



INVESTING IN BONDS- GOVERNMENT BONDS

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NCBA Investment Bank is regulated by Capital Markets Authority



WHO WE ARE

- NCBA Investment Bank (NCBA IB) is a wholly owned subsidiary of NCBA Group PLC.
- We offer customised financial solutions to our clients which include: advisory services, investment and brokerage services.
- Our brokerage unit include; Equities Trading for listed securities and Over the counter ("OTC") transactions; Derivatives Trading; Fixed Income Trading for both corporate and government bonds; and Research Services

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ABOUT ME

- Florence Kinyua - a Fixed Income Trader at NCBA Investment Bank.
- Over 10 years of experience in the investment industry.
- Holds an MBA in Finance from United States International University, (USIU).
- A Level III candidate for Global Securities offered by Chartered Institute for Securities & Investment (CISI)

INTRODUCTION TO BOND FEATURES

Agenda:

- Definition of key terms
- Participants in bond markets
- Types of bond markets
- The structure and pricing of a bond
- Risk and benefits of investing in a bond
- Opportunities of investing in bonds

DEFINITION OF KEY TERMS

- **Bond**- is a loan or debt. The issuer of the bond receives money from the initial buyer and undertakes to pay the bondholder regular interest and return the money at a specified future date.
- **Issuer** - The entity borrowing the money. For Kenyan government bonds, the issuer is the Republic of Kenya through the Central Bank of Kenya (CBK)
- **Face value** - The principal amount paid out to the bond holder upon maturity. This is also the amount the coupon payments are based on.
- **Yield to maturity (YTM)** - Overall interest rate earned by an investor who buys a bond at the market price and holds it until maturity. Is used to determine the price of a bond and has an inverse relationship with the price i.e.
 1. Where $YTM = \text{Coupon rate}$, bond trades at par (i.e. 100)
 2. Where $YTM > \text{Coupon rate}$, bond trades below par (i.e. discount)
 3. Where $YTM < \text{Coupon rate}$, bond trades above par (i.e. premium)



DEFINITION OF KEY TERMS

- **Coupon rate** - the annual rate of interest on the income a bondholder receives, expressed as a percentage of the bond's par value or face value. Coupons are paid out semi-annually, i.e. every 6 months
- **Accrued interest** - The amount of interest earned on a bond but has yet to be paid out.
- **Dirty Price** - A price for a bond or other instrument that takes no account of accrued entitlement to interest, and thus goes up and down on payment dates.
- **Clean price** - A price for a bond that includes accrued entitlement to interest.
- **Issue number** - The unique identification number for each government bond issued, e.g. IFB1/2020/11 is the 1st infrastructure bond issued in 2020 with an investment period of 11 years
- **Bond prospectus** – A legal document from the issuer giving an overview of the bond being issued.



