



# TREASURY BONDS

## What is a Treasury Bond?

Treasury bonds are secure medium to long term debt instrument issued by the government to raise money in local or foreign currency for a period of more than one year. They offer interest payments every six months throughout the bond's maturity.

## Types Of Treasury Bonds

The types of bonds may be defined by their purpose, interest rate structure, maturity structure, and even by issuer. Generally, the Kenya government issues the following types of bonds:

- **Fixed Coupon/Rate Bonds** - These bear predetermined fixed coupon (interest) which is paid semi-annually based on the face value held during the life of the bond.
- **Zero Coupon Bonds** - They do not pay out interest, rather, they are sold at a discount similar to Treasury Bills rendering a profit at maturity when the bond is redeemed for its full face value.
- **Floating Rate Bonds** - These pay a semi-annual interest based on a benchmark rate, for example average rate of 91-days or 182-days Treasury bill, plus some margin.
- **Infrastructure Bonds**- The funds raised are used to fund specific infrastructure developments and this type of bond garners a lot of interest due to their tax-free interest.

## Markets / Issues

**Primary Issue** - This refers to the first issue of bond by the issuer through an auction process.

**Secondary Issue** - This refers to the market where bond purchases/sales are done between counterparties after issuance. This is done through the Nairobi Securities Exchange.

**Treasury Bond Reopening** - This is where a bond originally issued in the market is reopened /reoffered to the market on any date after the value date. Reopening is used as bond market deepening.

## Advantages of Investing in Bonds

- **Secure:** Treasury bonds are units of government debt, meaning that you are investing in the Kenyan government.
- **Regular Returns:** Most bonds carry semi-annual interest payments, allowing investors to receive returns every six months.
- **Flexibility:** The Central Bank auctions several types of bonds enabling investors to find bonds that fit their needs.
- **Auctioned Monthly:** Monthly auctions of bonds provides ample investment opportunities for diverse financial needs.

## Important Things to Know As You Invest in Bonds

1. The first step is to have a CDS account at Central Bank of Kenya
2. Minimum amount required to invest in a treasury bonds is KES 50,000.00 for fixed rate bonds and KES 100,000 for infrastructure bonds.
3. Local and foreign individuals and institutions are allowed to purchase treasury bonds but they must have a local bank account either directly or through a nominee account with a custodian or bank.
4. To purchase treasury bonds, investors must submit correctly and fully filled treasury bonds application forms at any branch of the CBK or through an agent of the CBK ( banks, stock brokers, investment banks and investment advisors). The application forms are also available on the Central Bank website.
5. On the application form, you have two options for selecting a rate, which is the percentage of your face value investment that you will receive in semiannual interest payments. If the bond has a pre-determined coupon rate in the prospectus, you should choose **Non-Competitive/Average Rate**. If the prospectus says that the coupon rate is market determined, you can select either the **Interest/Competitive Rate** or the **Non-Competitive/Average Rate**. Investors choosing the Interest/Competitive Rate bid on the bonds by submitting the coupon rates they would like to have for that bond. The Central Bank then decides what bids it will accept and, using an average of those rates, determines what rate the Non-Competitive/Average Rate investors will receive.