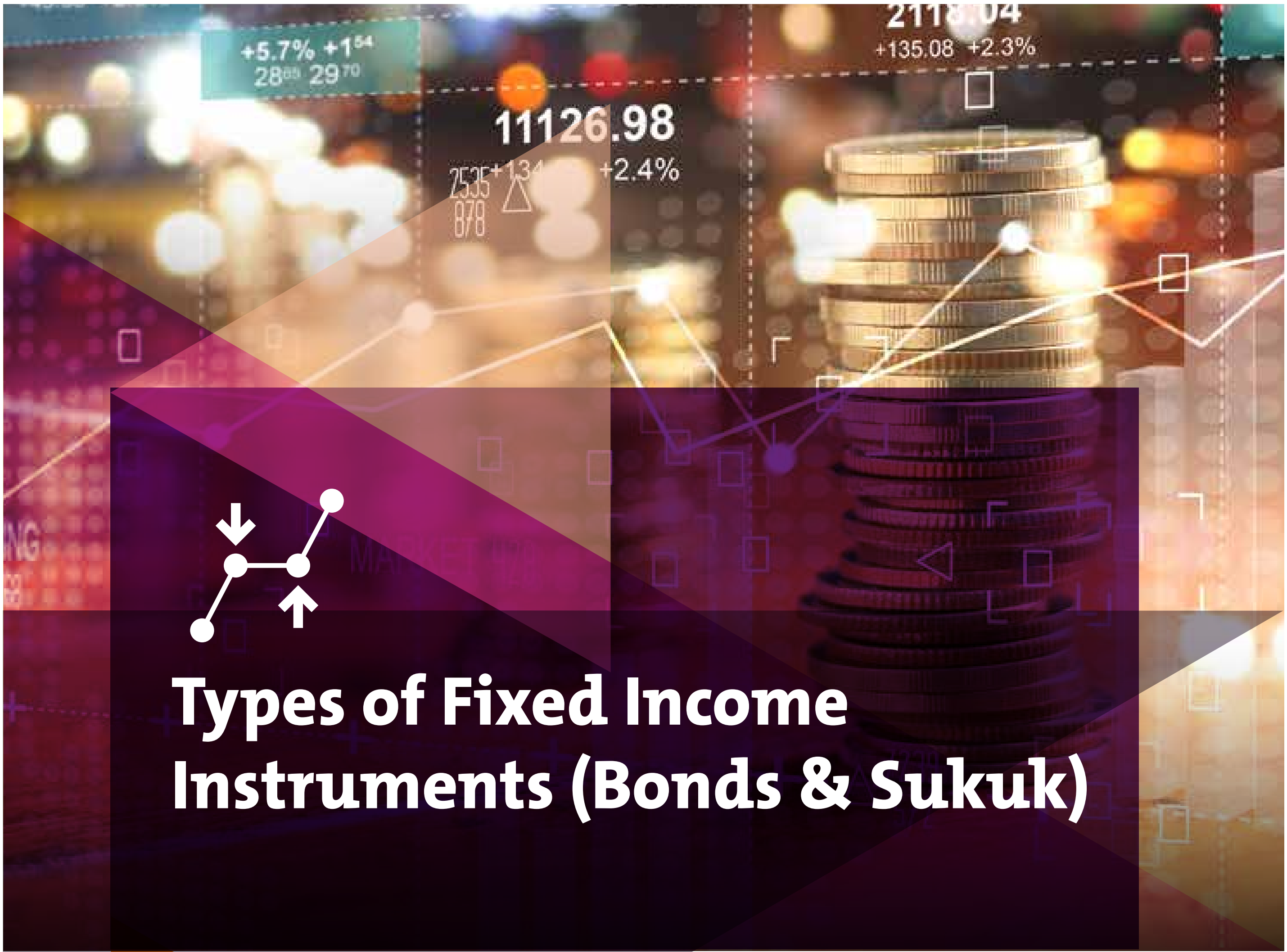

Types of Fixed Income Instruments (Bonds & Sukuk)

• **Bonds** A bond is a fixed income instrument that represents a loan made by an investor to a borrower (typically corporate or government). A bond has an end date when the principal of the loan is due to be paid to the bond owner and usually includes the terms for variable or fixed interest payments that will be made by the borrower. Bonds are used by companies, municipalities, and sovereign governments to finance projects and operations.

Bonds and stocks are both securities, but the major difference between the two is that the stockholders have an equity stake in a company (owners), whereas bondholders have a creditor stake in the company (lenders).

• **Sukuk:** A Sakk is an Islamic bond, structured in such a way as to generate returns to investors that complies with Sharia. Sukuk investor has a common share in the ownership of the assets linked to the investment

• The issuer must also make a contractual promise to buy back the bond at a future date at par value. Payment to the investor of an investment-yield and repayment to the investor of the original investment amount is not, however, guaranteed.

Investment Risk in Fixed Income Instruments

Fixed income Instruments generally are low risk compared with the Equities, but they still carry a variety of risks that investors are likely to face them, such as:

- **Interest Rate Risk:** is the risk that arises for bond owners from fluctuating interest rates. How much interest rate risk a bond has depends on how sensitive its price is to interest rate changes in the market. The sensitivity depends on two things, the bond's time to maturity, and the coupon rate of the bond

- **Credit Rating Risk:** A credit rating is a quantified assessment of the creditworthiness of a borrower in general terms or with respect to a particular debt or financial obligation by the credit rating agency's analysts.

- **Inflation Risk:** This risk refers to an event wherein the rate of price increases in the economy deteriorates the returns associated with the bond. This has the greatest effect on fixed bonds, which have a set interest rate from inception.

- **Liquidity Risk:** Stems from the lack of marketability of an investment that can't be bought or sold quickly enough to prevent or minimize a loss. It's typically reflected in unusually wide bid-ask spreads or large price movements.

- **Political Risk:** This is the risk when investment return could suffer as a result of political changes or instability in a country. Instability could stem from a change in government, legislative bodies, other foreign policy makers or military control.

- **Reinvestment Risk and Callable Bonds:** is the risk of having to reinvest proceeds at a lower rate than the funds were previously earning. One of the main ways this risk presents itself is when interest rates fall over time and callable bonds are exercised by the issuers.

SAR

How to buy and sell the Fixed Income Instruments through Derayah Financial

The investor must have an investment account with Derayah, and he must read the terms and conditions carefully and deposit the required funds to invest in the investment portfolio.

For more information, please speak to your relationship manager or call us on 920024433.