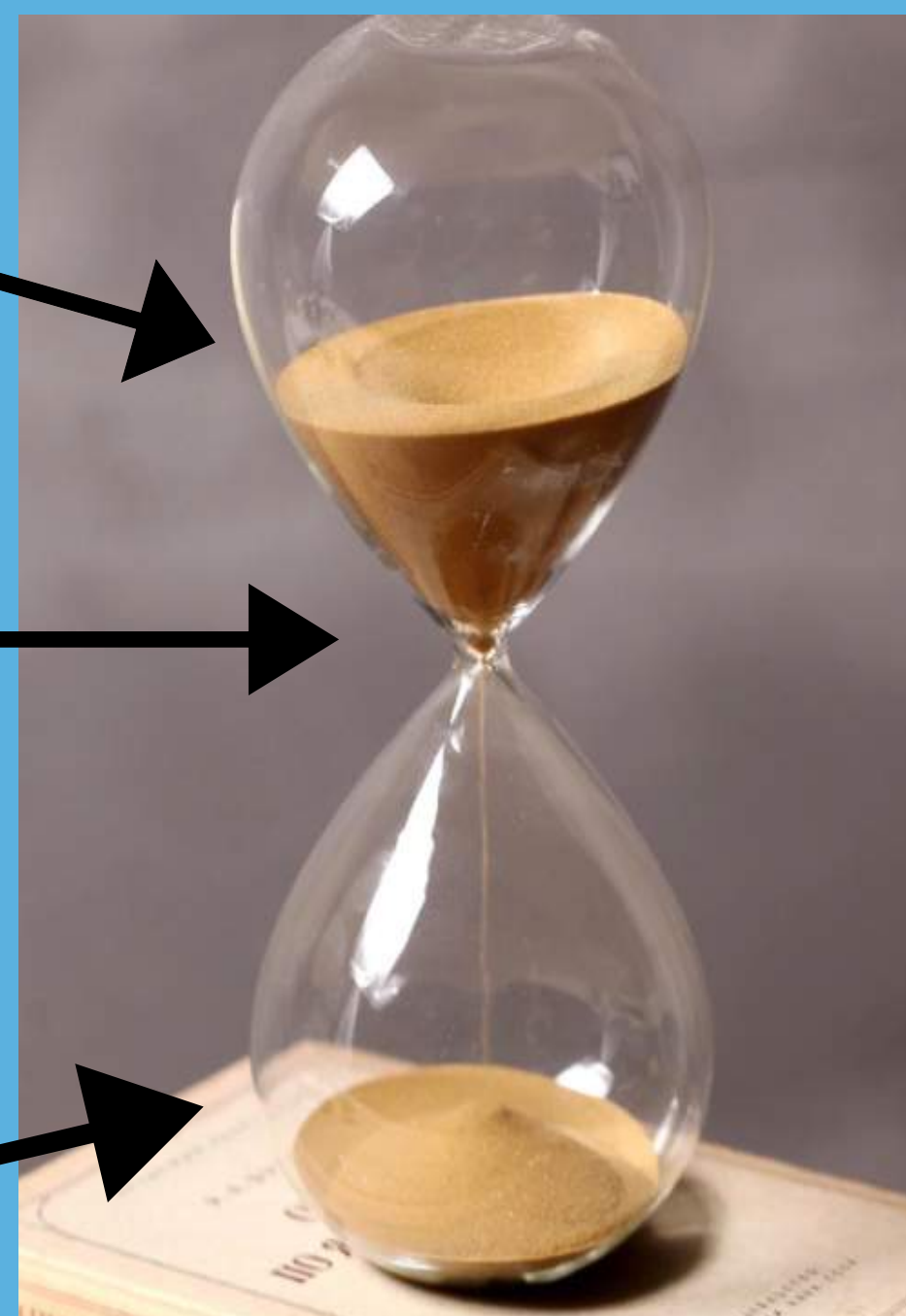
BOND MARKET PARTICIPANTS

Investors

Banks, funds, insurances

Corporate investors

Individual investors



Intermediaries

Banks

Investment banks/
stock brokers

NSE

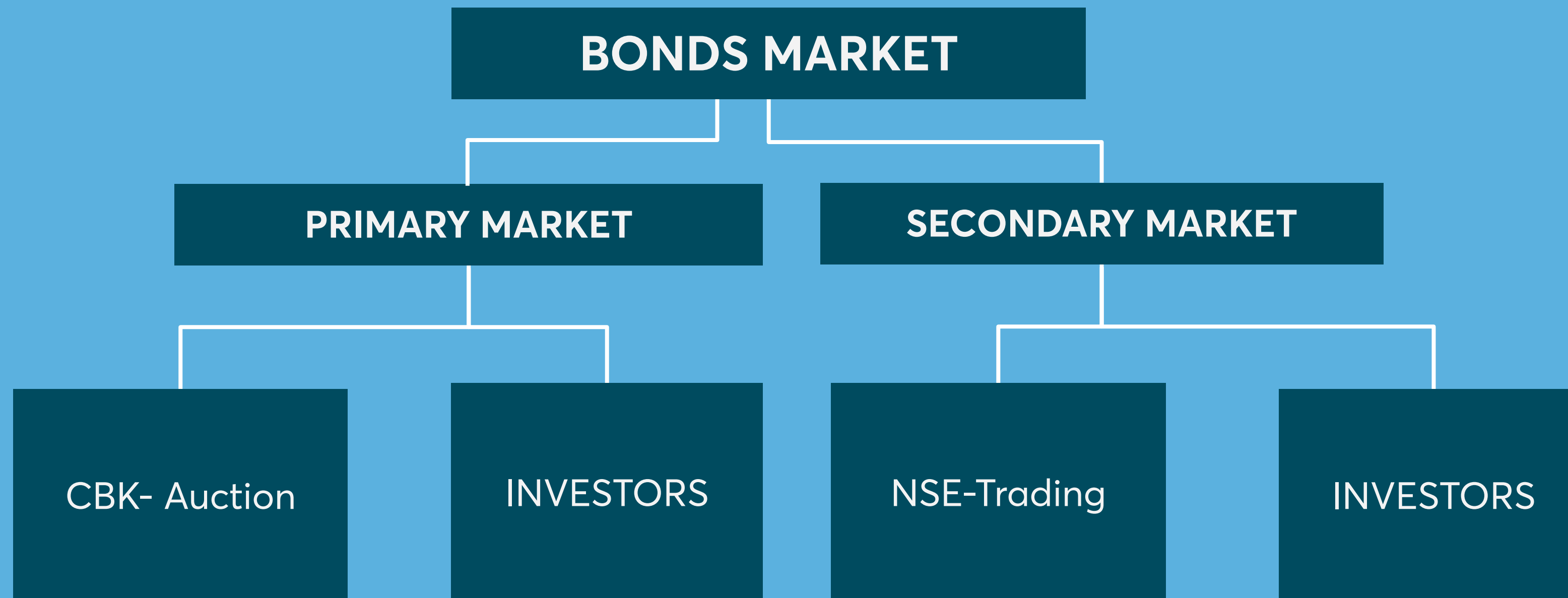
Regulators

CBK

CMA &
KASIB

CMA

TYPES OF BONDS MARKET





THE PRIMARY BOND MARKET

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FORMS OF PRIMARY BOND ISSUES

