - RDL(t) - RSE$$

where:

- PSE(t) = The forward price of the bond.
- PSE(p) = The clean price of the bond at the start of the repo.
- RDL(p) = The accrued interest before tax at settlement.
- RDN(p) = The accrued interest after tax at settlement.
- TRI = The repo rate.
- GRI = The days in the repo period.
- RDL(t) = The accrued interest before tax at termination.
- RSE = The Scarto tax.

Scarto tax calculation:

$$(100 - \text{base price for tax}) * \text{withholding tax} * \text{days in repo} / (360 * \text{life in years})$$

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