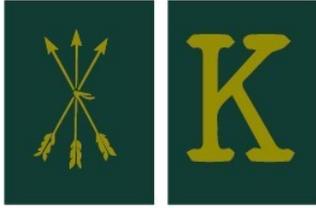


KHANDOKAR & CO.
Credit Linked Notes



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Credit linked Notes Finance

What is a credit-linked note?

A credit-linked note (CLN) is an interest-bearing debt security whose interest payments and repayment are contingent on the financial solvency of the underlying debtor (e.g. state or company). If there is no so-called credit event, the bondholder receives attractive interest payments that are usually higher than in the case of comparable government or corporate bonds. Upon maturity, the principal of the CLN is repaid at the nominal value. In the case of a credit event, the credit-linked note is repaid prematurely and instead of the nominal value, either the liabilities of the underlying debtor (bond or loan) are allotted or the value of a reference liability is determined and paid out.

What is a credit event/ Risks

A credit event is understood to be insolvency, default on payment or debt restructuring. This credit event refers to current and future liabilities and not only to any specific obligation (e.g. bond).

How does a credit-linked note work?

When the reference debtor meets its payment obligations as scheduled, the bondholder receives an attractive return as well as 100 percent of the invested nominal value. However, if there is a credit event (insolvency, default on payment or debt restructuring), the credit-linked note is prematurely repaid and instead of the nominal amount either a bond issued by the underlying debtor is delivered or the current value of a reference bond is determined and paid out.

The price of the reference bond will usually be quoted far below 100 percent due to the credit event. This renders tradability of the underlying liabilities difficult and weigh further on the price.

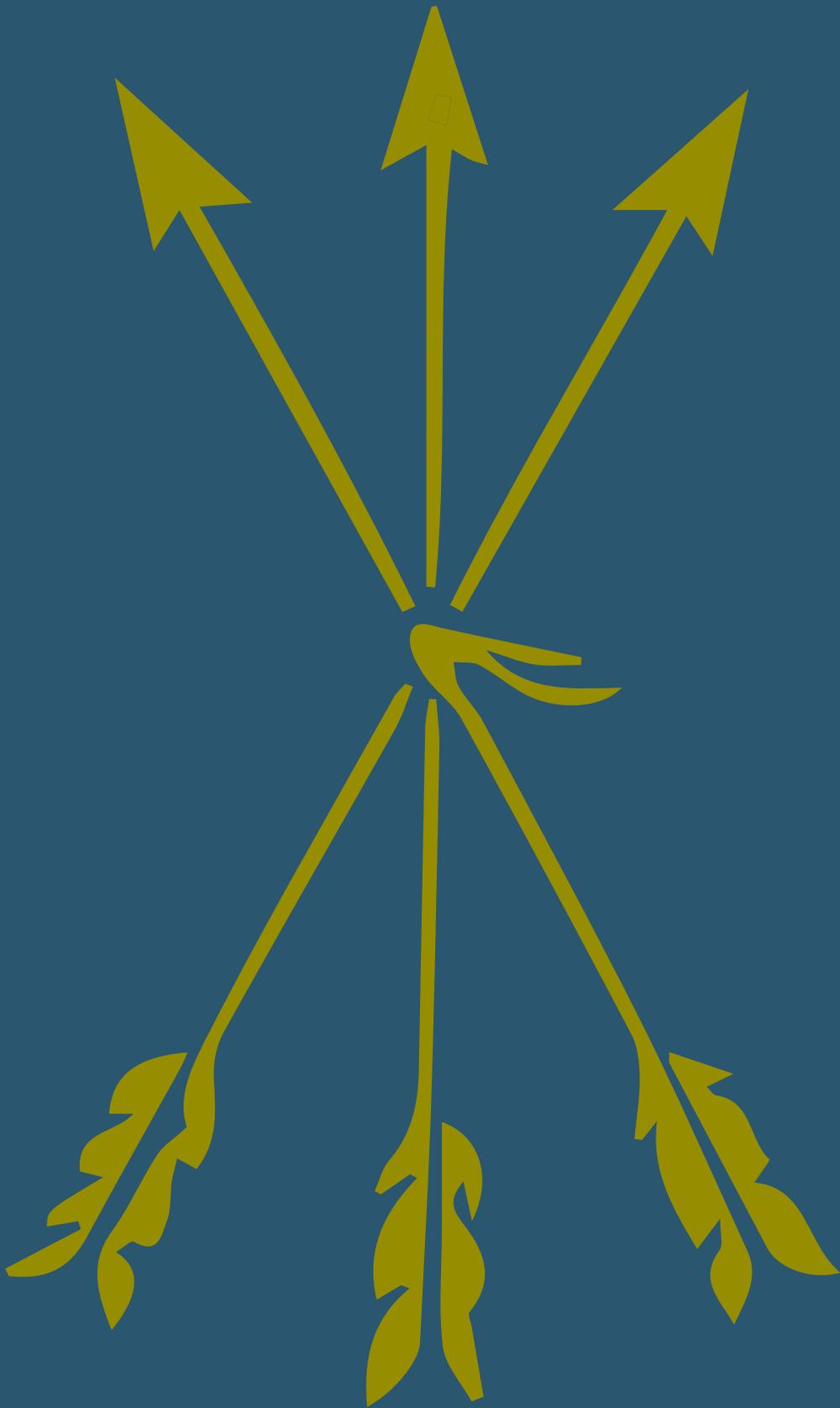
Your benefits

Credit-linked notes usually have higher yields than comparable government or corporate bonds. If the reference debtor meets payment obligations as scheduled, repayment of the CLN is at maturity at the nominal value. Interest payments and principal repayment are contingent on the financial solvency of the debtor though.

This vehicle can be administrated by Khandokar & Co at the bequest of our clients according to their financing requirements. This instrument of debt is utilised by organisations and corporations.



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