New bond issue

- Bond is auctioned for the first time
- Bidding is competitive or non competitive

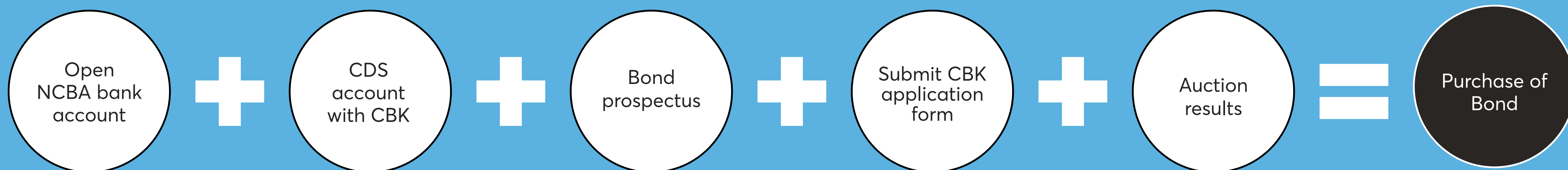
Primary bond re-open

- Re-auctioning of a previously issued bond
- Bidding is competitive or non-competitive

Tap sale

- Immediate re-open of an issued bond that did not raise the target amount
- Bidding is strictly non-competitive and issued at current market price

HOW TO INVEST IN THE PRIMARY MARKET





THE BOND AUCTION PROCESS

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SAMPLE PROSPECTUS FOR SEPT 2020

FXD2/2010/15

YIELD(YTM)	CLEAN PRICE
8.000%	104.185
8.125%	103.647
8.250%	103.112
8.375%	102.581
8.500%	102.053
8.625%	101.529
8.750%	101.008
8.875%	100.490
9.000%	99.975
9.125%	99.464
9.250%	98.956
9.375%	98.451
9.500%	97.950
9.625%	97.451
9.750%	96.956
9.875%	96.464
10.000%	95.975
10.125%	95.489
10.250%	95.006
10.375%	94.527
10.500%	94.050
10.625%	93.576
10.750%	93.105
10.875%	92.637

IMPORTANT INFORMATION

The bond attracts Accrued Interest (AI) of Ksh 2.423 per Ksh 100. Withholding Tax is computed on clean prices.

Example: If quoted yield is 9%, Dirty price is the clean price (Ksh 99.975) plus AI (Ksh 2.423) which equals Ksh.102.398.

FXD1/2020/15

YIELD(YTM)	CLEAN PRICE
10.000%	120.794
10.125%	119.712
10.250%	118.646
10.375%	117.593
10.500%	116.554
10.625%	115.529
10.750%	114.518
10.875%	113.519
11.000%	112.534
11.125%	111.562
11.250%	110.603
11.375%	109.656
11.500%	108.721
11.625%	107.799
11.750%	106.889
11.875%	105.990
12.000%	105.103
12.125%	104.227
12.250%	103.363
12.375%	102.509
12.500%	101.667
12.625%	100.835
12.750%	100.014
12.875%	99.203

IMPORTANT INFORMATION

The bond attracts Accrued Interest (AI) of Ksh 0.981 per Ksh 100. Withholding Tax is computed on clean prices.

Example: If quoted yield is 12.756%, Dirty price is the clean price (Ksh 99.975) plus AI (Ksh 0.981) which equals Ksh.100.956.


FXD1/2011/20

YIELD(YTM)	CLEAN PRICE
10.000%	99.974
10.125%	99.170
10.250%	98.375
10.375%	97.589
10.500%	96.811
10.625%	96.042
10.750%	95.282
10.875%	94.530
11.000%	93.786
11.125%	93.050
11.250%	92.322
11.375%	91.602
11.500%	90.890
11.625%	90.185
11.750%	89.489
11.875%	88.799
12.000%	88.118
12.125%	87.443
12.250%	86.776
12.375%	86.116
12.500%	85.463
12.625%	84.817
12.750%	84.178
12.875%	83.546

IMPORTANT INFORMATION

The bond attracts Accrued Interest (AI) of Ksh 3.462 per Ksh 100. Withholding Tax is computed on clean prices.

Example: If quoted yield is 10%, Dirty price is the clean price (Ksh 99.974) plus AI (Ksh 3.462) which equals Ksh.103.435.



