

PROSPECTUS
FOR
GOVERNMENT OF KENYA
INFRASTRUCTURE BOND

8 YEAR BOND

ISSUE NO. IFB 1/2010/8

TOTAL VALUE KSHS 14.5BN

VALUE DATE 01ST MARCH 2010

1. SECOND INFRASTRUCTURE BOND: IFB2/2009/12

The Minister for Finance in his Budget Speech of FY 2009/10 proposed to raise Ksh 32.9bn through issuance of infrastructure bonds in the domestic market. Proceeds from the bonds targeted projects in three sectors; Roads (Ksh 16,968,975,000); Energy (Ksh 7,548,101,789); and Water, Sewerage and Irrigation (Ksh 4,611,929,000). Of this, the Government raised Ksh 18,399,669,804.50 through IFB2/2009/12 issued in December 2009, thus leaving Ksh 14,500,330,195.50 to be raised through the third infrastructure bond.

The IFB2/2009/12 registered a remarkable performance, with a total of 1,484 bids valued Ksh 44.12 bn at face value or 238% subscription being realised. With coupon rate revised downward to 12% from IFB1 at 12.5%, average yield to maturity declined to 12.537% from 13.505%. The bond has so far transacted nine (9) deals valued Ksh 720mn in the secondary market.

2. THIRD INFRASTRUCTURE BOND OFFER: IFB1/2010/08: Ksh 14.5bn

Building on the market confidence in Government securities and public goodwill in supporting infrastructure development, the Government proposed to raise Ksh 32.9bn in the FY 2009/10 through Infrastructure Bonds issuance to fund targeted projects in Roads, Energy and Water sectors. The Central Bank of Kenya successfully raised Ksh 18.4bn as the first tranche of this amount through IFB2/2009/12 dated December 07th 2009. The Government is now targeting to raise the remainder Ksh 14.5bn as final tranche for Infrastructure Bonds allotment in the FY 2009/10. The proceeds will be utilised as follows; Ksh 3.5bn (24.14%) towards ASAL Flood control and irrigation, Ksh 8bn (55.17%) towards ongoing construction of new roads, overhaul of civil works and purchase of plant equipment; and Ksh 3bn (20.69%) to finance ongoing projects in Geothermal Resources Exploration and Rural Electrification in the Energy sector.

Issuer : Republic of Kenya

Amount : Ksh 14,500mn

Purpose : Final tranche to finance Infrastructure Projects in the following sectors during the Financial Year 2009-10:

1) Water, Sewerage and Irrigation: ASAL Flood Control and Irrigation projects spread across the country (**Ksh 3,500mn**).

2) Roads: Construction of new roads in 23 districts (**Ksh 1,288.04mn**); Overhaul & Refurbishment of civil works (**Ksh 5,706.89 mn**) and Purchase of Plant & Equipment (**Ksh 1,005.07mn**).

3) Energy: Geothermal Resources Exploration (**Ksh 2,205mn**); and Rural Electrification for 130 districts (**Ksh 795mn**)

Tenor : **Eight (8) Years**

Price : Par, Discounted or Premium

Period of Sale : 12/02/2010 to 24/02/2010

Value Date : **March 1st, 2010**

Minimum Amount : Kshs. 100,000

Interest Rate (%) : **9.750% p.a.** payable semi-annually on outstanding principal amount

Interest Payment Dates : 30/08/2010, 28/02/2011, 29/08/2011, 27/02/2012, 27/08/2012, 25/02/2013, 26/08/2013, 24/02/2014, 25/08/2014, 23/02/2015, 24/08/2015, 22/02/2016, 22/08/2016, 20/02/2017, 21/08/2017, 19/02/2018

Taxation	: All payments of discount / interest due will be tax exempt
Redemption Structure	: February 22nd, 2016 – 55.170% of Outstanding Principal amount February 19th, 2018 - Final Redemption of all outstanding amounts
Amortization Amount	: Any outstanding amount up to Ksh 1.0million per CDS account at the time of amortization will be redeemed in full.
Issuing & paying Agent	: The Central Bank of Kenya will receive and/or make all payments related to issuance, interest and principal on behalf of the Issuer
Placing Agents	: Commercial Banks, Non-Bank Financial Institutions, and Licensed Stock Brokers, Investment Banks and Investment Advisors
Issuance Method	: Open Public Auctions.
Auction Method	: Multiple Price Auction
Non-Competitive Bids	: No Upper Limit on the bid amount
Bids Closure	: Wednesday 24th February, 2010, at 2.00pm
Auction Date	: Thursday, 25th February 2010
Results	: Investors should obtain details of amounts payable for successful bids, from Central Bank on the next working day after the auction.
Defaulters	: May be suspended from investing in subsequent Government securities
Commission	: Authorised placing agents will be paid commission at 0.15% of actual sales at cost net of 5% withholding tax.
Rediscounting	: The Central Bank will rediscount the Bond as a last resort at 3% above the prevailing market yield or coupon rate whichever is higher, upon written confirmation to do so from the Nairobi Stock Exchange.
Liquidity	: The bond qualifies for statutory liquidity ratio requirements for Commercial Banks and Non-Bank Financial Institutions as stipulated in the Banking Act CAP 488 of the Laws of Kenya.
Listing	: The Bond will be listed for trading at the Nairobi Stock Exchange.
Registrar	: National Debt Office, Central Bank of Kenya.
Eligibility	: Only CDS Account holders with updated mandates.
Secondary Trading	: Fully paid up Securities will be available for secondary trading in multiples of Ksh 50,000 from March 2nd 2010
Right to accept bids	: Central Bank reserves the right to accept bids in full or part thereof or reject them in total without giving any reason

Additional Information to guide investors to make informed decisions may be obtained from Director of Debt Management, Treasury (Issuer) Director Monetary Operations and Debt Management, CBK (Agent), CBK Website and Authorised Placement Agents