



April 19, 2017 Secondary Market Release
5.40% October 13, 2036 BGRS
Frequently Asked Questions (FAQs)

Q: Why are these bonds being released to the secondary market from the Central Bank's portfolio?

A: *Investors regularly demand Government paper for their own portfolios. Initial public offerings (IPOs) of Government bonds take place, however, only when the Government has a need for funding. To satisfy this "mismatch", the Central Bank, from time to time, releases holdings from its own portfolio to the market so that the public has an opportunity to invest its funds.*

Q: How did the Central Bank acquire these bonds?

A: *The Central Bank purchased these bonds either through an IPO or through a private offering.*

Q: Why is the price of this particular bond higher than \$100 (par)?

A: *The price of this bond is higher than \$100 because the coupon (5.40%) is higher than what the Government would expect to pay on a similar bond issued today to mature in October 2036. When the Government issued this bond in October 2016 it expected to pay 5.40% on a bond maturing in October 2036. Now, the Government would expect to pay 5.14% on a bond issued today to mature in October 2036. To ensure that an investor who buys a new bond issued today paying 5.14% is no worse off than an investor who buys the old bond today paying 5.40%, the price of the old bond is now \$103.18. This equalizes the yields to maturity on both the new and old bonds.*

Q: Why would the Government expect to pay less than 5.40% on new bonds issued today maturing in October 2036?

A: *A number of factors determine the coupon fixed for a new bond issue. For Bahamas Government bonds arranged by the Central Bank, the two major benchmarks considered are: (1) the prevailing yield on similar recently-issued Bahamas Government bonds and (2) U.S. Treasury bonds with a similar maturity. The domestic Prime Rate and the prevailing rate on the 91-day Bahamas Treasury bill are also considered.*

Q: I currently own units of this bond. Does the new market price affect the value of my holdings?

A: *You will be affected by the new market price only if you conduct a trade in the secondary market—that is, if you sell your current holdings or if you were to buy this bond today. If you sell bonds you currently own, you will experience a capital gain of about \$3.13 since you purchased the bonds for \$100 each, but will sell them at today's bid price of around \$103.13. If you bought more of these bonds today, you will pay the ask price of \$103.18 and the bond would behave as if the coupon is 5.14%.*

Q: I currently own units of this bond and receive interest payments of \$2.70 semiannually (\$5.40 annually) per bond. Does the new market price affect my coupon payments?

A: *No. Bondholders will continue to receive their usual semiannual coupon payments of \$2.70. Changes in market prices do not affect coupon payments. Even investors who purchase this bond today will receive the contractual \$2.70 semiannual interest payment.*

Q: I currently own units of this bond with a face value of \$100 per bond. Does the new market price affect how much I will receive when the bond matures?

A: *No. Bondholders will receive the face value of \$100 at maturity. Changes in market prices do not affect the face value of the bond. Even investors who purchase this bond today will receive the face value of \$100 at maturity.*

Q: I currently own units of this bond with a face value of \$100 per bond. Can I redeem all or part of my holdings before maturity?

A: *Yes. If you redeem your holdings in this bond, in whole or in part, before maturity you will do so at the bid price. The bid price is currently \$103.13 per bond. For example, if you own 10 bonds with a face value of \$1,000, and you redeem them all, you will receive 10 x \$103.13 = \$1,031.30 plus accrued interest due to you.*

Q: I currently own units of this bond with a face value of \$100 per bond. Can I purchase more from the Central Bank?

A: *Yes—if the Central Bank has released some from its portfolio to the secondary market. If you purchase these bonds today you will do so at the ask price. The ask price is currently \$103.18 per bond. For example, if you were to buy 10 bonds with a face value of \$1,000, you will pay 10 x \$103.18 = \$1,031.80 plus accrued interest due to the seller.*

Q: I do not currently own units of this bond. Can I purchase some from Central Bank?

A: *Yes—if the Central Bank has released some from its portfolio to the secondary market. If you purchase these bonds today you will do so at the ask price. The ask price is currently \$103.18 per bond. For example, if you were to buy 10 bonds with a face value of \$1,000, you will pay 10 x \$103.18 = \$1,031.80 plus accrued interest due to the seller.*

Q: I currently own units of this bond. Can I still transfer them to a third party?

A: *Yes. You will complete a Stock Transfer Form at the Central Bank or at your broker. This process has not changed.*

Q: How would I calculate the new (approximate) market price of the bond myself?

A: *You would have to know how much the Government now expects to pay on a similar bond to be issued today (new bond). In this case, the new coupon (market rate) is 5.14%. Then, you would simply apply the standard bond pricing model to calculate the price. The formula to use is:*

$$C \left[\frac{1 - (1 + r)^{-n}}{r} \right] + F \left[\frac{1}{(1 + r)^n} \right]$$

Where:

- C = the semiannual coupon payment (\$5.40/2 or \$2.70)*
- r = the decimalized semiannual market rate (0.0514/2 or 0.0257)*
- n = the number of semiannual periods before maturity (19.5 years x 2 = 39)*
- F = Face value at maturity (\$100)*