Central Bank of Kenya

**PROSPECTUS FOR RE-OPENED FIFTEEN -YEAR AND
TWENTY -YEAR
FIXED COUPON TREASURY BONDS**

**FXD2/2010/15 , FXD1/2020/15
AND
FXD1/2011/20**

TOTAL VALUE: KSHS 50 BILLION

SEPTEMBER 2020

For enquiries please contact Central Bank of Kenya, Financial Markets Department on 2860000 or our Branches in Mombasa, Kisumu and Eldoret or Nyeri, Meru and Nakuru Currency Centres or any Commercial Bank, Investment Bank, Stock Brokers or send an email to NDO@centralbank.go.ke or visit the CBK website on www.centralbank.go.ke

Source: CBK



Source: CBK



READING THE AUCTION RESULTS

A. RESULTS FOR RE-OPEN FIVE, TEN & FIFTEEN YEAR TREASURY BONDS ISSUE NOS. FXD1/2020/5, FXD2/2018/10 & FXD1/2019/15 DATED 27/07/2020

Source: CBK

The auction outcome is summarised in the table below.

TENOR	FXD1/2020/5	FXD2/2018/10	FXD1/2019/15	
Due Dates	05/05/2025	04/12/2028	09/01/2034	
Total Amount Offered (Kshs. M)				60,000.00
Total bids Received at cost (Kshs. M)	65,336.90	55,488.14	60,947.80	181,772.83
Performance Rate (%)	108.89	92.48	101.58	302.95
Amount Accepted (Kshs. M)	9,344.71	21,267.34	50,242.43	80,854.47
Of which : Competitive bids	5,348.74	14,716.61	44,982.73	65,048.08
: Non-competitive bids	3,995.97	6,550.73	5,259.70	15,806.39
Bid-to-Cover Ratio	6.99	2.61	1.21	2.25
Market Weighted Average Rate (%)	10.561	11.673	12.405	
Weighted Average Rate of Accepted Bids (%)	10.260	11.453	12.344	
Price per Kshs 100 at average yield	107.653	106.971	103.331	
Coupon Rate (%)	11.667	12.502	12.857	
Purpose/ Application of funds:				
Redemptions				-
New Borrowing/Net Repayment				80,854.47

B. FORTHCOMING TREASURY BOND(S) ISSUES FOR THE MONTH OF AUGUST 2020

- (i) The specific features of the Bond(s), that is the Tenor, Amounts, Coupon rates and issue terms will be provided in the prospectus before the issue date.

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THE SECONDARY BOND MARKET

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IMPLIED YIELDS



nairobi
securities
exchange

Discover Opportunity

Value Date

September 4, 2020

Government of Kenya Fixed Rate Bonds Listed at the NSE

Issue No.														Issue Date	Last Coupon Payment Da	Next Coupon Payment Da	Maturity Date	Tenor to Maturity (Days)	Outstanding Amount Shs	Fixed Coupon Rate	Implied Yield To Maturit	Clean Price Per 100	Accrued Interest Per 1	Dirty/Full Price Per 100
FXD1/2019/015	K	E	5	0	0	0	0	0	9	4	3	0		January 28, 2019	July 27, 2020	January 25, 2021	January 9, 2034	4,875	80,809.08	12.8570%	12.0983%	104.9390	1.3775	106.3165
FXD2/2019/015	K	E	6	0	0	0	0	0	1	1	0	4		May 13, 2019	May 11, 2020	November 9, 2020	April 24, 2034	4,980	42,447.30	12.7340%	12.1798%	103.6037	4.0581	107.6618
FXD3/2019/015	K	E	6	0	0	0	0	0	1	3	2	8		July 29, 2019	July 27, 2020	January 25, 2021	July 10, 2034	5,057	50,552.95	12.3400%	12.2375%	100.6461	1.3221	101.9682
FXD1/2020/015	K	E	6	0	0	0	0	0	7	2	1	8		February 24, 2020	August 24, 2020	February 22, 2021	February 5, 2035	5,267	5,191.25	12.7560%	12.2946%	103.0742	0.3855	103.4597
FXD1/2010/25	K	E	4	0	0	0	0	0	3	0	8	9		June 28, 2010	June 15, 2020	December 14, 2020	May 28, 2035	5,379	20,192.50	11.2500%	12.3233%	92.7367	2.5034	95.2402
FXD1/2016/20	K	E	5	0	0	0	0	0	6	5	4	3		September 26, 2016	March 23, 2020	September 21, 2020	September 1, 2036	5,841	12,761.20	14.0000%	12.4067%	110.9631	6.3462	117.3093
FXD1/2018/20	K	E	5	0	0	0	0	0	8	3	2	5		March 26, 2018	March 23, 2020	September 21, 2020	March 1, 2038	6,387	31,587.70	13.2000%	12.6248%	104.0071	5.9835	109.9906
FXD2/2018/20	K	E	5	0	0	0	0	0	8	6	5	5		July 30, 2018	July 27, 2020	January 25, 2021	July 5, 2038	6,513	56,109.20	13.2000%	12.6700%	103.6848	1.4143	105.0991
FXD1/2019/20	K	E	5	0	0	0	0	0	9	9	8	4		April 15, 2019	April 13, 2020	October 12, 2020	March 21, 2039	6,772	23,560.05	12.8730%	12.7355%	100.9381	5.0926	106.0307
SDB1/2011/30	K	E	2	0	0	0	0	0	2	1	3	5		February 28, 2011	August 17, 2020	February 15, 2021	January 21, 2041	7,444	28,144.70	12.0000%	12.8617%	93.8073	0.5934	94.4007
FXD1/2018/25	K	E	5	0	0	0	0	0	8	5	4	9		June 25, 2018	June 22, 2020	December 21, 2020	May 25, 2043	8,298	43,224.05	13.4000%	13.0100%	102.7775	2.7242	105.5016

