Appendix 1 - Example 1 - Discounted Cash Flow Analysis - illustration.

A real estate investment fund has issued a debt instrument in order to finance the acquisition of properties it holds within its portfolio.

The loan amounts to 100 m EUR (issued at par), bears a 5% fixed interest rate, and the entirety of the principal is expected to be repaid at the maturity which is contractually set 5 years from the date of issuance. No option features are attached to the instrument.

The debt instrument is calibrated at the time of its issuance as follows:

Calibration Date

Timing	1	2	3	4	5	*Commentary*
Coupons	5	5	5	5	5	Fixed 5% coupon paying debt instrument.
Principal					100	Principal fully repaid at maturity ('Bullet').
Cash Flows	**5**	**5**	**5**	**5**	**105**	Cash Flows are the aggregate of coupons and principal repayments.
Risk Free Rate	1	1.5	2	2	2.5	Prevailing market rate of interest at calibration date.
Credit Spread	2	2	2	2	2	Prevaling credit spread (market and entity specific) at calibration date.
Instrument Specific Spread	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**Calibrated so that valuation outcome is equal to Issuance Price (see below).**
Discount Rate (in %)	**3.6**	**4.1**	**4.6**	**4.6**	**5.1**	Sum / Build-up of the above.
Discount Factor	*1.0*	*0.9*	*0.9*	*0.8*	*0.8*	
Discounted Cash Flows	**4.8**	**4.6**	**4.4**	**4.2**	**82**	
Valuation as at Calibration Date	**100**					**Valuation = Issuance Price.**

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