Infrastructure Bonds Listed at the NSE

IFB1/2011/12Yr	K	E	2	0	0	0	0	0	2	2	4	2		October 3, 2011	March 23, 2020	September 21, 2020	September 18, 2023	1,109	11,735.50	12.0000%	9.1250%	107.4883	5.4396	112.9279
IFB1/2009/12Yr	K	E	4	0	0	0	0	0	3	1	9	6		February 23, 2009	August 10, 2020	February 8, 2021	February 8, 2021	157	7,868.37	12.5000%	9.1633%	101.3639	0.8585	102.2224
IFB2/2009/12Yr	K	E	4	0	0	0	0	0	3	2	0	4		December 7, 2009	May 25, 2020	November 23, 2020	November 22, 2021	444	5,388.83	12.0000%	9.2567%	103.0636	3.3626	106.4262
IFB1/2013/12Yr	K	E	3	0	0	0	0	0	8	1	3	0		September 30, 2013	March 23, 2020	September 21, 2020	September 15, 2025	1,837	27,925.35	11.0000%	9.8750%	102.8976	4.9863	107.8839
IFB1/2014/12Yr	K	E	4	0	0	0	0	0	1	1	0	9		October 27, 2014	April 20, 2020	October 19, 2020	October 12, 2026	2,229	27,045.95	11.0000%	9.7633%	104.2066	4.1401	108.3467
IFB1/2015/12Yr	K	E	4	0	0	0	0	0	1	6	5	3		March 30, 2015	March 23, 2020	September 21, 2020	March 15, 2027	2,383	51,192.20	11.0000%	9.8238%	102.7730	4.9863	107.7593
IFB1/2015/9Yr	K	E	5	0	0	0	0	0	4	1	0	0		December 14, 2015	June 8, 2020	December 7, 2020	December 2, 2024	1,550	25,119.55	11.0000%	9.5067%	102.7629	2.6593	105.4222
IFB1/2016/9Yr	K	E	5	0	0	0	0	0	4	6	5	4		May 23, 2016	May 18, 2020	November 16, 2020	May 12, 2025	1,711	36,303.20	12.5000%	10.0500%	106.5308	3.7431	110.2739
IFB1/2016/15Yr	K	E	5	0	0	0	0	0	6	6	5	9		October 24, 2016	April 20, 2020	October 19, 2020	October 6, 2031	4,049	40,029.65	12.0000%	10.9833%	104.5632	4.5165	109.0797
IFB1/2017/12Yr	K	E	5	0	0	0	0	0	6	9	8	0		February 27, 2017	August 24, 2020	February 22, 2021	February 12, 2029	3,083	14,330.40	12.5000%	10.3750%	107.9254	0.3777	108.3031
IFB1/2017/7Yr	K	E	5	0	0	0	0	0	7	9	8	8		November 27, 2017	May 25, 2020	November 23, 2020	November 18, 2024	1,536	41,469.45	12.5000%	10.0250%	106.5463	3.5027	110.0490
IFB1/2018/15Yr	K	E	5	0	0	0	0	0	8	0	9	3		January 29, 2018	July 27, 2020	January 25, 2021	January 10, 2033	4,511	41,184.80	12.5000%	11.2130%	107.6181	1.3393	108.9574

Source: NSE

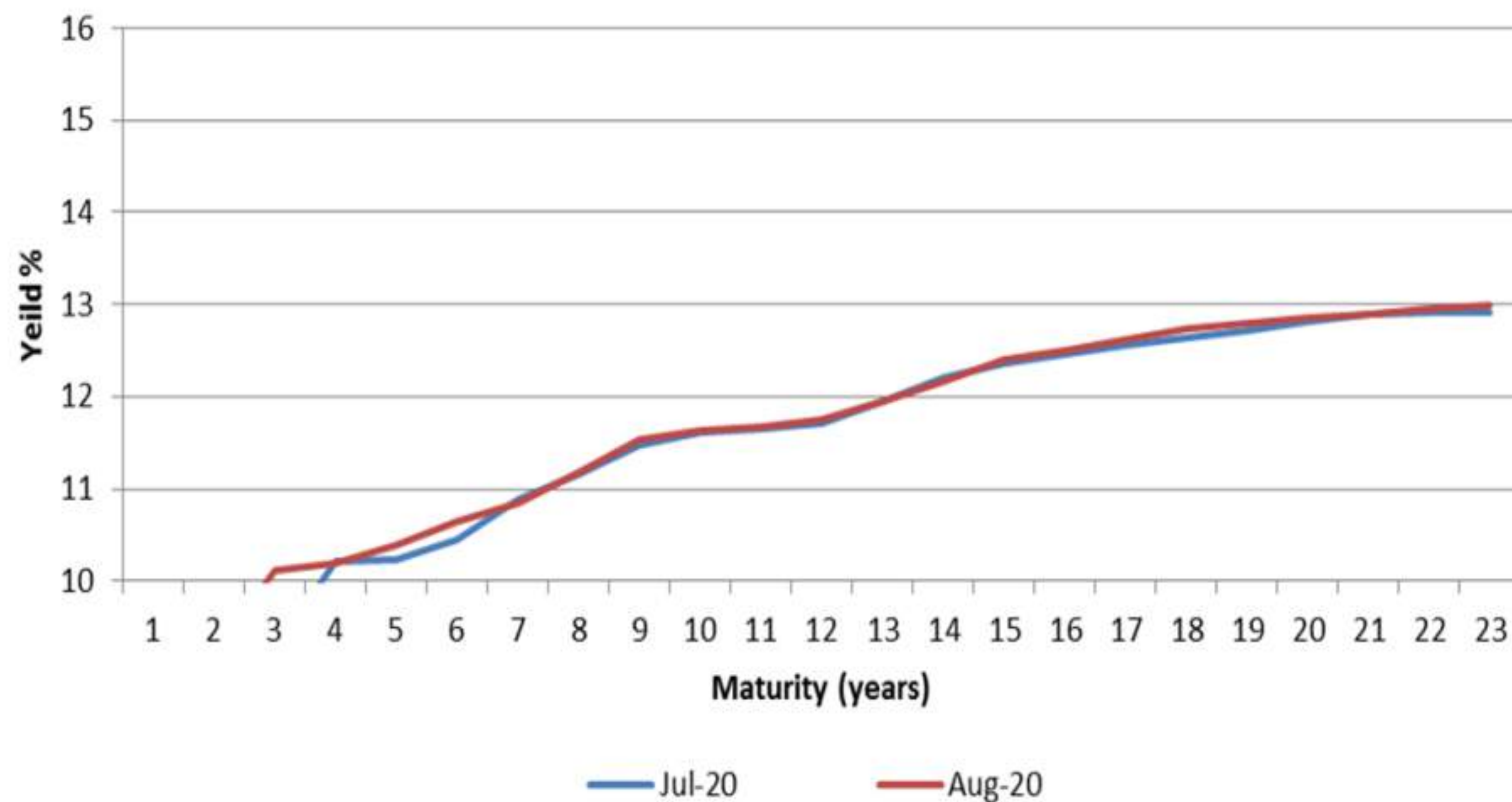
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THE YIELD CURVE

Source: NSE



BONDS TRADING STATISTICS

Sep-20

Table 7: Bond Trading Summary

SECURITY_ID	CONSIDERATION	HIGH YIELD	LOW YIELD	DEALS
IFB1/2020/011	23,063,962,980.55	11.3875	10.2300	951
IFB1/2020/009	8,015,488,938.50	11.0457	9.6800	38
FXD2/2018/020	7,542,423,716.70	12.9310	12.0600	145
FXD1/2019/005	4,842,749,366.40	10.2798	9.2087	17
IFB1/2019/016	4,020,438,854.95	11.7949	10.5800	35
IFB1/2017/007	3,888,044,755.90	10.5000	8.8300	108

Source: NSE



NCBA

BOND PRICING

Issue Number:	IFB1/2019/25
ISIN Number:	
Issue Date:	25-Mar-19
Maturity Date:	22-Feb-44
Last Payment Date:	23-Mar-20
Next Payment Date:	21-Sep-20
Trade Date:	9-Sep-20
Value Date:	9-Sep-20
Coupon Rate:	12.2000%
Nominal:	100
Yield To Maturity:	11.6000%
Dirty Price:	110.1152
Accrued Interest:	5.6978
Clean Price:	104.4174
Face value, KES	10,000,000.00
Consideration, KES	11,011,520.00
Brokerage commission @ 0.024%	2,642.76
Other transaction levies @ 0.011%	1,211.27
Total charges @ 0.035%	3,854.03
Net amount payable	11,015,374.03
Net amount Receivable	11,007,665.97

1st 25-year infrastructure bond issued in 2019

Determines the amount of interest accrued to value date

Determines the settlement date of the bond
The interest earned every year, paid out in 2 instalments (every 6 months)

YTM- Determines the clean price
Sum of clean price and interest accrued

Holding amount of the bond that interest earned is based on

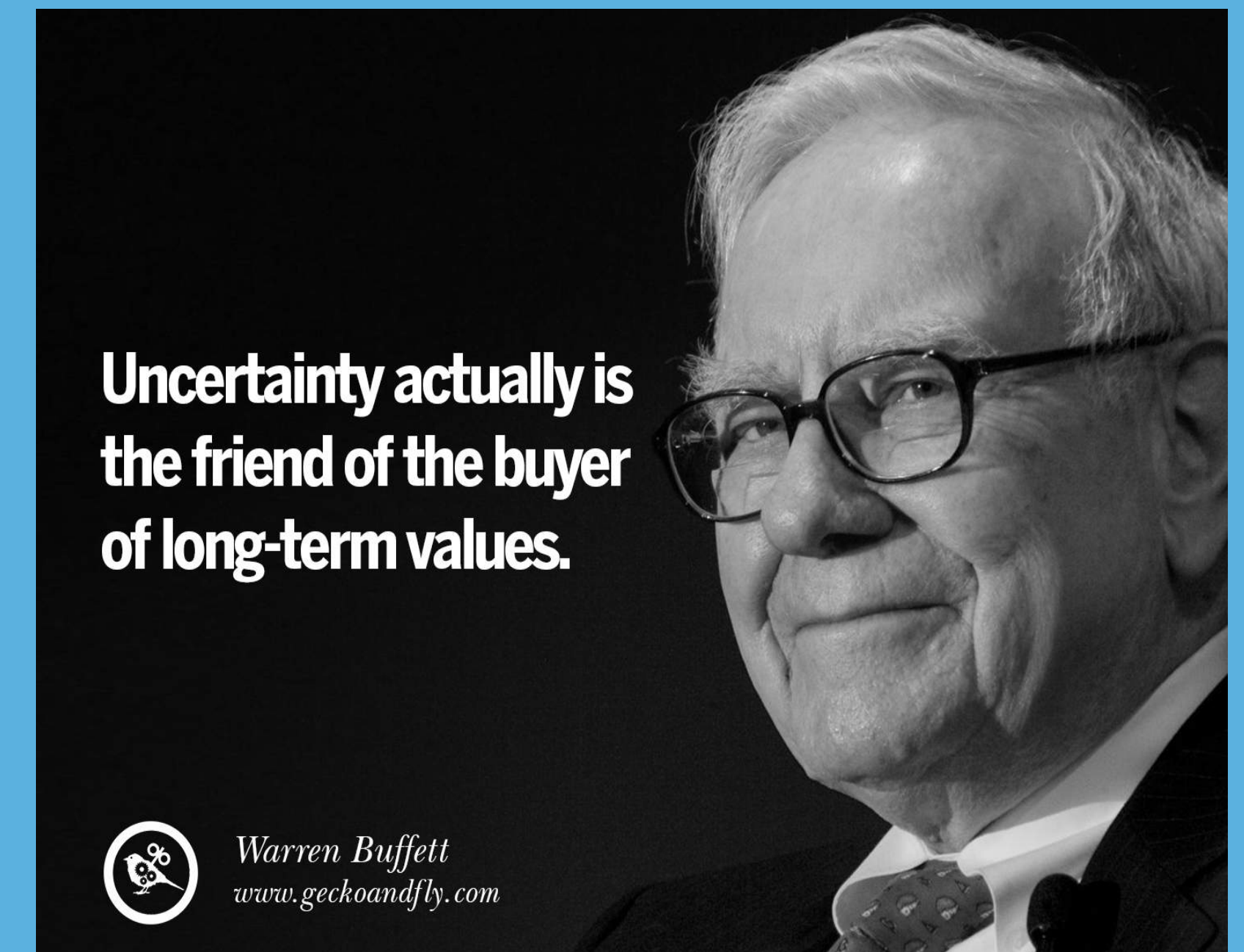
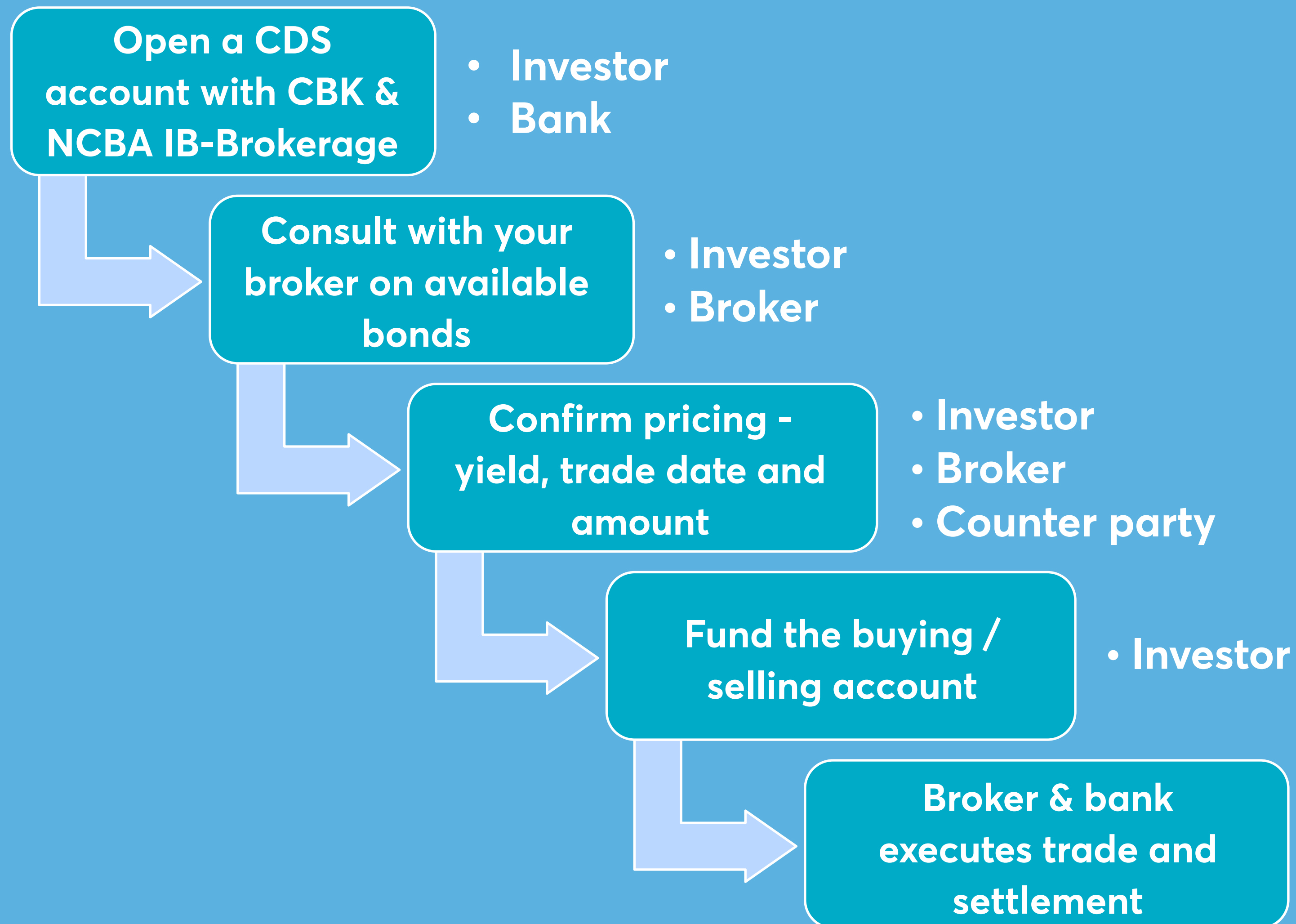
Total cost of transacting this bond

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THE PROCESS OF INVESTING IN THE SECONDARY MARKET



COMMON RULE OF THUMB



Never invest in an asset you do not understand

A Balanced diet - don't put all your eggs in one basket

Assess your risk- higher yield come with higher risk

Pay attention to costs - read the bond prospectus and pricing

Time: allow your investment to grow



COUNTING THE COST OF INVESTING IN BONDS

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FACTORS AFFECTING BOND YIELDS

Interest rates -
interbank



FX Currency



Economic growth &
Inflation





SOURCES OF INFORMATION

- CBK- www.centralbank.go.ke
- CMA- www.cma.or.ke
- NSE- www.nse.co.ke
- KASIB- www.kasib.co.ke
- Media- business and financial news channels and newspapers
- Financial advisors- NCBA investment bank, etc.

BENEFITS OF INVESTING IN BONDS

- Safer than stocks in the preservation of capital
- Reliable returns through fixed coupon payments
- Infrastructure bonds are a favorite due to their exemption from income tax
- Fairly liquid since they can be traded in the secondary market
- Less volatile than stocks on a day-to-day basis
- Opportunity to make capital gains in the future



RISKS OF INVESTING IN BONDS

- Re-investment risk
- Exposure to interest rate risk
- Forgoing potential higher returns since the coupons are fixed
- Investment requires large sums of capital



INVESTMENT OPTIONS IN BONDS

- Registering Individual CDS accounts - CBK and brokerage
- Nominee account through a custodian-designated vs omnibus
- Collective investments scheme like unit trusts - money market funds





Q & A SESSION

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